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IAG.L - Q1 2017 International Consolidated Airlines Group SA Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Q1 2017 IAG Earnings Conference Call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Willie Walsh, Group Chief Executive Officer. Please go ahead.

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Thank you, and good morning, everyone. Welcome to our call to discuss the Q1 results for 2017.

I will hand over to Enrique, who will take you through the presentation. And then we will take your questions.

Enrique?

Enrique Dupuy de Lome Chavarri - *International Consolidated Airlines Group, S.A. - CFO and Executive Director*

Thank you, Willie.

So the first quarter of year '17 has been a positive quarter for the IAG Group.

Our operating profit figure, EUR 170 million, represents a record for the group. And we are basically satisfied with the performance of our different units.

So EUR 170 million means an improvement of EUR 15 million against last year reported figure.

If we get into a more apples-to-apples comparison on constant currency terms, the improvement, and you will see about it in the rest of the presentation, is EUR 47 million.

So this improvement is basically related to our performance, in terms of unit revenues, unit costs and capacity.

Passenger unit revenues have been reduced by 3.1% in constant currency terms, and this represents an improvement in the underlying trend against the fourth quarter of last year. We were accounting then for a deterioration of 4.5%, so this represents the gradual improvement that we have been mentioning through the last quarters.

When we get into total unit revenues, we see the improvement is even better. It's getting to a minus 2%. And this has to do, as also we have been explaining in the past, with the so-called non-ASK-related activities of the group, so basically talking about MRO for third parties in Iberia and British Airways Holidays.

If we get into the cost side, the constant currency nonfuel unit cost figure unadjusted is 1.4%. When we adjust it because of netting these non-ASK-related other revenue on MRO and British Airways Holidays, we get to a flattish performance on this metric.

When we bring in the improvement in fuel costs, fuel unit costs, we get to a total unit cost performance in constant currency terms which is a minus 2.9%. So the basic comparison between minus 2% in terms of total unit revenues, minus 2.9% in terms of total unit costs, it explains our improvement in performance.

Getting then to the next page, we have a very summarized snapshot of our basic performance in terms of revenues and costs. So we see there that on a like-for-like comparison constant currency terms we are getting to this EUR 47 million improvement that I was mentioning. Significant benefit coming from fuel costs, basically the price effect. And this has to do with how we have been unwinding and sequencing our fuel hedges that will be providing us with benefits through the rest of the year as well, at actual fuel prices.

So it has been representing an improvement of EUR 200 million for the quarter, which is more than offsetting the deterioration, the reduction, in the price element of the revenue side which has been EUR 141 million.

Other significantly positive developments have to do with our employee costs. And when we talk about the employee costs in terms of price and productivity, we recognize a significant improvement for the quarter which is around EUR 33 million. We are going to be insisting on the cost side in the following pages.

When we get to the supplier costs, we get an increase in absolute terms related to price and other effects of EUR 86 million. But we need to compare that increase with one of the main reasons that is creating that increase in cost, which is the non-passenger MRO costs and British Airways Holidays costs which have been worth nearly EUR 60 million for this quarter.

So as a whole, we see this quarter as a positive one, improving a strong first quarter of last year. Remember the first quarter of last year was a stronger one for IAG through year '16. And also, as it has been mentioned, this different timing of the Easter holidays which has been affecting negatively, of course, as we expected, the 2 companies that have a more seasonal pattern on revenues and performance, which are Vueling and Aer Lingus.

Getting a little bit more flavor on the cost side, we're coming to Page #5. Basically, it's again important to take a little bit of a view on employee costs.

Employee costs have been improving in unit terms both for British Airways and Iberia on this type of a medium-, long-term process of improvement in productivity that both of them, the 2 companies, are engaged in.

So for British Airways, it is the project Athens that has been rendering improvements in terms of productivity already in this first quarter. For Iberia, it's Plan de Futuro and the new Plan de Futuro II that it's coming through the year.

For Aer Lingus, it's a very significant improvement also in productivity, this time very much related to a very efficient growth program in which we are engaged. It has to do with growth in terms of ASKs and very much related to the long-haul activity.

Vueling has seen a deterioration in unit employee costs, planned deterioration having to do with the reinforcement of their -- basically their management team. And as you see, it has a minimum impact on the IAG employee accounts.

When we get into the supplier cost differences that we are seeing through the quarter, we see the positive impact, as I was mentioning before, of the stage length increases that we have in some companies of the group, especially Aer Lingus.

And I'm going to be, I would say, take a little bit of time on understanding the reasons behind some of the price and unit cost intrinsic movements.

So in the case of handling and catering, of course there is this British Airways Holidays allocation of costs on that chapter which is explaining part of the negative difference.

There is also negative impacts coming from passenger compensation charges that, as we all know, are affecting the industry as a whole. We are also including there, some increases in expenses that we are producing on an intended way, to improve the service to customers, and this has very much to do with British Airways' plans. It has to do with lounges. It has also to do, up to some extent, with catering.

And there is a last one that I want to mention because it's going to be a recurrent one through the year, which is a different accounting model for the passenger charges at Heathrow airport. It has nothing to do with the intrinsic costs, it's just about how we account it.

In the past, it was a reduction on our revenues, passenger revenues. And now because of new accounting rules and also because some changes in our contract with Heathrow, it is both a revenue increase and then it's considered as a cost increase. So that's why it's loading also our handling cost line.

When we get into landing fees, is an improvement in terms of stage length, as you can imagine, I was mentioning; and a little bit of an inflation on the cost side.

Talking about the engineering cost, it's basically Iberia MRO.

And on the IT and other chapter, the only one worth to mention is this difference in the way we recovered revenues from third parties to offset our costs in JFK lounges in New York. And that will be -- we're rolling over it until the third quarter of the year.

If we come to the ownership costs, of course, there is 2 movements that offset each other. The depreciation line will be getting better through time. It has to do with some discontinuing of depreciation on some old fleets. I think it's of A340-300 for Iberia.

On the other side, there is some lease cost increases due to the operating leases, new operating leases, on new fleets that has been delivered lately.

As a whole, it's a flattish performance on an ambitious, renewal of the fleet scenario, which means we are handling -- we are managing that renewal of the fleet in a quite efficient way.

Coming to fuel. Fuel is also always of an interesting chapter. What we are seeing for the remainder of the year is some improvements again on our, both dollar- but also euro-denominated fuel cost accounts.

So if we take this scenario of $500 per tonne of kerosene and $1.09 per euro, we will get into a revised estimate of our fuel bill of EUR 4.6 billion, which represents a slight improvement on the last estimate that we were doing for you on the last quarter.

It's important to see how Q2 is also going to be recognizing an improvement at these prices and ForEx for the group, in terms of unit basis of 9.5%, and then gradually coming down to the remainder of the year. But again, into next year, we are going to be experiencing a small reduction still of our fuel bill, so this is good news.

Getting into the capacity growth and the contribution to that growth of the different units.

We have seen for the first quarter a growth of 3.3%. When we get into the average of '17, that figure is diminishing down to 2.8%.

There's a gradual performance with a low in the third quarter. And the low is basically affecting 2 of our companies; on one side British Airways, and British Airways is having a very, very small capacity increase through the summer, with, we expect, positive consequences in our ability to manage revenues. The same is happening, in this case it's going to be negative, for Vueling, and this is something that we've been telling you from some quarters now ago, which is part of a new capacity profile to the year, that Vueling is deploying.

So more capacity on the shoulders of the year, through Q1 and Q4; and less capacity on the central Q3. Again, we feel that's going to be allowing the group to have a closer management and probably a more efficient management of our unit revenue base through the summer.

Getting to Page 9, how these capacity differences will be allocated in the different companies.

It's worth to mention, of course, significant capacity increases in the case of Aer Lingus, 14.2% in terms of ASKs for Q2, and the figure in the range of 12% for the full year. And this very much relates to the new long-haul destinations that Aer Lingus has been opening. And Newark and Connecticut will be the relevant ones for Q2.

In the case of British Airways, there's also new routes impacting our capacity figures. In this case, they have to do with Santiago de Chile, New Orleans, Oakland, and many other minor changes.

It's worth to mention the discontinuation of Chengdu route, which is causing this negative 1.9.

For Iberia, the new routes are not a novelty. It's basically rolling over capacity increases that were done through the second half of last year. So it's about Tokyo, Shanghai and Joburg.

Also, in Q2, we'll see the small -- yet small impact of LEVEL on these new Barcelona destinations into both North Atlantic and the South Atlantic.

In the case of Vueling, it's new routes focused on Zurich and Rome.

So basically what we are showing here is capacity increases focused mainly on Aer Lingus, a little bit also in Iberia LEVEL; and aiming to increase our long-haul network and destinations.

So coming to capacity and unit revenues, Slide 11. What we see is on our now classical pie chart: capacity increases, on this Q1, being basically allocated to North America and also Asia Pacific.

In the case of North America, it's basically related to Aer Lingus, as you can imagine.

Asia Pacific is having also to do with some increases in capacity in areas, as Japan.

When we get into how these capacity increases combine with our unit revenue performance, we are seeing a domestic drop in the case of, basically, Vueling. And it's mainly having to do with the Easter holiday reallocation of passengers. We are seeing, in Vueling numbers through April, that these differences in traffic that we have been noting in the case of Vueling and March, are being recovered and over-recovered through our April figures.

For Europe, capacity for the group, it's been more or less flattish. It's a 0.5% increase. And we see an improvement in terms of unit revenues, with positive performance in the case of Iberia, Iberia which has a very low capacity growth for the quarter.

Of course, Vueling and Aer Lingus having the most negative performance, again having to do with seasonal effects, which, as I was telling you, have been recovered through the month of April.

And British Airways has been also a gradual -- has been seeing also a gradual improvement in the short-haul unit revenue figures.

Asia Pacific is a good new. Despite capacity increase of 7.6%, that I was mentioning, we are seeing a significant recovery in unit revenue trends. And this has to do very much with, on one side, London appearing as an attractive destination again for these Far East travelers; and also because of the recovery of the negative impacts that we were suffering last year on terrorism and geopolitical-type of threats.

So this has been again a significant good new, Asia Pacific for the group.

Africa, Middle East and South Asia is still lagging behind, although we have been reducing capacity. I think the opening of Tehran route and the detagging of some Middle East destinations, as Doha, has meant, I would say, a significant reduction in unit revenues on this specific area.

On the case of Latin America, again good news. Capacity has been basically balanced back. It has to do a lot with a rationalization of flights to Brazil. And this is not only IAG but the whole of the industry and has meant a significant improvement on the unit revenues on that area.

Also, the launching of the London-Santiago route has been a very successful exercise.

So as a whole, we can say improvement from last quarter and improvement basically very much spread around the different networks, with a specific impact of Easter holidays on domestic and Europe that we are seeing being recovered through the first weeks of the second quarter.

Coming to Page 12 and how we have been noting the different performance of the different segments of our passenger base.

So in the long haul, as one could expect it, the premium performance has been better. And that's because of the absence of leisure Easter-related traffic in the month of March; and then the stronger premium traffic on the same month, especially in the British Airways and the Iberia networks.

Nonpremium, just I would say the contrarian argument being used has been the one that has been suffering the most.

In the short haul, as I told you, Iberia, a positive performance, which is encouraging and probably is going to be representing a change in trend; British Airways, improvement; and then these negatives, temporary negatives, on Vueling and Aer Lingus.

On nonpassenger, of course, having to do with Iberia MRO and British Airways improving the size of these nonpassenger revenues.

So getting into financial targets, our tracker page. Some interesting features that we can recognize.

Of course, Q1 is one of the weakest, if not the weakest, quarters and seasons as we go through the year in general terms, so operating margin, as an absolute figure, is a low one. It's 4.9%, but this has been improving against year '16 in terms of margin. 0.7 percentage points, good news.

When we get to the rolling 4 previous quarters, again we get improvements in terms of nominal margins and very -- especially in terms of the ROIC. ROIC has been increasing up to 13.8%. It's a 0.2 percentage points improvement. And it's getting us closer to the 15% cruise-speed target that we have been keeping as one of our main iconic targets on our business plan.

So what's happening in the different companies? I guess it's a little bit of a repetition.

So on the negative side, on not-so-positive side, Aer Lingus with a minus 2 percentage points of margin decrease, and Vueling will be the same.

In the case of Aer Lingus, the ROIC, the basic ROIC, of the 4 previous quarters, is still stunningly high, 22.1%. And that's something that we are going to be resilient through the year.

For Vueling, ROIC, affected by difficulties in last summer, has been coming down to 6.6%, but that's a figure that we are going to be seeing improving through the following quarters in '17 and '18.

For British Airways, is an improvement of the operating margin, 0.7 percentage points; nominal margin, 12.7%; and ROIC over the last 4 quarters, 13.7%, which is again an encouraging figure.

I think a little bit of the star, in terms of improvements in operating margin this quarter has been Iberia, 3.7 percentage points in operating margin.

And even on the ROIC level, we're coming to normalized group targets, still 9.6%, but improving every quarter.

So below the line, page -- it's 15. What we see is -- below the operating profit improvement, we have been distinguishing 2 levels: on one side, the financial cash-related costs, which basically having to do -- have to do with net finance income and expense, the net figure. And that is showing an improvement, minus EUR 66 million, and then this year minus EUR 49 million.

The other one cash related is the realized losses on derivatives, non-qualifying for hedge accounting, and that's again an improvement because we have a neutral impact there.

So the cash costs have been improving through the first quarter. And then after those cash costs, our profit has been improving from EUR 75 million to EUR 121 million.

The noncash costs are the ones that are showing quite a bit of volatility through the first quarter. That's something that we advanced in some way through our last year figures which were showing all these, I would say, remeasured accounts, noncash related, having some extreme volatility.

So we are seeing the other side of the coin, and there's the measurement of unrealized gains and losses on our non-hedge accounts. The ones that have not been effective to the quarter, has been turned negative. But this doesn't mean that we have suffered any cash loss from those. It's just a measure of the value in the market if we were to sell them, if we were to monetize them, which we don't want to do, we are not going to do.

We are not traders of hedges. We use them. So that's something that is going -- not going to be translated into cash. And it would be the same with net financing credit, charge related to pensions, so it's also remeasurement. And in some cases, it has to do with a little bit of the stronger dollar from the beginning, through the end of the quarter and also to lower interest rates.

So combining the 2 effects, profit before tax has been dropping from EUR 111 million last year to EUR 54 million this year. And there is a positive impact on the reduction in taxes, of course.

So if we get to Page 17, which is the balance sheet and our main type of financial strength metrics.

As you see, our gross debt has been reduced from EUR 8.5 billion to EUR 8.2 billion. Also, this has to do, of course, with a low activity in terms of raising funds, raising debt and the regular service of the debt that we have been going through in the first quarters.

The cash element of our financial accounts has been improving very substantially since December. Part of it -- of that one, is underlying cash generation, which has to do with our results.

A significant figure, around EUR 400 million, is related to the Easter holiday's different timing this year and the prior year '16. So the cash that we've recognized by the end of March is including the sales on Easter holiday flights that we have not yet -- we had not yet, produced by the end of the first quarter. So that's cash on nonflown tickets. And that will be smoothening through the remainder of the year. And aircraft -- so that's what creates an on-balance-sheet net debt which is turning very slim, EUR 750 million by the end of March.

Aircraft lease capitalizations, again is reflecting our policy of splitting our financing for the deliveries by 50% between balance sheet financing, so acquiring ownership; and operating leases, non-acquired ownership.

So as a whole, adjusted net debt is gradually coming down from EUR 8.1 billion December to EUR 7.09 billion by the end of March. And our adjusted net-debt-to-EBITDAR leverage ratio is improving from 1.8x to 1.5x.

So as a summary. What we have been trying to convey to you in the outlook, for the guidance for the full '17 is we are reassessing our belief that we are going to be getting an improvement on our full year operating profit figures for '17.

And the second message, which is related to Q2; we are saying the group is expecting, now, quarter 2 passenger unit revenues, so the passenger revenue per ASK, to show an absolute increase, so turning positive versus last year, at constant currency.

Thank you. And now it's time for your questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Neil Glynn from Credit Suisse.

Neil Glynn - *Credit Suisse AG, Research Division - Head of the European Transport Team and Global Transport Sector Coordinator*

If I could ask 3 quick ones, please. The first one, passenger -- or I'm sorry, MRO costs, BA Holiday costs, about EUR 60 million up year-on-year for the first quarter, which seemed to match the revenue growth in the other revenue line. Just interested in terms of, can you give us some guidance, at what point you expect that top line growth to exceed the investments, as I think it'll be increasingly important to be able to judge the fruits of those investments. So also interested in your latest thoughts on communication as to whether we could ultimately hope for some kind of a revenue target, for example. The second question, clearly Aer Lingus proved a drag on transatlantic unit revenues, which meant that your transatlantic unit revenues underperformed, both your peers in Europe as well as in the U.S. Is it possible to help us understand the performance, excluding Aer Lingus there? And then thirdly, Vueling. Clearly, Enrique, you mentioned an over-recovery of Easter weakness in April. At this point, what confidence have you got in summer margin correction at Vueling? And is it -- could we see a return to 2015 summer levels this year? Or is that a little too early still?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Okay, thank you, Neil. We're not going to give too much additional information in relation to Iberia MRO and British Airways Holidays. In the overall scale, I think they're small, but it's important for us to be able to split out the impact that it has on the nonfuel unit costs. And that's why we're presenting it in that way for you. But both of those businesses are profitable and contribute to the overall profitability of the business. The transatlantic, you're right, Aer Lingus has had significant expansion. It's important to remember that it's had a very effective cost base in Aer Lingus. And Aer Lingus continues to do exceptionally well, in terms of its financial performance, so we're very pleased. If you stripped out Aer Lingus, the BA performance under the transatlantic was about minus 1 at constant currency. So I think that gives you -- if you want to benchmark, I think that probably is the most relevant benchmark that we could give you. And for Vueling, we're very confident about Vueling. The Easter impact for Vueling is very significant, as it is for Aer Lingus, as Enrique said. Easter is positive for Aer Lingus and Vueling. Typically, it's negative for British Airways and maybe a little bit neutral for Iberia, there's pluses and minuses there. But when we look at April performance for Vueling and, as Enrique said, in terms of traffic stats, the April overall traffic stats are, I think, very positive. But we have great confidence in the performance of Vueling. We're pleased with the changes that have been made there, and we expect Vueling's performance, in financial terms, to be back to where normally we would have expected it to be. So overall, a good Q1 performance for all of the airlines in the group. And Q2 is clearly positive as a result of Easter.

But even if we strip out the Easter effect, the fact that we're signaling to you, that the passenger unit revenue at constant currency, will be positive in -- clearly gives an indication that we're more positive in terms of the outlook today than maybe we were when we gave you the full year result.

Operator

We'll now take the next question from James Hollins from Exane.

James Edward Brazier Hollins - *Exane BNP Paribas, Research Division - Analyst*

Three from me as well, please. Just on the Q2 unit revenue outlook, would it be right to assume that, that should be premium cabin increasing, nonpremium decreasing? The second one was on exceptional costs around the BA staff. And I think the exceptional costs were about EUR 144 million in full year '16. And I think they were EUR 19 million in Q1. Clearly, I mean, maybe that's a bit of a slowdown. I'm just wondering if you could give us maybe the run rate through the rest of this year that you might expect and perhaps a bit more on the initiatives you're doing and how aggressive you're being on the BA costs, sort of the next 6 months. The final one was just on LEVEL. Clearly, you're very excited about that. I was just wondering how much was a result of successful promotions in around April? And how much was just underlying demand being very strong for that product?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Okay, Q2, I think I would say that Q2 is going to be positive across the network. So it's both premium and nonpremium, in terms of the unit revenue performance, based on what we're seeing at this stage. So it is better than we had expected for Q2. Easter has been good, and that's reflected in the April traffic stats, but even if we look at March and April together, which we're able to do, clearly you don't have those figures, and strip that out, then looking at the underlying Q2 performance, we expect the unit revenue -- passenger unit revenue at constant currency to be positive on premium and nonpremium in Q2. BA, I think our expected exceptional charge for the full year will be in the order of EUR 200 million. So there is obviously timing issues in relation to that. Those -- the initiatives are the ones we've talked about, it's ongoing restructuring in IT, but it's now principally focused at head office. And there is some frontline restructuring going on. So it's mainly focused in the back-office activity, but there is a bit of frontline activity that we are restructuring there. And it's a -- I'd describe it as a solid push to continue to improve the underlying nonfuel unit cost, particularly the employee costs, at British Airways. And we always look forward to promotions this time of the year. LEVEL, I think, has been exceptional. It's Premier League already. And we're really pleased with the way the brand has landed, both in Spain and outside of Spain. The forward bookings are very encouraging, and I think it's going to be an excellent first season for LEVEL.

Operator

We'll now take our next question from Oliver Sleath from Barclays.

Oliver Jonathan Sleath - *Barclays PLC, Research Division - European Airlines and Transport Analyst*

Three from me, please. Just to follow up, 2 on LEVEL. It sounds like it's clearly off to a very good start. Could you outline your ambitions in terms of when and where you might look to grow it beyond the initial 2 A330s in Barcelona? Also on LEVEL, how are you planning to structure it in terms of financial reporting within the group? And when might you be able to talk about some financial targets? And finally, strategically, I appreciate Germany is less of a strategic focus for IAG, but if Lufthansa were to go ahead with a full-scale takeover of airberlin, would you have any interest in potential remedies? Or would your attention be more focused on developments in Italy?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Okay, in terms of LEVEL, as you know, this was probably an opportunistic launch where we had been thinking about it for some time. And maybe it's fair to say that our original plans were to do this in 2018, but we saw an opportunity to enter the market in 2017. I think, given the very short lead time, launching on the 17th of March, for our first flight on the 1st of June, the performance has been stunning. And that has given us confidence to look at this. So we are looking at an additional -- we are looking at additional aircraft for LEVEL at this stage for 2018, so you should expect 2, or maybe 3 more aircraft entering the LEVEL fleet and launching in, at least one new European city. So it's not just going to be in Barcelona, but we are looking at a second and potentially a third but certainly a second European city. And we will make some announcements in relation to that in due course. In terms of how we report it, we'll work with our team in the financial department to see how we'll do that, but that's something we will do at a later stage. And maybe at Capital Markets, we'll give you an outline in relation to that. But it's clearly got off to an excellent start and it is very encouraging based on what we're seeing. And we're particularly pleased with the distribution of point of sale, which has been very positive, not just within Spain, within Europe, but also U.S. and in Latin America. So it's -- it really is fascinating to watch how that one's developing. And we'll spend a bit of time in November talking about that. In relation to consolidation, yes, we are always positive about consolidation and have taken the view that, while it may benefit the person who's doing the consolidating better than us, we still think it's a positive development. And we're less likely to make complaints to the competition authorities because, to be honest with you, we think the industry benefits from consolidation. So we're not particularly focused on remedies. I think there are other airlines that will maybe make a bigger issue of this. We'll comment in a constructive way where we see others participating in consolidation. And if there are some opportunities out of that, well then we'll seek to take advantage of them. But we won't try and create difficulties when it comes to consolidation because we don't think that's a sensible thing to do. So, yes, we're monitoring developments in the industry. We believe there will be further consolidation this year. And we're pleased with what we've seen so far.

Operator

We'll now take the next question from Daniel Roska from Bernstein.

Daniel Roska

Three questions, if I may. First one, on the state of your renegotiations of the distribution agreement. Could you maybe outline a bit what your goals right now are? And whether these goals kind of seem achievable at this point in the negotiations? And then maybe just on the progress with Amadeus and the likes, where you are on the distribution plan. Second question, could you please remind us of the current state of discussions for the transatlantic joint ventures, and especially including Aer Lingus into that joint venture, where that is, because certainly the large capacity increase of Aer Lingus gives some rise to discussions within that framework. And lastly, I'd like to come back to the question before. Your view on Alitalia, kind of the different scenarios; and if you see any opportunities for IAG in the different scenarios, as they play out, to kind of gain a bigger share in the Italian market with or without a participation in whatever is left of Alitalia?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Okay, on the GDS, our negotiations clearly are confidential. They are ongoing. We entered those negotiations in good faith with a view to reaching an acceptable agreement that works for us and works for them. The objective is clearly long term. We believe that the current nature of the relationship between GDS and the airline is not sustainable, and we want to get that changed. And we're prepared to take some short-term pain to get some long-term structural change in that relationship, and that's our objective. But our negotiations are ongoing, and there's -- as we said, they are good-faith negotiations. There's not much more I can say about that. In terms of the transatlantic, we've had a very constructive dialogue with our joint business partners. The Aer Lingus growth is well known. It was -- there's no secrets about what we've been doing with Aer Lingus. And our partners have been well aware of the capacity growth that Aer Lingus had planned, both for 2016, 2017 and indeed 2018. And the way we look at it is, the growth for IAG companies, it's not the individual airlines. So when we're looking at our joint business arrangements, these capacity increases are discussed with our joint business partners,where we can. We don't have full ATIs, so there's some issues we can't obviously discuss. But we've been very public about taking Aer Lingus capacity plans on the transatlantic, but the dialogue has been very constructive and we'll finalize those in due course. And on Italy, yes, we clearly see some organic growth opportunities in Italy. We've got a strong presence there with Vueling. And we'll look to see if there's opportunities to maybe accelerate some of our growth plans, principally focused on Vueling. But all of the airlines in the group have a presence there, and we'll see if there's some opportunities. Clearly, we have no interest whatsoever in anything to do with Alitalia.

Daniel Roska

Great. Maybe if I could follow up on the time line possibly on distribution and Aer Lingus and the transatlantic joint business. Any indication as to, in which order you'd expect something to materialize on those 2 fronts?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Well, on Aer Lingus, it's of no commercial or financial significance because the plans are already baked-in to all of our financial plans. On the GDS, we'll have more news on that certainly around half year, when we're doing our half year report, we'll probably have some further information to update you at that point.

Operator

We'll now take the next question from Jarrod Castle from UBS.

Jarrod Castle - *UBS Investment Bank, Research Division - MD, Head of the Travel and Leisure Sector, and Co-Head of the Global Transport Sector Team*

Three as well. A very good improvement obviously in the balance sheet. Can you give an update in terms of where the share buyback -- how much has been done, how much further there is to go? Secondly, just in terms of outlook, you've obviously said, Q2 yield, we'll see, percentage-wise, an improvement. Would you care to give any comments in terms of, kind of early, kind of look going into July, how the trend's going? And then just lastly, I don't know if you can say anything on this at the moment, but any conversations with the U.K. government in terms of the aviation policy negotiations with the EU at this stage?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Okay, in relation to the share buyback, in the -- at the end of March, it was 60 million. And as of yesterday, I believe it was 116 million...

Enrique Dupuy de Lome Chavarri - *International Consolidated Airlines Group, S.A. - CFO and Executive Director*

Close to 120 million.

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

In terms of July unit revenue performance, as we indicated, the trend going into Q2 has been positive and better than we had expected. And that's true of July as well. And so we are encouraged by the trends that we're seeing in terms of passenger unit revenue. And on the negotiations between the U.K. and EU, obviously they're going to go on for some considerable time. We're very clear that we believe that the current environment that exists should be maintained for the benefit of the consumers. The form of that, we're pretty relaxed about, but obviously consumers have seen significant benefit from an open skies arrangement across Europe. And we don't see any reason why that should not continue, so we would be encouraging both the U.K. and the EU to look at some form of continuation of that open skies. We're relaxed about the form in which it presents itself, but we'll monitor that over the coming year or so. So nothing else to add at this stage.

Operator

We'll now take our next question from Francisco Rodriguez from Banco Sabadell.

Francisco Jose Rodriguez Sanchez - *Banco de Sabadell. S.A., Research Division - Research Analyst*

I would have 2 questions, please. First one would be on your feelings in North Atlantic going forward, let's say, ex Easter effects. And the second one would come from the unit revenue increase. Obviously, you've spoken about Q2, a little bit on Q3. And I was wondering, would it be unreasonable to think that you can reach an increase in unit revenue for the full year? That will be my second question.

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Okay, general transatlantic trading, I would describe as good. We're seeing the point-of-sale change, as you would expect, with a strong dollar. So that has worked pretty much as we thought. So we're seeing a stronger U.S. point of sale, but we're seeing good point of sale in Europe and the U.K. So I'll describe the overall transatlantic position as being good. We certainly have no concerns about either the supply side or the demand side. And we're encouraged by what we've seen, hence the focus that we've had as a group on expanding our transatlantic presence. And the expansion that we have done and announced is very -- is certainly ahead of where we would expect it to be. And on unit revenue, I think, yes, your suggestion that we might have a positive unit revenue for the full year is a fair one.

Operator

(Operator Instructions) We'll now take our next question from Damian Brewer from Royal Bank of Canada.

Damian Brewer - *RBC Capital Markets, LLC, Research Division - Analyst*

Two remaining questions from me, please. First of all, could you elaborate a little bit more on the Latin American point-of-sale development, how that's changed year-on-year and any particular highlight you could highlight there? And then secondly, on the financing side, there seemed to be indications that implied interest costs on the new leases are coming down with the flow of Asian and particularly Chinese money into the market. Could you give us some indication of what you've seen on any new leases you've taken on and whether there's a -- more potential to do that as you review the rest of the fleet?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Thank you. Yes, the situation in Latin America, principally driven by an improving environment in Brazil, is clearly positive. We had taken a lot of capacity out of that market, the Brazilian market, both from an Iberia and a British Airways point of view. I think the general capacity environment in Brazil is what I've described as good. And we're not seeing any irrational behavior, based on the improving trends that we're seeing there. We fully expect additional capacity to go into Brazil. I think the improving demand in Brazil would justify that. And we'll certainly look at that, as I'm sure others will. Argentina is also positive. So, what we see is that the underlying economic trends in Latin America are certainly improving, and that will have a slight positive effect. As we've said, we scaled back our presence there, as pretty much everybody did, but we're pleased with the trends that we're seeing there. And that is reflected in a more positive situation, for Iberia principally, but also for British Airways. And Enrique, do you want to comment on the fleet?

Enrique Dupuy de Lome Chavarri - *International Consolidated Airlines Group, S.A. - CFO and Executive Director*

Yes. We fully agree with your consideration about leasing costs getting easier gradually, especially for deals raised on the Far East and in Japan and the environment. And it's happening, not only on the operating lease side, but also on the financial leases. So there's a general type of excess of liquidity. And there's a bit of a favoring towards asset-based financings as being, I would say, an effective and efficient collateral. So the combination of 2 things, liquidity and type of -- the attractiveness of the collateral, is getting us to probably record low levels, both operating leases and financial leases.

Damian Brewer - *RBC Capital Markets, LLC, Research Division - Analyst*

That's very interesting. Can I ask one cheeky follow-on, just ask on Latin America? Is there any updates on the planned JV or JBA with LATAM at this point?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Yes, that continues to progress. We're waiting on regulatory clearance, so we're just in the normal process there. It does tend to take a little bit longer in some countries than in others, but we have no concerns at this stage. And maybe just to add in terms of Latin America: I think the one thing that really surprised us about LEVEL when we launched Barcelona-Buenos Aires was the strength of sales out of Argentina, so both into. So we've had very good sale mix, so that might be an early indication of the improving trends that we're seeing there. But certainly, of the 4 destinations that we announced with LEVEL, which are San Francisco, Oakland; Los Angeles; Punta Cana in the Dominican Republic; and Buenos Aires. Buenos Aires has been by far the strongest of the 4. They've all been good, but Buenos Aires, as I've described, in terms of its early performance, is being exceptional.

Operator

We'll now take the next question from Mark Simpson from Goodbody.

Mark A. Simpson - *Goodbody Stockbrokers, Research Division - Research Analyst*

A couple of outstanding. First off, Aer Lingus. I just wondered if you could give us an idea of how you see Norwegian's entering on the transatlantic market, how that may sort of change your thinking? Obviously, we've had the news on the A321neo long range as a shift in the fleet. But I'm just wondering if you could give us a bit more detail on that? Also, discussions ongoing at Ryanair, on feeder relationships, they seem to have been going on for some time. Can you give us maybe a comment from your side? State of forward bookings, I wonder if there's anything we should be aware of in terms of how that comps currently to last year? And any brand, geographical or product differences which are of note? And then finally, trading outlook, it's actually quite a modest statement. I mean, obviously, the positive on the unit revenue outlook, but you talk about just expecting operating profits to show an improvement year-on-year, similar to what you said at the year-end. I'm just wondering if it's just prudently cautious. Or any kind of specific risks that you have in your thinking when you made that statement?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

There are many questions with that, so...

Mark A. Simpson - *Goodbody Stockbrokers, Research Division - Research Analyst*

That's kind of a wrap really, so...

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

I think you've got the record there. So Norwegian; no, no change. It hasn't changed our outlook. And honestly, it was expected that they would come into the Irish market. I don't think it's changed the dial, and we certainly haven't noticed anything. Their fares are very much in-line, maybe even higher than we thought they would enter the market with. And Aer Lingus remain very positive about their prospects on the transatlantic. The 321neo, as we've talked about, is a great opportunity for Aer Lingus. Stephen is actually in Toulouse today looking at that aircraft with Airbus, mockup of the aircraft, to see exactly what we want to do with that. But we're very, very positive about that as part of the Aer Lingus fleet. As you know, we've secured leases on 7 aircraft for Aer Lingus. We continue to be in discussions with Ryanair. My general assessment would be, as you know, we're positive about looking at Ryanair fleet in the Aer Lingus transatlantic. I think the commercial terms and arrangements are agreed. The issue remains just getting a sensible technology solution, which I think Michael has commented on as well. So we're optimistic that a formal arrangement will come into place. And we're ready to do it as soon as possible, as I believe Ryanair are. So the only issue there is the issues that both he and we have flagged previously. It's making sure it can be done in a simple and effective way from an IT point of view. There is nothing, in terms of forward booking trends, that we should highlight to you. So there's nothing unusual in any of the airlines or in any part of the network. And in terms of the trading outlook, there's nothing of concern to us. If you believe we're being modest, I thank you for that, but we're clearly very pleased with the first quarter performance. The second quarter unit revenue performance there is looking good at this stage. So my assessment of 2017, we had said we were going to improve our operating profit. And the trading conditions in 2017, that we've seen, so far, are -- yes, I would say, are slightly better than we would have expected. And the trends on unit revenue are definitely better than we would have expected at this point. We always believed we would move into positive passenger unit revenue. The question we had internally was at what point that would happen. And it's clearly happening earlier than maybe we had expected, certainly earlier than we had planned.

Operator

We'll now take our next question from Johannes Braun from MainFirst Bank.

Johannes Braun - *MainFirst Bank AG, Research Division - Director*

I have two remaining. First one, on the GBS. I want to understand a bit better what kind of startup costs are still involved for those and to what extent this will support profit momentum going forward, as these costs fade and efficiency gains from them are coming through. And then secondly, on the Q1 margin of Aer Lingus, you're showing this minus 2 percentage point decline on Slide 13. I appreciate the Easter timing impact, but still given top line growth of above 10% and scale benefits obviously coming through, this still looks a little bit modest. So any comments on that would be appreciated.

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Thank you. Well, our GBS arrangement, which is in Krakow in Poland, is very efficient. We're delighted with it. It's started, and it's been in operation for some time. There are no more startup costs. The performance in terms of the unit costs, on the activities that we undertake in our facility there, are lower than we had budgeted for. And we see opportunity to transfer further activity to the facility in Krakow. So we're very pleased with it. The quality of work, the quality of personnel, is excellent there and very encouraging. And on Aer Lingus, no, there's nothing of any -- nothing of concern there. I think it's -- Easter last year was a very significant event for Aer Lingus and Ireland, given that it was the centenary of the 1916 rising, which showed incredibly strong demand into Ireland, particularly from the U.S., on the transatlantic. So they had a very strong U.S. point of sale and there were quite a number of activities. So last year, Easter was an exceptional period. It wasn't just a normal Easter boost that Aer Lingus would get. It was an exceptional Easter for Aer Lingus. So the financial performance in the first quarter is very much in line with our expectation. And the performance in the second quarter, as Enrique had mentioned, is very positive. So there's no concerns whatsoever in relation to Aer Lingus.

Operator

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

Anand Dhananjay Date - *Deutsche Bank AG, Research Division - Research Analyst*

I just had a slightly left field one. I was just looking at COMAC and their maiden flight, and I was just wondering, is that something you look at closely? And how -- I mean, given that aircraft orders are, you know, for a multiyear time frame, how far away are we, do you think, for maybe any European working closely with them or ordering from them? And do you see any strategic benefit to working closely with them now, to when they finally might break into this sort of duopoly?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

We've had a very good dialogue with COMAC going back over a number of years. And I have visited their facilities in China on a number of occasions. And in fact, they let me fly the simulator of the ARJ21. So we've been watching with interest. I was watching the flight between breaks this morning. So we're positive about that as a development. And maybe we will be extending our congratulations to COMAC personally when I meet with them in -- later on in June, actually, I'm due to see them. So I think it's -- it'll be a little bit of time, but it's a positive development for the industry. And we will continue our dialogue with them and assist them in ensuring that they understand what we look for when we're acquiring aircraft and what we would hope to see from them going forward. But given the fleet that we have with the A320 family, we're unlikely to change that at this stage. But we are clearly looking forward to future fleet development and COMAC could well be an option for us, but it's not something that will happen in the short to medium term.

Anand Dhananjay Date - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. Just on -- if I could just to follow up on that, do you -- I just have no idea, would it be an option to increase the number of aircraft types in the fleet and what their -- what other capabilities are? Or would the benefit really be that the price of aircraft you could see come down just because it's a new entrant?

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

I think it's both, but clearly, a new entrant will have an impact on pricing. We believe that, that will be the case. We've seen that to some degree with the launch of the C Series. So that has had a positive impact on pricing. Clearly, the impact of that may not have been as strong as people had first expected. But now that the C Series is in commercial operation and appears to be doing very well, I think it is something that both airlines and manufacturers are aware of. So we don't see this as in any way a negative. And while the C919 is in the early stage of entry into the market by COMAC, we have no doubt that they will be a formidable player in the future. And that has to be a positive.

Operator

Thank you. That will conclude today's question-and-answer session. I would like to hand the call back over to Mr. Walsh for any additional or closing remarks.

William Matthew Walsh - *International Consolidated Airlines Group, S.A. - CEO and Executive Director*

Okay, thank you very much, everyone. As you've heard, we're very pleased with the first quarter performance and pleased with the trends that we're seeing in terms of passenger unit revenue. And we look forward to talking to you at our half year results.

Thank you very much.

Operator

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