Half Year 2024 Earnings Conference Call

Friday, 2nd August 2024

Luis Gallego

Chief Executive Officer, IAG

Operator: Good day and thank you for standing by. Welcome to the Half Year 2024 International Airlines Group Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there'll be a question-and-answer session. To ask a question during the session, you will need to press star one-one on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press star one-one again.

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Luis Gallego, CEO. Please go ahead.

Luis Gallego: Thank you very much.

Good morning and welcome to the IAG half-year report. Today, I'm joined by Nicholas Cadbury, CFO, as well as members of the IAG management committee.

Today, we are reporting a strong performance in the first half with profit of just over €1.3 billion, an increase of €49 million compared to a very strong performance last year, and this is because we are delivering on our strategy.

We continue to see a strong demand for travel in our core markets of North America, Latin America and intra-Europe, which has delivered a positive unit revenue of 2.9% in the half.

Our brands are doing well, being leaders in their markets and our ongoing transformation programme is driving customer, operational and cost improvement across the portfolio, particularly at BA.

We are delivering on our promise of significant free cash flow generation and as a result, our balance sheet continues to get stronger. At this point, I will also highlight our decision to withdraw from the Air Europa acquisition process. We decided that it was not in the best interests of our shareholders to continue, and we will therefore continue to grow our presence in Madrid, so the hub can develop as a rival to Europe's largest hub.

So our confidence in our strategy and business model remains strong, which means that we are now delivering on our commitment to our shareholders, restarting our dividends with an interim payment of €0.03 share. Our disciplined capital allocation framework offers opportunities for further distribution of excess cash in the future.

This slide is a reminder of our strategic imperatives: to invest in our core, grow our capital-light businesses such as Loyalty, and to maintain a strong and sustainable foundation for the Group. This will help to deliver our medium-term margin returns and deliver our targets. It also highlights our view that this is a high-quality business, not just a best-in-class airline business.

I will now pass you on to Nicholas.

Nicholas Cadbury

Chief Financial and Sustainability Officer, IAG

Thank you, Luis, and good morning, everyone. I'm pleased to share with you our financial results for the first half of 2024.

The first slide, this slide, shows that we delivered a strong performance across our key metrics in the first half of the year, despite some challenges in the operating environment. Our capacity increased by 7.5% year-on-year, in line with our guidance, driven by our network expansion and fleet renewal. Our passenger unit revenue grew by 2.9%, reflecting improvements in both our yields that increased by 1.8%, and our load factor that reached 85%, up 0.9 percentage points versus last year.

Our non-fuel unit cost improved by 1.8%, and we hold to our previous guidance to be slightly up on last year for the full year, and our fuel CASK was flat as we benefited from our hedging strategy and our more efficient new aircraft.

So we delivered a strong first half of the year with operating profits before exceptional items of €1.3 billion, and our operating margin for the first half was nearly 9%. Our leveraged net debt-to-EBITDA ratio improved to 1.1x, down from 0.6x from December 2023, as we generated strong free cash flow and benefited from seasonal working capital inflows from forward bookings.

This solid performance in the first half demonstrates the strength of our business model and our strategy in a dynamic market.

Now let's look at the performance of our operating companies in more detail.

Aer Lingus faced a challenging first half with profit of €9 million, as it was affected by the competitive pressure from US carriers into Dublin, as well as the impact of industrial action by its pilots at the end of the half. Both of these factors will impact the third quarter as well.

British Airway delivered a strong revenue performance in the half and its operating profit improved by $59 million, and its operating margin increased by 0.5 percentage points to 8.2%. BA benefited from its transformational initiatives, which partly offset inflation and investments in its operational resilience and customer experience. Just for interest, British Airways figures show the restatement, both in the current year and in the base year, from the transfer of BA Holidays to IAG Loyalty. BA Holidays accounted in H1 2024 for £374 million worth of revenue and £33 million of profit.

Iberia delivered €362 million of profit in the half, driven by its strong performance in its core Latin America and European markets. The operating profit from the core airline business increased versus the same period last year, and its margin was broadly similar. This is a good performance in the context of a 17% increase in capacity, which we expect to continue to mature next year. Iberia's third-party business had lower results than previous year, in particular, reflecting the loss of eight operating licences by Iberia handling. We expect the performance of these handling third-party businesses to improve through the rest of the year. Iberia's net fuel CASK also reflected the reduction in costs associated with the third-party businesses. Together with the benefit of the capacity growth.

Vueling had a strong revenue performance with unit revenue growing by 2.6%, on the back of capacity growth of 1.4%. The airline delivered an operating result of €97 million, building on the strong performance from last year.

IAG loyalty also delivered a good performance with an operating result of pound £193 million, up £23 million year-on-year. Its margins during the year were 18%. This is diluted by the inclusion of BA Holidays both in 2024 and 2023 figures. If we were to exclude BA Holidays, IAG Loyalty's margins standalone would be 22%, in line with last year's margins.

Now let's look at our regional performance in more detail.

Overall, we saw strong demand in the second quarter, reflecting the strength of our brands and customer profile, driving higher revenue and positive unit revenue across most of our core markets. This is despite the fact that April's performance reflected the negative impact of the timing of Easter this year.

North America is our largest and most profitable market, accounting for 31% of capacity. Our unit revenue in the market improved by 2% in the quarter, on top of a 6% capacity growth, as we benefited from our strong network position and our joint business. We particularly saw robust demand in both premium and premium economy cabins.

Europe was again one of the best-performing markets, which is our second-largest market, accounting for 25% of our capacity. Unit revenue increased by 1% in the second quarter on top of capacity growth of 6%, as we leveraged our leading position in our key European hubs and our low-cost airlines.

Latin America and the Caribbean is our third-largest market in terms of capacity, at around 20%. Our groups ASKs in the region grew by 17% in the second quarter, and our PRASK increased by just under 5% due to the – declined by 5% due to the new capacity's maturity. For us, this represents a strong performance and is in line with our expectations. As we've mentioned before, growing our presence on this market is a key priority for Iberia strategy, and this performance is significantly above 2019 levels.

Africa, Middle East and South Asia accounts for 12% of our capacity. We slightly cut capacity in the region down 0.6% to adjust our presence in some of the markets that are still showing weak demand due to the ongoing geopolitical situation.

Asia Pacific is our smallest market, accounting for only 4% of our capacity. It was where we were adding relatively the most capacity in the second quarter, up 32%, although we are still only half the capacity we had in 2019. Unit revenue decreased by 14%, as we increased our presence in the market and faced weak demand in China.

Overall, we delivered good performance, particularly in our core markets, illustrating the benefit of our balanced and diversified portfolio and demonstrating our ability to capture the growth opportunities and to mitigate the risks in the different markets.

Looking at our results at a net profit level, we delivered profit after tax exceptional items of €905 million. There are three things I would like to highlight here.

First, our finance costs decreased by nearly €100 million in the half, mainly due to the lower gross debt resulting from the early repayment last year of government guaranteed debt that

we raised through the pandemic. At the same time, our finance income increased by €20 million, mainly due to the higher interest rates we were seeing in the period.

Secondly, we've recognised an exceptional tax credit of €135 million, which related to the revocation of a royal decree in Spain that limited the tax deductibility of some losses for fiscal year 2016 to 2023.

And thirdly, as Luis has mentioned before, we've decided to withdraw from the Air Europa acquisition process. Therefore, we've had to reflect this with a provision of an exceptional charge of €50 million corresponding to the breakup fee.

This slide shows our non-fuel cost performance in more detail. Our total non-fuel CASK increased by 1.8% in the first half of the year compared to the same period last year. The increase in employee unit cost was mainly driven by the timing of last year's wage agreements, which mostly affect the first quarter. This cost performance has also reflected our investments in our operations and fleet, which we expect to generate long-term benefits in terms of customer satisfaction, operational resilience and environmental sustainability.

We continue working on our transformation initiatives that are helping us to mitigate the inflationary pressures and delivered cost savings. As I mentioned earlier, we're on track to deliver our full-year guidance of a slight increase in our non-fuel CASK year-on-year.

This slide shows that our business generates significant free cash flow. You can see the free cash flow generation of €3.2 billion after investing €1.4 billion in CAPEX in the first half of the year, driven by a strong operating profit and our positive working capital.

Positive movement in working capital principally relates to the normal seasonal inflow of leisure bookings ahead of the peak summer travel period. We are confident that we will generate significant cash flow in the full year, as we did last year, as our business continues to deliver a strong performance and as we execute on our strategy and our long-term targets.

This slide shows our complete cash flow that generated €2.9 billion of cash inflow for the first half of the year. You can see the €3.2 billion free cash flow from the previous slide, and if we include the results of our finance activities, you get the net free cash flow of €2.8 billion. A point to note to the analysts here is that we have split out the repayment of operating lease liabilities here, which were €466 million in the first half.

Now let's look at our balance sheet performance in more detail.

This slide shows the evolution of our net debt and liquidity position.

Our finance remains strong, with a reduction in both net debt and leverage, both against the same period last year and against December 2023. Our net debt decreased €1.8 billion to €6.4 billion versus December, and our leverage improved 0.6x to 1.1x, well below our target of 1.8x.

Our total liquidity increased by €1.5 billion to €13.2 billion, again due to the increase in cash. We also refinanced and expanded our Group revolving credit facility to $3 billion, up from $1.7 billion. And we also cancelled the expensive £2 million pound UKEF-backed facilities.

So we have a strong financial position and a well-balanced debt maturity profile with no material non-aircraft debt repayments in the year, and we have cancelled our more expensive

facilities that we have not used. We remain committed to maintaining our balance sheet strength and our investment-grade credit rating.

On this slide, you can see our CAPEX guidance for the year and the next couple of years. This slide shows an updated presentation as we have now removed ETS from CAPEX to make it consistent with other airlines, and it is now disclosed in other assets and within operating cash flow.

Also, we now expect to take delivery of 20 new aircraft this year, compared to the 21 we expected in March. So our gross CAPEX expenditure for the year is now expected to be around €3.3 billion, excluding the ETS purchases.

As you can see in the chart, we expect our average for the next two years to be around €4 billion. This has moved since our Capital Markets Day last December and reflects the delay of some aircraft deliveries in 2027. As a reminder, our fleet expenditure is broadly two-thirds of our annual capital expenditure and reflects the rebuilding and renewal of our fleet over the period to a more efficient aircraft.

To finish with my presentation, I'd like just to remind you about the way we think about capital allocation.

Our capital allocation framework is designed to support our profitable growth and, ultimately, our sustainable shareholder returns. Our first priority is to maintain our balance sheet strength, with a net target net debt-to-EBITDA of less than 1.8x through the cycle. This is a proxy for investment-grade credit rating. Currently, it stands well below at 1.1x. Our second priority is to invest in our core business with a focus on rebuilding our fleet, improving our customer experience and enhancing our digital capabilities and our sustainability.

And lastly, we have a commitment to a sustainable dividend and as Luis mentions, we are pleased to have announced the payment of an interim dividend. Historically, we have done this at the third quarter results after our summer season, and we will likely return to this cadence in the future. But this reflects our confidence in the future of the business. And finally, we will return excess cash to our shareholders if we don't find attractive inorganic growth opportunities that are value accretive and strategically aligned with our vision, objectives and strategy.

And on that point, I will leave you now back to Luis.

Luis Gallego

Chief Executive Officer, IAG

Thank you, Nicholas.

I briefly referred to this earlier, but I would like to remind you of the key parts of our strategy.

Firstly, we are strengthening the core of our business to grow our portfolio of global leadership positions in our core market and to strengthen our world-class brands in those markets. Secondly, we are targeting capital-light earnings growth, mainly through IAG

Loyalty. And thirdly, we are working to ensure that the business has a strong and sustainable long-term future.

Our goal is to maximise returns to shareholders, balancing all our stakeholder needs in the process.

The key near-term drivers to deliver the margin and returns targets are set out on this slide.

Fundamentally, our transformation programme underpins all aspects of improvement across all of our businesses. Specifically, we are aiming to improve British Airways to drive higher customer satisfaction and financial performance through a better network and operations, customer proposition and commercial platform. Secondly, we are leveraging our structurally more profitable Spanish businesses with the aim to deliver over €1.5 billion of profit. And thirdly, to grow our Loyalty business which has structurally higher growth margins, cash flow and returns than our other operating companies.

So I will now take you through each of our strategic imperatives.

The first imperative is to strengthen our global leadership positions. On this slide, we are highlighting the attractiveness of our portfolio of three core markets of North America, Latin America and intra-Europe, and our strong positions in each of these markets. Obviously, we also apply to markets such as Asia, Africa and the Middle East, but as Nicholas mentioned earlier, they are a much smaller part of our network. Our main growth opportunity in those markets is through our global partnerships, such as with Qatar Airways.

On this slide, we have given you some details of specific developments in those core markets. I won't go through each of them, but of note our BA and Iberia's strategy of adding frequencies in their transatlantic network. The introduction of the first 321 extra-long range at Iberia later this year to enhance their North American connectivity, and Vueling's focus on consolidating its routes from Barcelona to significant destinations.

Our people are critical to our success. We benefit from our strong brands helping to attract talent, who then play a significant role in delivering our transformation. And we have hired 7,000 people across the group this year to help us to do that. These people are helping to deliver better operations, punctuality and customer service across our airlines as well as in our other businesses.

We are also working to secure long-term, mutually beneficial agreements with our union groups, which are now in place at most of our airlines. Specifically, we are pleased to have now reached a multiyear agreement with Aer Lingus pilots and remain in discussions with Vueling's pilots.

Our priority this year was to improve our operational performance, with the biggest opportunity at British Airways. Our investment has delivered some good improvement so far. BA has achieved a 15-percentage-point increase in on time performance in the first half, as they implemented their new Heathrow operating model, as well as investment in technology that enables better decision-making and efficiency.

In the meantime, Iberia and Vueling continue to be among the most punctual airlines in the world. However, there are still challenges, particularly from external factors. I will call out ATC in particular, with recent data from air control showing that a 30% increase in air traffic

flow management delays in June, and July has been worse, with ATC capacity and staffing problems causing over half of these delays. This is affecting all airlines, despite ATC fees rising to record levels, up 15% in the last three years. Fixing ATC issues is not only good for the consumer, but also for reducing carbon emissions.

We are investing in making our customer experience with our airlines better through better products on board, high-quality customer service delivery from our colleagues and by using technology to enhance the customer journey.

Aer Lingus has implemented pre-check at its US airports as well as refreshed lounges at San Francisco, Chicago and Boston.

British Airways is making further progress with its Club Suite rollout, now at 61% of the Heathrow long-haul fleet.

Iberia has a number of ongoing improvements, such as fast-track in Madrid and new baggage-friendly overhead bins on their A320s.

And Vueling is investing in digital for efficient and effective results. For example, for disruption self-service and through digital virtual assistance.

Our loyalty business continues to grow well. They issued over 23% more Avios than in the prior year and increased their number of active customers by 13%. As Nicholas highlighted earlier, this business now includes BA Holidays, which we have moved from British Airways. We think this will add significant value to IAG Loyalty as both a source of 'earn and burn' Avios, and we will invest to ensure it can benefit from an increasingly attractive Holidays market linked to our strong Group brand.

Our main focus in our net-zero plan is to secure sufficient sustainable aviation fuel to be able to deliver our targets.

During this year, we have signed agreements with a number of suppliers, including Twelve, as we mentioned earlier, this year, but more recently also with Repsol, EcoCeres and St1. The Repsol deal is the largest purchase of SAF in Spain so far and will be used by all IAG airlines flying from Spanish airports.

Moving on to our outlook for the remainder of 2024, we remain positive. Demand remains strong across our core markets. Capacity guidance remains at around 7% increase for full-year 2024, and up 7% in the third quarter. And our non-fuel cost unit guidance is also the same, increasing slightly this year.

So, to summarise, we are confident in the long-term future of this business. This is helped by the imbalance between continuously strong demand in our markets and supply-side constraints for the medium term.

Our transformation programme is going well and is helping us to achieve our margin returns and balance sheet targets.

I am very pleased that we have now resumed paying dividends, demonstrating our confidence in the strategy and business model. We remain committed to disciplined capital allocation and distributing excess cash to shareholders.

And on that note, I will open the call to questions.

Q&A

Operator: Thank you. As a reminder, to ask a question, you will need to press star one-one on your telephone and wait for your name to be announced. To withdraw your question, please press star one-one again. To ensure everyone has the opportunity to ask a question today, please limit yourself to just two questions. Please also ensure that you are close to your microphone and not on loudspeaker. This will help with ensuring that your audio is clear, and your question is understood. Thank you.

We will now take our first question. Please stand by. And the first question comes from the line of Alex Irving from Bernstein. Please go ahead. Your line is now open.

Alexander Irving (Bernstein): Hi, good morning. Two from me, please.

First of all, shame to see the end of the air Europa deal, but what do you think stopped this, especially when the commission signed up on Lufthansa ITA? It concluded that indirect connections provided adequate competition on routes where they would otherwise be dominant. Was that not possible here, or did something else prevent the acquisition?

Second, you mentioned excess cash return to shareholders if no inorganic opportunities existed. The 'if' is doing quite a lot of work in that sentence. What would any future deal have to offer to be better than either organic investment or giving cash back to investors, please?

Luis Gallego: Thank you. About the first question, I don't comment on other deals. I can talk about the Air Europa deal. And to be honest, we have worked very closely with the case team to put forward a very generous, an ambitious remedy package. I think that the package addresses all the competition concerns.

We propose to transfer 52% of Air Europa frequencies in 2023 to two strong remedy-takers. But unfortunately, this hasn't been enough. And for that reason, we consider that above that, the deal doesn't make sense for the Group. And that's the reason we are abandoning the deal, not because we don't believe in the deal. I think, as we said, it was going to be a very good deal for Madrid hub and for Spain. But is because from our point of view with these conditions, doesn't make sense to generate value for the Group.

And about the second question, Nicholas?

Nicholas Cadbury: Yeah, just about excess cash, the question was around. About the way we think about this is, is we know we have the priorities in terms of our capital location. We want to maintain our strong balance sheet. Hopefully, we've got to a good place on that. Overall, we want to keep below 1.8x leverage. We actually want to have some headroom to that as well, because we understand we're in a volatile sector overall as well. And we've got to a good place on that as well.

I guess when we think about returning cash to shareholders, there are several triggers we look at. We think about what the coverage leverage and the headroom is to that. We think about what the outlook is, which looks good at the moment. And we look at what the alternative use for those overall. So it's not just one thing we look at, it's a number of things that we are. We decided, the Board decided we're in a good place on those things at the moment. And therefore we started with paying a dividend, which we're pleased to do. And

all I can say is that we'll just continue to review that position for the rest of the year before we make any further decisions.

Alexander Irving: Thank you.

Operator: Thank you. We will now take our next question. Please stand by. And the next question comes from the line of Jamie Rowbotham from Deutsche Bank. Please go ahead. Your line is now open.

Jaime Rowbotham (Deutsche Bank): Morning, all, and congrats on the strong performance. Two questions from me, please.

First, a predictable one. A number of your peers have called out some level of softer pricing, looking out into Q3. What does IAG see now, please? And perhaps you could give a steer on book load factors for August and September.

Second one, the Capital Markets Day guidance was last year was for an average gross CAPEX for the three years to 2026 of €4.5 billion. So about €13.5 billion in total. Looking at slide 15, that's now come down to €11.3 billion. I know there are some moving parts, but the main delta is lowering the fleet CAPEX for the OEM delivery delays. Does this make it harder to achieve the medium-term ambitions on slide five, do you think? Because those, it's pleasing to see, haven't had to change. Thanks.

Luis Gallego: So about the first question, bookings for Q3 are at 81% of our expectations, which is in line with the forecast that we have in place. So strong bookings in our main markets, North Atlantic, Latin America and Europe. It's true that we see some weakness in China and Asia, but for us, those are markets where we don't have a lot of presence. So we continue seeing a strong demand. And even what we can see for the Q4, that the levels are around 32% are okay.

About the second question?

Nicholas Cadbury: Yeah. So the second question was, I think, was about relating to the reduction in CAPEX. I mean, of course it's reduced because of the ETS's going through there as well. And we were spending around about €200 million of cash this year on the ETS's. So that's gone into other assets.

The rest of it is, you're right, in terms of there's been some slippage in some aircraft. And the question was, does it impact our targets overall? I don't think so. I mean, I think we're going to be on a level playing field. So all of our other competitors are going to be experiencing exactly the same of this. I think it's not just one OEM manufacturer that is slipping at the moment, and it's based on narrow-body and wide-body across the industry. I think actually we're relatively well-placed. We've had one aircraft delayed this year, but it's purely kind of gone from kind of November into February. Overall, there's been a general slippage of narrow-body by about three months across the board.

The largest shift has been in 2026, where we've had some of the larger wide-bodies have slipped into 2027. But actually, as you know, constrained supply market often kind of helps, kind of makes it a kind of well-managed sector.

Jaime Rowbotham: Thanks a lot.

Operator: Thank you. We will now take our next question. And the next question comes from the line of Muneeba Kayani from Bank of America. Please go ahead. Your line is now open.

Muneeba Kayani (Bank of America): Good morning. So, first question, just following up on the demand side. So your yields in two Q2 were up 2%, which is the best amongst the European airlines. Why do you think you've outperformed the sector, both from a long-haul and short-haul side? Any kind of differences in terms of your customer base geographies that you would point out here?

And then secondly, on unit costs in Q2 were basically flat year-on-year. You've kept your full-year guidance. Just if you could help us understand the moving parts and then phasing in three Q3 and Q4, please.

Luis Gallego: Okay, about the first question, I think the geographies where we operate are helping. The customer base also is helping a strong market and also the transformation initiatives that we are doing. As you know, we have started a transformation programme in 2020. We have initiatives in revenues, and we have initiatives in cost. We see now that they are delivering. So I think those are the main reasons of their performance.

Maybe, Nicholas, you want to comment?

Nicholas Cadbury: Yeah, I think also, I think just particularly in British Airways, we've seen a good performance, particularly as you've got – you've seen our OTPs improved as well, and that's kind of helped our yield management as well, and there's been less cancellations and that's kind of helped drive kind of yields as well, overall.

Just on your second question, in terms of unit cost, you're right. We always called out our unit costs in Q1 were going to be high because we were at the anniversary timing of employee deals last year. And you'll see the employment fuel CASK should improve as we go through the year. What you'll see, the kind of the opposite of that, and actually investing more in the business, is you'll see some of the other cost lines go away. So we're still holding with our kind of guidance of up slightly. Most people have got that up kind of close to kind of about a 2% increase in non-fuel CASK and maybe.

Marco Sansavini: And maybe to give a bit of colour on the yield development, building on what Luis was referring to with regard to the geographies, in particular, Latin American demand has been building strongly. You've seen that with a 17% capacity increase, we have had just a slight 3% decrease in yield. And you can see that also if we look, for instance, at the corporate market in those flows, we've seen for the first time that our corporate revenues in Q2 from-to Latin America has been ahead of 2019, which is the first time that it happens since COVID, demonstrating the resilience of demand over there.

Muneeba Kayani: Thank you. On your comment on corporate actually, is that a driver for the overall performance? If that's a bigger driver of your revenue base, do you think, and where are you on corporate this year?

Luis Gallego: Incorporate. I think business travel continues to recover at different rates across our airlines and regions. So, for example, in BA, we are still in volumes around 65% and revenues around 80%. We compare with what we have in 2019. It's true that still BA hasn't recovered the capacity that we had in 2019. Iberia, for example, the volume is around

90% and the revenues are above the revenues that they had in 2019, with an increase in capacity, if you compare with the situation they had in 2019. And Aer Lingus' volumes are close to 100%, and revenues 95%. So different performance, but a good recovery in general.

I know some of you want to add.

Sean Doyle: Yeah. I think if I look at Q2 in particular, business volumes in IAG on the North Atlantic were up about 13% year-on-year. So I think that really helped get a better mix of traffic across the network, and that helped us drive load factors up as well, by a point to about 88%.

I think what we see in terms of – there's another kind of factor that we're navigating through is that, although what we see through corporate channels is that 65%, when we look at purpose of travel through all channels, it's a little bit higher. So we think the volumes of people travelling for business are probably up to above 70% and revenue more like 85% because we do see traffic that used to book through a business channel. Some of that now is booking through our direct channels. So generally speaking, steady improvement and steady growth, and particularly across the North Atlantic routes.

Muneeba Kayani: Thank you.

Operator: Thank you. We will now take our next question. And the next question comes from the line of Savi Syth from Raymond James. Please go ahead. Your line is now open.

Savi Syth (Raymond James): Hey, good morning, everyone. My first question, I was curious, in terms of network, if you could talk about where you're still looking to restore the network and the likely growth profiles for the different brands over the next year or two?

And secondly, just on the balance sheet, I appreciate the leverage target, but I was wondering if you could talk about your views on what levels of liquidity you want to maintain as well?

Luis Gallego: Okay, about the first question, I think in all the markets we have recovered the situation that we had in 2019, even we are above that. Asia, where still, we are recovering. I think they have recovered half of the capacity, more or less, that they have in 2019, and Iberia, they are still not flying there. And they are going to start flying to Japan again in October. So I think that's the only area we are below the capacity we've had in 2019.

But maybe some, Marco …?

Sean Doyle: Yeah, I think if I look at Asia Pacific, it's probably some different, you know, kind of levels of performance depending on what part of it you look at. North Asia has been a challenge, and we see demand out of markets like China are well below the amount of capacity that we have in the market. But then if we look at Southeast Asia, it's performing very well. And in fact, our confidence in Southeast Asia is, you know, leading to us adding Kuala Lumpur back into the network in winter, and we're launching Bangkok from Gatwick.

If we look at the North Atlantic, again, you know, we've increased frequency to markets that we've been maturing, like San Diego, that's gone to double daily this summer. I think new routes that we have launched in recent years, like Cincinnati and Pittsburgh, are performing

well. So we would look out for opportunities both to increase frequency and maybe to add some new markets to the map in the coming years.

I think we're well-served at British Airways across all of our short-haul network, and we've more or less restored all of the destinations and frequencies pretty completely there.

Marco Sansavini: And in the case of Iberia, as you saw, we are already growing 14% this year, and that is meaning a 17% increase versus 2019. The main regions of growth comparing to that starting point have been both Latin America, where just this year we're increasing 17%, and North America, where we have also a double-digit growth versus 2019, as well as the domestic traffic in particular to the islands.

Now, if you look at the perspective of further growth of opportunities – opportunity growth, you can see that with the arrival of the XLR, as you know, we are going to be launch customers, that will allow us also to reach further new destinations and also to expand frequencies on destinations we currently serve. The first long-haul destinations that will be served with the XLR will be Boston and Washington. And that opens – we have up to eight XLRs that will be delivered to Iberia between the end of this year and next year. So that will open further opportunities to reach secondary destinations in our long-haul network.

Carolina Martinoli: So, briefly, Vueling, H1, we are 6% above capacity we had in 2019. We have markets in different stages of development. In some, we are consolidating. In other ones, we are looking to unlock growth, to increase our position, so.

Luis Gallego: Lynne?

Lynne Embleton: From an Aer Lingus perspective, you'll be aware there is the issue of the passenger cap at Dublin airport, which overall constrains growth. Now that we've got the pilot deal done, that brings structural changes that are useful for the company for expansion. In that regard, we've got a narrow-body pay scale now. So I'm re-engaging with Luis and Nicholas on the possibilities of XLRs with the overall passenger cap that might need adjustments elsewhere on the network. So we're working through our options now.

Nicholas Cadbury: And just a follow-up question on that. IAG is still considering what to do with the XLR, part of the question.

So just on the second question, just in terms of the balance sheet liquidity, we've kind of always aimed for 20-25% of cash, percentage of revenue that we want to hold. We're holding in excess of that at the moment. Things we think about. We've got to step-up in CAPEX next year. And although we've got no significant non-aircraft debt to pay this year, and pleasingly no pension to repay this year, we have got some debt in the 2025 and 2026 to pay, but around about 20-25%.

Savi Syth: Helpful. Thank you.

Operator: Thank you. You will now take our next question. And the next question comes from the line of James Hollins from BNP Paribas. Please go ahead. Your line is now open.

James Hollins (Exane BNP Paribas): Thanks. If I could just start my first one on Madrid. I was just curious, is there anything you can do now, maybe aggressively, that you wouldn't do before? I'm assuming you don't really care about the fact that you've effectively invested €150 million in Air Europa. And maybe linked to that, do you intend to keep 20%?

And then, Lynne, nice pitch on getting the XLR there. Just wondering if Aer Lingus maybe is looking at any strategic changes or capacity adjustments, given the capacity coming to Dublin, I assume not given those caps, can we just sort of ride this through? And maybe, what are you seeing your competitors planning for Dublin in particular on transatlantic? Thank you.

Luis Gallego: Okay, so about the first question, I think to have a breakup fee in this type of operation is normal because this operation can happen or not. We know that in the beginning that this operation was going to require remedies. That's the reason we have offered a very generous package of remedies. Unfortunately, the conditions that are required are above the conditions that we consider that make sense for the shareholders. So we are going to pay the breakup fee as usual. And we are going to maintain the 20% that we have in the company. We don't have plans to sell that 20% in the short term.

In parallel, Iberia this year they are growing 14% in ASKs. So the organic growth of Iberia is something that is happening in any case. And if you see, for example, the second quarter, the growth in ASKs in Iberia to Latin America was close to 24%. So we are investing in Iberia because we believe in Madrid hub. The inorganic growth was a way to accelerate this growth, and to put Madrid in the first division of the hubs. But because we don't do this operation, that doesn't mean that Madrid is not going to be there. It's going to take longer. I think it's a pity that we have missed this opportunity. But we will continue investing in Iberia and the development of the company in Madrid.

The second one, please?

Lynne Embleton: I'll take the second one. So the Aer Lingus financial results are lagging the other Op goals in the group. And this year we've had two particular headwinds. The growth in competitor capacity. There's been a 20% increase in competitor growth into Dublin this year. And that's just having an impact on near-term yields and volumes. And then of course, the pilot strike right in the middle of the peak of summer.

So if we look at the network where the passenger cap does, I think restrict the ability for us and others to grow. Which you can see as a positive or a negative, depending on how you look at it.

We've got – we're looking at our network and looking at how we can adapt. Some of this is aimed at trying to reduce some of the seasonality. So, for example, we've introduced our savings in the winter because we do have more seasonality now than we had before COVID. And we're looking at the transformation plan benefits, and see what that unlocks in terms of revenues and costs, that will give us the confidence to develop the network further. And then, as I mentioned earlier, I think the XLR, now that we've got a passenger cap, would be good for Aer Lingus. And that would bring new opportunities for us.

James Hollins: Thank you.

Operator: Thank you. We will now take our next question. Please stand by. And the next question comes from the line of Miguel González Toquero from JB Capital. Please go ahead. Your line is now open.

Miguel González (JP Capital Markets): Morning. Thank you for the presentation and for taking my question. I've got two, in fact. The first on working capital.

I see that the level of deferred revenue are more than €2.5 billion higher than last year. Is it related to an increase in EBITDA, and would you expect these levels could hold up well and be something structural, or will you see a risk that this could imply higher than you saw and won in the coming quarters?

And secondly, I know you don't provide guidance for the year, but after the bid this quarter and the visibility you have today on bookings, maybe you could give us an indication of how you see consensus for the year, which I believe stands about €3.5 billion? You think you could beat it? Thank you.

Nicholas Cadbury: Yeah, just on the working capital. Actually, the working capital inflow is about the same as it was last year. We had €2.3 billion inflow this year, and it was €2.3 billion last year. So it's exactly the same. So it's just about generally just taking forward bookings ahead of the summer period across all of our airlines overall. So it's airline tickets overall. And as I said in the script, you'd expect that to partially unwind as you go through the year. So you get, hopefully it changes into EBITDA and unwinds through the year.

Just in terms of, I think the second question was on consensus over the year. Consensus is around about €3.5-3.6 billion for the year.

Operator: Thank you. We will now take our next question. And the next question comes from the line of Ruairi Cullinane, RBC Capital Markets. Please go ahead. Your line is now open.

Ruairi Cullinane (RBC Capital Markets): Yes. Good morning.

The first question is, has your experience with Air Europa dimmed your appetite for M&A generally?

And then secondly, a lot of questions on the relatively encouraging unit revenue trends. Are you worried this could attract competitor capacity into the winter season, for example, carriers in the Americas, perhaps pivoting growth towards the North and South Atlantic? Thank you.

Luis Gallego: Okay. About the first one, M&A appetite, we are a platform. We want to consolidate the industry because we consider it's good for the customers, and it's good also to have strong groups that can compete globally. But also, we are a very rational Group, that we don't do things that we consider don't make sense. So we will continue exploring opportunities if those opportunities make the Group stronger. You have seen the strong result that we are delivering. So if we do things, are going to do things that make us even stronger. So you don't have a lot of companies that in some way can help to the results of the Group, but we are always analysing opportunities.

We said, for example, previously that we were analysing TAP in parallel to the Air Europa operation, and it's something that we are going to analyse, the new conditions from the new government. And if the proposal makes sense, maybe something that can be interesting for us because in the same way, we have a dual half strategy in the North with Dublin and London, we consider that a dual half strategy in the South with Lisbon and Madrid can be optimal for the Group. But we don't have any urgency to do M&A. We only do M&A if we consider that we improve the Group results.

Nicholas Cadbury: And in terms of concern about competitors coming into the market, yes, we're always concerned. It's why we've got our investment programme. So we're investing in our fleet to get our frequencies up, we're investing in our products, in all of our airlines, in our IT, and just improving the competitiveness of our aircraft. And that's why we're so focused on getting our cost base, focus on our cost base as well, to make sure we're competitive as well.

So, yes, we're always concerned what we're actually seeing at the moment there. Look, if you look at the North Atlantic, actually, you can see into winter bookings at the moment, and actually, it's fairly flat, there's no growth coming across the Atlantic at the moment. Overall, I think if you look at the US airlines, I think they're trying to grow their capacity into other routes at the moment overall, particularly as they've seen their cost base go up quite significantly with their pilot deals, it's kind of more expensive to fly this way.

So as long as we're focusing on doing what we can do, investing in improving our products to make it more competitive.

Operator: Thank you. We will now take our next question. The next question comes from the line of Conor Dwyer from Morgan Stanley. Please go ahead. Your line is now open.

Conor Dwyer (Morgan Stanley): Hi, guys. Good morning.

First question is on the loyalty business. Obviously, the revenue growth there is quite high at the moment. I'm just wondering how you're thinking about that as a kind of steady-state business over the next three to five years as that matures?

And the second question is on British Airways. Obviously, a decent performance this year. And I'm wondering how much of that, basically is due to very strong market conditions on the North Atlantic, and how much is relating to the ongoing transformation? And if I think about the next two to three years, as more planes come in, the product is invested in, how do you think about that in terms of the size of the structural change in the business over that period versus this year? Thanks very much.

Adam Daniels: Hi, Adam Daniels, here on the Avios and the Loyalty question. Yes, so we have, we are growing double-digit in terms of our revenue and collection. We expect that to continue, to be honest, for some time to come. It's we've been growing at about that level for the last two or three years. We expect that to continue for the next few years as well. So we are very much in a growth mode, and we see customers increasingly collect the currency and are using it as well. So we think there's a lot more opportunity here. We're signing up some more partners very soon, and we think we can keep that level of growth going.

Sean Doyle: In relation to BA, I think the performance is very encouraging considering the fact that the corporate revenue isn't back to 2019 levels. So I think what it's demonstrated is that we've been able to pivot the model to really serve effectively the leisure markets. And I think the work we do with Loyalty and the work we're doing with BA Holidays is really increasing our penetration and relevance there.

I think also we've made very good progress on our operational transformation, but I think there's more to come. We had a 15-point improvement in on time punctuality, a big reduction in cancellations. But I do think that we're in probably the middle phases of driving a full transformation there. You know, we have the Heathrow operating model only rolled out

since April. Some of our digital tools are still to come, and I think there's a lot more, you know, potential upside that we'll be tapping into, on both our operational performance and customer experience looking forward.

If I think about customer, we've 69% of our fleet have got the Club World Suite. That's really, you know, driving a step-change in their Promoter Scores. And as we move that towards full embodiment, I think we will, you know, begin to drive a product advantage against a lot of our peers. On top of that, we're doing things like our lounge refresh.

I think what's very exciting as well is the potential of our digital transformation. We are rebuilding a new version of both our app and our dot.com experience. We'll start to roll that out toward the end of the year, and I think, you know, revenue conversion and digital experience will be significantly enhanced.

Finally, what I would say is we will be taking more delivery of long-haul aircraft. And right now, we've probably a little bit of an imbalance between having a little bit too much short-haul and a little bit too little long-haul compared to what we would have had historically. As we begin to restore that balance and take delivery of aircraft over the next couple of years, we'll rebuild the long-haul network. I think it's more productive, it's more efficient, and it also gives us a better balance of seasonality. So I think there's a lot of structural levers of improvement that will come in the years to come.

Conor Dwyer: Thank you very much.

Operator: Thank you. We will now take our next question. Please stand by. And the next question comes from the line of Harry Gowers from JP Morgan. Please go ahead. Your line is now open.

Harry Gowers (JP Morgan): Thank you. Yeah, morning, everyone. I've got two questions if I can.

The first one's a bit of a follow-up on some of the questions asked already. I mean, your leverage target through cycle is 1.8x. You'll probably be a fair bit below that level this year. So I was just wondering if you have like a floor in your mind in terms of where you might want to try and hold the leverage at, and then you return all the excess cash to shareholders. Like, would you want to go below 1x net debt-to-EBITDA, for example?

And then second question, obviously, again, like, your network peers have had weaker performance this year on the pricing front, but they've also suffered from some more acute issues. So firstly, do you think you've benefited at all in terms of picking up any incremental traffic because of strikes at your peers? And then, on a similar trend, any benefits at all from the issues that your partners at American have seen on the revenue and distribution side? Have you seen any incremental benefit from that? Thanks a lot.

Nicholas Cadbury: Yeah. Just on the, on the leverage, yeah. As you said, we've got a target to be below 1.8x. We're at 1.1x at a half year. You'd expect that to increase as you go through the second half as your working capital unwinds, overall.

We don't have a set target. As I said, we have a – we look at what the leverage is, we look at what the outlook is and wherever, look at alternative uses all the time. So it's not one specific trigger we have overall. We'd always try and keep some headroom to the 1.8x

because I said we're in a volatile industry, but we have to look at those other three things at the same time before we kind of decide what the distribution is.

American?

Sean Doyle: I think the American distribution changes were primarily, I think, an issue in the domestic revenue performance. So we haven't seen a material impact across our joint venture from the strategy or the changes.

Harry Gowers: Thanks a lot.

Operator: Thank you. We will now take our next question. And the next question comes from the line of Andrew Lobbenberg from Barclays. Please go ahead. Your line is now open.

Andrew Lobbenberg (Barclays): Hi there. Can I ask a question about fleet? Sean seems keen on having some long-haul planes. Lynne wants them too. And yet, you're very clear that the deliveries are being delayed and the 777s aren't coming quickly, nor are the 787s. And with the abandoning of Air Europa, you know, you're losing a big slug of 787s that would have come into the Group as well. So, you know, do you think you need to do anything to try, and source used wide-bodies, or take some leases to try and deliver the wide-body metal that you want for the network?

And then my second question would be around your Spanish portfolio of brands. Now, you'd previously said that you would expect to restructure the portfolio of brands after the Europa deal completed, but that's obviously not happening now. But what is going with the Spanish? What is going on with the Spanish portfolio? Are you thinking about expanding LEVEL into short-haul, as you previously mentioned, as a possibility? Are you going to be ready to grow Vueling? Are you happy with the relationship with IB Express? Thanks.

Nicholas Cadbury: Just quickly, just answer about the aircraft. We've got 19 deliveries this year, so we've got pretty good. We've got probably 20-25 deliveries next year, actually. So actually, we're quite comfortable, particularly the next couple of years, in terms of where our deliveries are. What we're having to do in terms of the deferrals from 2026-27 is we're actually just extending some of the life of our, particularly some of our larger aircraft, the 777s, which are really well, good performing aircraft, actually. So it's that'll help our – help overall. So actually, we don't think we have to do too much. We'll always look there, we'll always be kind of tactical in terms of looking at opportunities if there are. If we think they are there, Andrew.

Luis Gallego: And about the Spanish portfolio brands, yes, you're right. We were waiting to Europa to see if we needed to rethink about the number of brands that we were operating in Spain. Now that the Europa is not going to happen, we will review the situation that we have, but in principle, we are going to continue developing LEVEL. You know that we are in the middle of the process of obtaining the AOC for the long-haul. The AOC for the short-haul is still something that we are considering. We have opportunities to develop Vueling if they can have the right cost structure that is needed to develop the company.

And Iberia and Iberia Express, they are trying to reach an agreement to develop further Iberia Express. And is something that maybe, Marco, you want to comment about the agreement?

Marco Sansavini: Simply that conversations are proceeding. But as long as no agreement is reached, Iberia Express will not grow. So at the moment we have freezed the growth of Iberia Express until the moment that an agreement would be reached.

Carolina Martinoli: And from our side, as Luis said, we are working to get the cost base right. And this doesn't mean just pilots. This is about the whole transformation plan. So we are working to get the cost base right and to be able to unlock growth.

Luis Gallego: But to your question, Andrew, the good thing is that we have good brands, we have different AOCs, and we have different opportunities to develop the business in Spain. That is a business that is working very well. And we said that the objective is to generate €1.5 billion in those businesses without the Europa operation. Last year we were close to that and this year things are working well, so we are not worried. What we see here is an opportunity.

Andrew Lobbenberg: Thanks.

Luis Gallego: You're welcome.

Operator: Thank you. We will now take our next question. And the next question comes from the line of Sathish Sivakumar from Citi. Please go ahead. Your line is now open.

Sathish Sivakumar (Citi): Yeah. Thanks again for the presentation. I've got two questions here.

So maybe firstly, on IAG cargo, given what we are hearing from the other airlines and as well as from the freight names, a strong Q4 is expected. How should we think about year-on-year progression into H2 on cargo? I appreciate that you have very little exposure to Asia, but just given, do you expect to be flattish on cargo revenue for the full-year basis? Any colour on that would be helpful.

And then the second one. Yeah, thanks for the colour on the booking of quarter three. How does it actually compare, Iberia versus BA, on the booking curve? Any colour on that would be helpful as well. Thank you.

Nicholas Cadbury: I didn't hear that. I didn't hear the second question. You'll have to repeat that.

So just in terms of cargo, we kind of expect the continuation of the performance we've seen in the first half. So we're seeing yield is looking okay. Unfortunately, that's due to the kind of issues that we're having in the Middle East overall. And then you're seeing, as you said, we're less exposed to Asia at the moment. And because we can't fly over Russia, actually, we're having to carry more fuel on the planes. We are flying to Asia as well, which means we can fly even less cargo overall. So that is affecting our kind of tonnage that we carry and expect to carry into the second half of the year.

Sorry, I missed the – I couldn't.

Luis Gallego: Yeah, sorry, we didn't understand the second question. Would you please repeat?

Sathish Sivakumar: On the booking curve, you talked about 80%, around 80% booked for quarter three. I just wanted to understand how does that compare, Iberia versus BA?

Luis Gallego: I think it's very similar in Iberia and BA. What is different is Vueling because they have a different profile. But when you see the health position of Iberia, British Airways and Aer Lingus, is very similar to the numbers that I gave you for the Group.

Sathish Sivakumar: So Vueling is slightly different apart from 80%.

Luis Gallego: Yes, Vueling, yes. Because the profile of selling is totally different.

Lynne Embleton: We have around 70% now, on Q3.

Nicholas Cadbury: Yeah. Short-term bookings.

Lynne Embleton: Narrower bookings.

Sathish Sivakumar: Got it. And then maybe just a quick follow-up on the cargo. Should we expect like flattish cargo revenues year-on-year, given some rebound in second half?

Nicholas Cadbury: Yeah, similar trend to the first half.

Sathish Sivakumar: Okay, got it. Thank you.

Operator: Thank you. We will now take our next question. The next question comes from the line of Guilherme Macedo from CaixaBank. Please go ahead. Your line is now open.

Guilherme Macedo (CaixaBank BPI): Hello, thank you for taking my question. Two, if I may.

The first one on NDC. So you've mentioned that you've not particularly benefited from the issues that American Airlines have faced, but have any of these issues changed your approach even slightly to the progression of NDC, the need to have the inventory available in all channels?

And second one, in terms of the Air Europa state, what's the rationale for the maintenance of the stake at this stage? Thank you.

Luis Gallego: What the rationale, sorry?

Nicholas Cadbury: About the 20%.

Guilherme Macedo: The maintenance of the stake in Air Europa at this stage.

Luis Gallego: Okay, about the first question about the NDC, I think we continue with our strategy. I think in the case of American Airlines, from my point of view, the strategy was the right one because it was similar to what we did some years ago. It was more a problem of implementation, and they are trying to fix that. So we are advancing in the NDC channel because we consider it's the future, and it's something that we have been improving the recent years.

And about the 20% of Air Europa, yes, have 20% of the company. To be honest, we don't have plans in the short term to sell that stake. It's something that is a financial investment that we have in the company, and we will consider in the future what we do with that.

Guilherme Macedo: Okay, thank you.

Operator: Thank you. We will now take our next question. And the next question comes from the line of Gerald Khoo from Liberum. Please go ahead. Your line is now open.

Gerald Khoo: Morning, everyone. Two, if I can?

I was just wondering, on unit revenue, obviously a good performance, but I was just wondering how much of that improvement came from mix rather than outright price. I think we talked about premium and premium economy remaining strong. How much of – how much of a contribution did that make?

And secondly, in the statement, you talked quite a bit about digital developments across the various airlines. I was just wondering whether you could talk about the pros and cons of centralising that sort of development work at IAG or taking solutions developed at one airline and using it in another? I get the impression that each of the airlines are kind of doing their own thing in the digital sense.

Nicholas Cadbury: I haven't done the calculation about how much comes through mix, actually, so I can't commentate that. Probably a little bit of benefit you've seen particularly strengthened across the North and South Atlantic overall on that as well. But we've also been helped. We've had very strong AJB. So therefore, that kind of indicates you get less payments into the AJB. And also, you've also because we've had less compensation from EU 261 as well, which kind of benefits your overall kind of yield.

Sean Doyle: I think just in leisure demand, I think is kept base with capacity. And I think we've had better mix as a result of corporate recovery in the AJB. We also saw very strong short-haul premium mix over the course of the quarter, which we have a variable ability to flex capacity in that segment. So I think there has been better mix, but also, I think demand across the Leisure segments in the core products has been robust as well.

Luis Gallego: And I'll say the second question, the digital development and the coordination in the Group, we have been talking about the transformation programme. And the transformation programme, a big part of the transformation is linked to innovation, digital development and artificial intelligence. So at Group level, we have defined the areas where we consider, for example, innovation, artificial intelligence can help to improve the delivery of the different airlines. We do things locally, but with a coordination from the top in order not to repeat things, and in order to learn from the good things we are doing in the different places. So that's the model that we always have in the Group. We don't do things if we don't consider that. We don't add value to different airlines, but we learn from each other about the things we are doing. And we have, for example, champions in the customer area, or we have others that they are leading in the maintenance area or procurement, etc.

Gerald Khoo: Okay, great, thanks.

Operator: Thank you. We will now take our next question. And the next question comes from the line of Stephen Furlong from Davy. Please go ahead. Your line is now open.

Stephen Furlong (Davy Stockbrokers): Morning. Maybe it's probably more for Nicholas. Two questions.

Comment about the outlook in terms of generating significant free cash flow, and then you talk about, obviously, the unwind of the working capital. So, maybe just can give a bit more colour there or even like what consensus is or something like that?

And second one, in terms of the divi, well done on resumption of the dividend. Is there – or when would the Board make some sort of comment or decision in terms of a policy per se?

Because I know in the past it used to be, they say something like 20% or something of the net profit or something like that. Thank you.

Nicholas Cadbury: Good question. Yeah. So just in terms of free cash flows, we just have confidence making significant. Last year we made about €1.3 billion of free cash flow. And you can see consensus in terms of – is a little bit higher than where it was last year as well. So again, confident of replicating, if not doing a little bit better than last year overall.

Just in terms of the policy, I don't think – actually, if you go back in the history, we don't actually – all we said is a sustainable dividend, rather than actually quoting a policy of a payment ratio overall. And I think that's kind of a sensible thing to do as well. So our key thing is to make sure we can deliver a sustainable dividend year after year for you overall. So that's the bit on policy.

Stephen Furlong: Great. Thanks, Nicholas.

Nicholas Cadbury: Thank you. Thanks.

Operator: Thank you. We will now take our next question. Please stand by. The next question comes from the line of Jarrod Castle from UBS. Please go ahead. Your line is now open.

Jarrod Castle: Thank you. And good morning, everyone. I've probably spoken quite a bit around kind of the yield environment, but I'm just thinking a bit more about next year. It seems like, you know, the consumer pressure started on the low end, coming more towards the top end. You know, comments from luxury good company this week from Marriott, including the US, they pointed out. So, is there some delayed effect, thinking about next year that, especially on your premium leisure, the consumer is going to get hit? And are you concerned with that also, just given UK government increasing, well, putting VAT on school fees, etc. So, just any thoughts whether or not potentially next year is the year where you see the softening that some of the others have seen?

And then just secondly, can you actually quantify the impact from some of the strikes Aer Lingus saw?

And then just kind of in broad brush terms, in terms of the deal itself in terms of productivity and rate. Thanks.

Luis Gallego: Okay, about the first question, we are looking at the market very carefully since a long time ago because this question about if this is a bubble after COVID that is going to end, is here for almost a couple of years. So what we are always answer is that we don't see that weakness coming. So now with the visibility that we have for the Q3 and the Q4, we don't see this weakness in our main markets, North Atlantic, Latin America and intra-Europe. But it's something that we are looking at it, in case something happens.

But for the time being, I don't know, Sean, if you want to comment what you see in British Airways, for example.

Sean Doyle: Yeah, I think if you kind of index this back to 2019, I think we should be expecting in a typical cycle to see demand growth and capacity growth. And I think if you kind of look at this over the medium term, I think they're pretty much aligned with historic averages. So I don't think there's an oversupply issue in the market. And I think, you know,

capacity has barely kept up with demand growth in the last five years, albeit that we've had some, some big increases in capacity, you know, over the last couple of years coming out of COVID.

I think, you know, there's pros and cons in terms of the economic outlook, as you say. You know, one is interest rate cuts and the savings ratio in the UK could give, you know, support to consumer spending. As Luis said, there's other clouds that you always look out the horizon for, but we're not seeing, I think, you know, anything in the medium term booking environment that suggests a slowdown.

Nicholas Cadbury: I think as well. I think while interest rates remain relatively high, those who've got money and can travel and think, fortunately, are doing okay. And we're not seeing, you know, we've got a good insight into spend through our credit card relationships as well. And actually, the one sector that's holding up is travel at the moment. We're definitely not complacent, though. We are keeping an eye on it.

And in terms of Iberia, well, I think it comes back to, I think there's more of a structural play overall as you're seeing how the South America to North Spain.

Marco Sansavini: Yeah, we do see that Madrid is emerging as a destination that structurally is having more traffic from Latin America. Also, because of flows of people that are either moving or moving businesses to Madrid. Sort of consider, I think we have shared in the past as the new Miami in this respect. And we do see all indexes in terms of flows and tourists, but also business activities that are increasing, therefore. So we do see structural improvements in demand there that support also our capacity growth and, in fact, the results of our yield environment, and those capacity growth tends to go through.

Nicholas Cadbury: And if you think also, we look, we keep an eye as well, and expect to see people with less income flying, but actually still see demand.

Carolina Martinoli: We had a very strong H1, so PRASK is increased 2.6%. So for now, we are seeing strong demand.

Nicholas Cadbury: So definitely not complacent, though. Keep an eye on that.

Lynne Embleton: I take the Aer Lingus question on the industrial action of the pilots. So the industrial action itself, we estimate, cost around €55 million direct cost. So that's spread over quarter two and quarter three. It was June and July where we had the industrial action. And if we look at the pay deal, there's two key differences relative to what we've been discussing with the pilots at the end of last year.

First thing is, it's now a four-year deal, not a three-year deal. And there's a small amount of unconsolidated pay that has now become consolidated, 1.5%. But importantly, what that gives for the company is two key bits of structural change. The first one I've already mentioned, and that's a new pay scale or a cap on the pay scale that applies to all narrow-bodied flying. And that not only gives us the confidence to look at more narrow-bodied XLRs across the Atlantic, but it also means we get more productivity for the pilots who are flying between Europe, so they can do European flights, and then they can do transatlantic flights. And that productivity benefit is going to be very useful to us in the future.

And the second piece in the deal is it removes what was call the crew agreement, which was a – it gave the pilots lifestyle improvements and more time off in the summer and shorter days. And it was something they asked for several years ago, but it did come at quite a significant productivity cost. We put it around 7% productivity. So with that unwinding, that gives us an opportunity as well as we look at better unit costs into the future.

Jarrod Castle: Great, thanks a lot.

Operator: Thank you. As there are no further questions, I would like to hand back to Luis Gallego for any closing remarks.

Luis Gallego: Okay, so thank you very much, everybody, for being here today. We are happy that we have presented a strong package of results, and I hope we can have a small break this summer. Thank you very much. Bye-bye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]