International Airlines Group Q1 2023 Results

Friday, 5th May 2023

Luis Gallego

CEO, International Airlines Group

Thank you very much. Good morning, and welcome to the IAG Q1 results. I'm joined today by Nicholas Cadbury and the IAG Airlines CEOs.

Firstly, I'm very pleased to report the first profitable quarter one since 2019. Pre-pandemic, it was normal for IAG to be profitable in the first quarter, something which is not common for European Airlines. Our return to profitability in quarter one this year is therefore another sign that we are returning to normal.

Quarter one was ahead of our expectations due to strong demand trends, particularly for our Spanish airlines and in the leisure segment for all our airlines. Fuel prices were also lower than expected, giving us a cost win against our expectations this quarter. We also saw non-fuel unit cost benefit from the increasing capacity year-on-year.

We are focused on deploying capacity in our core markets. For example, Iberia continues to consolidate its market position in the South Atlantic, while British Airways is focusing on revealing its US network, which will be at pre-pandemic levels of capacity by Q3 this year.

Vueling continues to grow more in the winter to de-seasonalise its network, for example, to winter-sound destinations such as Cairo, Amman or the Canary Islands.

Aer Lingus is focusing on long-haul destinations with high leisure component. As I mentioned, we saw good demand trends in Q1 and with 30% of revenue book, we expect this to continue into the second quarter as well.

While Q3 is currently also looking encouraging, we have a lower level of visibility for the second half of the year compared to Q2. As a result of the better-than-expected performance in Q1, in addition to the encouraging summer demand and lower fuel price compared to our previous expectations, we now expect our full year operating profit before exceptional items to be higher than the top end of our previous guidance, which was €1.2 billion to €2.3 billion.

However, we are mindful that we are still at a relatively early stage in the year. While fuel prices have fallen in the past few months, they are subject to macroeconomic and geopolitical impact. So there is no certainty that they will stay at current levels.

We are also mindful of any impact of potential sudden disruption, such as further air traffic control strikes in France.

Now I hand over to Nicholas.

Nicholas Cadbury

CFO, International Airlines Group

Thank you, Luis, and good morning, everyone. As we hopefully have left the pandemic behind us, like most other airlines, we've moved our reporting and metrics back to comparing with the previous year 2022.

On this slide, we've shown the key components of the significant change in profit. On the left, you can see the largest single driver of our growth in profitability, was the change in passenger revenue. This is a combination of Q1 last year being heavily impacted by the Omicron and the strong leisure demand that we're seeing this year.

Cargo revenue declined year-on-year due to the lower yields as a result of the continued increase in cargo capacity from additional passenger aircraft flying, particularly in Asia, and the continued normalisation of the supply chain. However, whilst cargo revenue fell year-on-year, revenue was still up strongly on the pre-pandemic levels due to higher yields.

And lastly, non-fuel and fuel costs increased as we added back capacity, and due to the increase in fuel unit costs.

On the right-hand side, we've shown you the bridge between this year and last year by our businesses. All of our businesses saw a strong recovery compared to last year, with the largest increases coming from British Airways and Iberia.

I'm also pleased that our loyalty business has had a strong quarter, delivering €81 million in operating profits, and drove good cash flow. The team added 1.2 million newly enrolled customers during Q1, which is 15% more than in Q1 2019, and they launched new products that are designed to increase customer engagement, such as Avios-only flights.

This slide shows our key financial performance metrics. Starting at the top and working down, as we built back capacity, ASKs were up 46% and passenger revenue was up 90%. While most of this came from the stronger pricing on yields, it was also pleasing to see load factors above 81%, an improvement of over 9%.

Turning to unit costs. Fuel unit costs were up 31%, driven by an increase in the average price of physical fuel, up 20% per metric tonne year-on-year, together with lower hedging gains and the impact of a stronger US dollar.

Non-fuel costs reduced by over 13% as we added back capacity and partly offset inflation with our efficiency programme. I reiterate the non-fuel cost guidance I gave at the year-end of a reduction of 6-8% for the full year compared to 2022.

These KPIs led to a profit of €9 million. Not all the airlines make a profit in the first quarter, but Q1 profitability has been a hallmark of IAG. So it is pleasing to see this trend returning.

On the bottom row, you can see that our net debt was €8.4 billion. The comparison is against December 2022, and you can see debt was €2 billion lower, giving us a leverage of 2.1x. The reduction in debt was driven by an improvement in cash that principally came from seasonal working capital inflows from passengers making bookings for later in the year.

Liquidity continues to be in a very good position at €15 billion.

This slide shows the profitability by business. We have included the detailed breakdown for each airline in the appendix.

I want to first highlight Iberia's performance, a record Q1 profit of €66 million and achieved an operating margin of 4.5%. British Airways was also profitable in Q1, and as I mentioned earlier, had the largest absolute increase in profit year-on-year of £440 million.

Aer Lingus and Vueling are more seasonal businesses, so losing money in Q1 was expected. However, it was also pleasing to see they reported a significant increase in profit year-on-year. And in particular, I'd like to highlight Aer Lingus' strong unit revenue performance and Vueling's capacity growth, which has driven their profit improvements.

This chart shows our capacity growth and the unit revenue performance by region. You can see the impact of the Omicron variant last year on the strong growth rates in capacity in all regions, especially in North America, and the strong leisure demand driving PRASK growth year-on-year in all regions.

I want to also highlight the performance of Latin America and the Caribbean. You can see from the relatively lower year-on-year growth rates in capacity that the region was less impacted than other regions by Omicron last year. However, the performance of unit revenue in this region was very good, similar to that of North America and AMESA, demonstrating the strength of trading across LATAM. For Iberia, the strength in unit revenue was seen on almost all the routes in the region.

In general, for all airlines, whilst we see strong demand everywhere, the routes that are the strongest are those with a higher mix of leisure passengers.

This slide shows our net debt that improved over the last quarter by €2 billion to €8.4 billion. As I've mentioned, this reduction was mainly driven by the strength in forward bookings, which resulted in significant working capital inflows in the quarter. However, we would expect the majority of this inflow to unwind during the second half.

We are maintaining our previous capital expenditure guidance at around €4 billion this year, that is related to Q2 onwards. We're not immune to the delay issues that are impacting both OEMs, however, our latest delivery expectations are unchanged from the update we gave you at year-end of 29 aircraft this year, only three of which were delivered in Q1.

On debt maturity this year, we have IAG senior unsecured bonds for €500 million due in July and around €250 million of other debt maturing throughout the year. With our cash deposits at over 11 billion, we have the flexibility to pay these down from cash reserves.

We previously gave guidance for net debt to be roughly flat year-on-year. As we are more positive on the profit outlook, we expect this to flow through to reduce net debt by this corresponding outperformance.

This slide shows our current fuel hedging position. We currently have around 62% of our expected consumption hedged for 2023. The jet fuel forward curve has come down compared to what we were seeing last quarter between $1000 per tonne and $850 per tonne to around $800 per tonne to $750 per tonne.

Whilst prices have fallen in the past few months, as you know, we have seen high volatility, and there is no certainty that they will stay at current levels. Rather than give you specific guidance, we've included a sensitivity in this slide for you so you can help you think about how to model the rest of the year.

This sensitivity chart shows that if we assume that the spot prices are around $800 per tonne for the rest of the year, our fuel bill for 2023 will be around about €7.5 billion. But if the price returns to $1,000 per metric tonne, the fuel bill would be around the previous guidance of €8 billion.

In our own internal forecast, given the volatility and geographical uncertainties, we are conservative, and we do not account for the full upside from current prices, as we know how quickly these can unwind.

So in conclusion, for the financials, we are pleased to return to profitability in quarter one with Iberia reporting its best ever Q1 profit and good year-on-year progress in all the airlines and loyalty.

We benefited from the lower fuel prices, and demand was stronger than we had expected in Q1. This trend continues to be encouraging, but with a long way to go until the end of the year.

I will now hand back to Luis, who will give you some more details on the quarter and the outlook.

Luis Gallego

CEO, International Airlines Group

Thank you, Nicholas. This slide gives you a flavour of leisure and business demand trends, and which network areas our airlines are focusing on.

Firstly, Aer Lingus, is seeing particularly strong leisure demand from US point of sale destinations, and also European leisure-focused destinations. Aer Lingus corporate business is particularly exposed to the technology sector, which has seen a slowdown since the end of last year.

To satisfy the strong demand, Aer Lingus is focusing its capacity growth to destinations in the US and key leisure destinations in Europe, while reinforcing the Dublin hub.

Likewise, British Airways is seeing a strong leisure demand from the US point of sale. In addition, demand to the Caribbean, Africa and the Middle East is also showing strength. While BA has a more diversified mix of corporate customers than our other airlines, business demand is recovering slowly.

On the network side, BA will have recovered its US network by Q3, although will not have recovered its Asia Pacific network for a number of years. As I mentioned earlier, our airlines are operating in a challenging environment. British Airways' first wave of flights arrivng from Europe into Heathrow are being impacted by the French air traffic control strikes, which because of the constrained capacity at Heathrow, have an open impact on flights later in the day.

Whilst we are doing all in our power to ensure our operational robustness, we do need all actors in the aviation ecosystem to play their part to deliver a robust operational performance as well.

Iberia is seeing a strong leisure demand in all regions and is seeing business demand recovering faster. This might be due to less of a work from home culture in Spain, and broader cultural reasons. Iberia's network strategy is focusing on strengthening its position in Latin America, in addition to new US destinations through aircraft utilisation increases. I'm very pleased to say that, again, Iberia retains its global leadership in on-time performance.

And finally, Vueling, is also seeing a strong demand, particularly for winter-sun destinations. Their revenue performance is driven by very strong ancillary revenue, higher yields, but also by a focus on driving load factors higher.

Vueling's network strategy is focused on de-seasonalisation during the winter season through increased utilisation to destinations such as the Canary Islands and Cairo. Given Barcelona's proximity to France, Vueling is also significantly disrupted by French air traffic control strikes, but despite this, has delivered a robust on-time performance.

We have fully restored capacity in all of our airlines apart from at British Airways, which remains below pre-pandemic levels due to a smaller fleet as a result of the early retirement of the 747 fleet.

The chart on the right shows the contributions to IAG's year-on-year capacity growth. You can clearly see Vueling's de-seasonalisation with its growth in Q1 compared to the summer season.

For 2023 as a whole, you can see that all airlines will be above 2019 levels of capacity, again with the exception of British Airways, which remains below 2019 levels. This in turn averaged down the IAG total, which is planned to be 97% of 2019 levels.

Moving on to our outlook for 2023. We are positive about the remainder of the year. We see a strong customer demand at all of our airlines and in all regions. Our capacity expectations are that we will fly 97% of 2019 capacity this year. However, at this point in time, we are mindful of a number of factors that might affect us.

Firstly, this is a period of volatility in the geopolitical and macroeconomic environment, which can impact both the fuel price, our biggest cost, and customer confidence. Secondly, we are still only a quarter of the way through the year. And while second quarter bookings are looking good, we have limited visibility of the second half.

And thirdly, we are currently in an operating environment that has its challenges, such as strikes ongoing at French ATC, and Heathrow Airport.

So taking the above into account, alongside our performance against our expectations in the first quarter, we now expect operating profit before exceptional items to be higher than the top end of our previous guidance of €1.8 billion to €2.3 billion. And in turn, this means that we now expect our net debt to be better than our previous guidance, of it being broadly maintained year-on-year, and be down in line with our profit outperformance.

So to conclude, we continue to see a strong customer demand, particularly in the leisure segment. Business travel continues to recover slowly, although at a faster rate at Iberia. We have good visibility for Q2, and whilst the outlook for the rest of the summer looks encouraging, we have less visibility for second half.

We are focusing our capacity deployment into our core markets, particularly at British Airways, which is restoring its North Atlantic network first and Iberia into both the South Atlantic and North Atlantic.

And finally, but importantly, we continue to be committed to generating long-term shareholder value and are confident in returning to pre-COVID-19 levels of operating profit within the next few years.

And now we are very happy to take your questions.

Q&A

Operator: Thank you. To ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. To ensure everyone has the opportunity to ask a question today, please limit yourselves 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 go to our first question. And your first question comes from the line of Jaime Rowbotham from Deutsche Bank. Please go ahead. Your line is open.

Jaime Rowbotham (Deutsche Bank): Morning, gentlemen. Two questions from me. First of all, perhaps for Luis. On the North Atlantic, a number of the American carriers have, I think, called out the fact that US GDP is running about 19% higher in 2022 than it was in 2019, and yet the airline capacity is pretty close to 2019 levels, meaning the potential for continued high fares even if that GDP has to correct a bit. How are you feeling pleased about the outlook on the North Atlantic?

And then secondly, maybe for Nicholas. It was very good to see the Q1 non-fuel CASK down 13% year-on-year or up 14% versus pre-COVID. On the year-on-year basis, the comps get a lot tougher, which I think is why you're sticking to down 6% to – was it 8% or perhaps 10% for the full year, perhaps you clarify. But on the pre-crisis basis, I think you previously gave a range of up 10% to 15%. Presumably, Nicholas, the scope for the up 14% from Q1 to improve further as you bring back more capacity in the summer? Thanks.

Luis Gallego: So good morning. So the first question about the North Atlantic. We look at the total market and the number of seats in Q2 and Q3. We see that the UK capacity to US, including also the Caribbean and Mexico, is minus 4% the capacity that we have in 2019, and similar situation in Spain. So we are going to have less capacity than we have in 2019.

So what we see is that we are going to have a strong second and third quarter in that region. The capacity in North Atlantic now is up 63% if we compare with last year, and we are up 2% compared with 2019. So I think we have seen in the first quarter that the capacity, mainly premium capacity, in our case, had less fees than we had in the first quarter of 2019. And because of that, the RASK we are having is impacted.

But we see that for the second and third quarters, the demand is very strong, particularly for leisure and US customers.

Nicholas Cadbury: Yes. Just on your second question in terms of non-fuel, yes, you're right in Q1 versus last year that we had a reduction in non-fuel cost of 13%. We continue to give guidance of reduction of 6-10% for the full year. And the reason for that is actually just you've got more capacity kind of coming back into the market overall. So it's basically on the baseline overall.

If you look at pre-crisis, we gave guidance that price would be up about 10-15% on a unit basis, and we are kind of sticking with that kind of guidance at the moment, which over a four-year period we think is pretty good.

Jaime Rowbotham: Okay. Thank you.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Alex Irving from Bernstein. Please go ahead.

Alex Irving (Bernstein): Hello. Good morning. Two for me, please. First on corporate travel. Could you please tell us how the recovery has evolved over the course of the quarter, both in terms of volumes and in terms of revenues relative to 2019? How also does that look in short haul versus long haul, and how do you think that will evolve as we go through 2023, please?

Second one is probably for Sean. BA is looking at capacity at 92% of 2019 levels this year despite strong earnings in the first quarter and healthy transatlantic yields. Is this just not having a place? Or otherwise, why are we not seeing capacity higher? Thank you.

Nicholas Cadbury: Okay. I can take corporate travel. So just to reiterate, British Airways for revenue was around about 71% of 2019. And in Iberia, we said mentioned they were ahead, closer to 80% overall. As in British Airways, you saw it growing from January through to March. Every month they grew. A little bit slower than we would have liked, but it grows – actually has grown again through the last few weeks on top of that as well.

We've always said that we don't think that corporate travel will get back to 100%. We've kind of given this kind of 80-85%, probably at the lower end of that range for this year in British Airways.

Sean Doyle: In relation to capacity, maybe it's best to describe the British Airways plan by looking at key geographic segments. So while North Atlantic, we expect to be marginally ahead of 2019 levels by the time we get to peak summer, but between 2% and 3%. I think our short haul network as well will be above 2019 levels as we head into summer.

I think what we're seeing, which is kind of putting the ASK numbers down, is a slowness in reinstating the Asia Pacific network. Two reasons for that. One, we've only had China open up recently. So we will get back to daily services by summer in Shanghai and Beijing. And also with the kind of Russian over-flying issue, it's kind of taking more aircraft utilisation for the in-state traditional markets like Hong Kong and Tokyo.

So the big pull on capacity, which is closer to 92%, is Asia Pacific and the fact that we're not reinstating that network to the extent that we had in 2019. But most of our other core markets will get to or above 2019 levels over the summer. That reflects, I think, the robust demand that we do see and the outlook.

Alex Irving: Excellent. Very clear. Thank you.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Jarrod Castle, UBS. Please go ahead.

Jarrod Castle (UBS): Thank you, and good morning, everyone. So just first one on the balance sheet. It's obviously a more favourable outlook. You've obviously got a big CapEx schedule. But just in relation to the balance sheet, any kind of views in terms of ability to de-gear from the end of, I guess, this year onwards, given the CapEx schedule and current trading?

And then related to that, how you see getting back to investment grade? I don't know if that's one or two. The other question was just really an update on Air Europa.

Nicholas Cadbury: That's definitely three.

Jarrod Castle: Okay. Scrap that one. Someone else can ask that. Scrap that, Nick.

Nicholas Cadbury: We'll answer the three as an exception. So just in terms of de-gearing, we obviously – we reduced our debt by €1.4 billion last year. And this year, you can see that actually, our debt has come down by – net debt, that's come down by €2 billion. As said in the script, a lot of that is due to the build-up of customer bookings, who are going to fly later in the year. So you'd expect that to unwind as we get into the quieter Q4. So you'd expect most of the €2 billion of working capital to unwind overall.

We gave guidance that net debt would be flat. So we expected it to be €10.4 billion. We said that at year-end. But actually, now we're giving more kind of positive guidance in terms of profitability. You need to kind of flow that from where we give guidance before to wherever you end up, that outperforms need to flow through in your net debt expectations. So we do expect it to come down for this year.

I guess we're continuously balancing looking at our balance sheet, we want to get back to investment grade, but we know that it's a priority to make sure that we're really servicing our customers the best possible way by getting the best new aircraft in but also refurbishing our aircraft and also investing in sustainability.

So we think with our level of liquidity that we've got at the moment of €15 billion, we've got some time over a couple of years to get down to that sort of level over time, and balance that CapEx and deleveraging, the best way for the customer, but also for our shareholders.

Luis Gallego: Okay. About Air Europa, we are starting to talk with the European Commission and other authorities in the different jurisdictions in order to try to close the deal. As we said before, we expect that this process is going to take 18 months. But we remain confident that at the end, it's a good operation for the Madrid hub and also in order to have a strong hub to compete with the hubs in the North of Europe, and it's going to provide significant benefits to customers, employees and shareholders.

Jarrod Castle: Great. Thanks very much.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Stephen Furlong from Davy. Please go ahead.

Stephen Furlong (Davy): Hello. Morning. Two questions. Maybe one for Sean. Just I know there's a comment made about BA corporate travel recovering slower, change in non-premium mix of seats and the long-haul fleet is also having a negative impact on unit revenue. So maybe you could just talk about BA more in terms of premium and then non-premium and also within World Traveller Plus, please?

And then maybe for Nicholas. I just note on the full year results and then again in this result, there was a call out perhaps that we haven't seen before in IAG loyalty. And maybe just talk about why that is? Is it something you think the market is not thinking about or talking about on that business? Thank you.

Nicholas Cadbury: Just in loyalty, we've made good profitability in this year, €200 million. So I guess it's just becoming a more substantial part of our profit and so making sure we've got full transparency. It's also an interesting business because it's obviously capital light, good margins, good return on capital and it's important for not only driving its own profitability, but for driving the profitability of all of our airlines as well. So it just becomes kind of at the heart of our business as well. So we just thought it's important to disclose that onwards.

Stephen Furlong: Okay.

Sean Doyle: Yes. In terms of cabin mix changes across BA, what we do see is the growth in World Traveller and World Traveller Plus as we return 747s. And what we have been doing as well across the North Atlantic is deploying more A380s. And we see a reduction in club seats. So club seats will be down. Our business club down about 6%. World Traveller Plus up about 18%, and World Traveller up about 8%. So that mix effects both the yield projections that we do have because, obviously, we have more passengers, but the average yield was reduced with that mix effect.

That will begin to kind of correct to get stable on fleet over the next couple of years. And I think we will have different track capacity at or above 2019 levels by the time we get into the latter stage of 2024. So it's definitely transitioning.

I think, actually, considering the demand in leisure and premium leisure and having a lot more World Traveller Plus is a great kind of segment to play in. It is a very important and profitable segment for the airline.

And of course, what we do see as well is we reinstate club capacity. It comes with the new club world suite, which is a significant upgrade to the product quality.

Stephen Furlong: Okay. Thanks, Sean. Thanks, Nicholas.

Nicholas Cadbury: Thank you.

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

Muneeba Kayani (Bank of America): Good morning. Thanks for taking my questions. So I just wanted to get a bit more clarity on the yields that you're seeing. Nicholas, I heard you say strong in 2Q. But if you could help us quantify that? Your competitors have talked about yields accelerating into 2Q. So are you seeing that? And I know its early days on 3Q, but if you could help quantify that as well.

And then on the guidance raise, if you can help us understand the moving parts, how much of this is simply the fuel benefit or have yields also turned out to be so far better than what you were expecting when you had given guidance earlier this year? Thank you.

Nicholas Cadbury: Okay. So just in terms of yields, we said in Q1 that PRASK was up about 14% compared to 2019, about 30% versus last year. We're not giving guidance through the year, but what we're doing is we're seeing those yields versus 2019 holding up quite well.

You would expect versus last year to not stay up at 30% because we had a very, very good summer and we had the Omicron effect this time last year. So you'd expect those to come down. But all I can say is yields are in holding up well at the moment.

Just in terms of guidance, we're not giving specific guidance. Well, look, if I guess to just point you to Q1. So Q1 versus our guidance, we were about €200 million ahead of guidance, and that was made up by about three quarters of that came from operating profit, operating results and that yields and a little bit of cost. And about a quarter of that was from fuel overall.

As I said earlier in our guidance, it feels very volatile. We've given you the sensitivities in there. We tend to be rather conservative because we just know that can unwind quite quickly overall.

Operator: Thank you. We will now go to your next question. And your next question comes from the line of Neil Glynn, Air Control Tower. Please go ahead.

Neil Glynn (Air Control Tower): Hi. Morning, everybody. If I can also follow up on Stephen's question on IAG Loyalty. The greater transparency is definitely appreciated. You mentioned €81 million of operating profit in the first quarter of '23, which obviously looks, I guess, high in a seasonally low quarter in this stage of recovery. But could you help us understand what the first quarter of 2022 and the first quarter of 2019 look like just for context to understand developments?

And then the second question. I think the first time in quite a long time manpower numbers weren't reported this quarter, wondering, can you give us that exact number or help us understand how manpower progressed relative to the fourth quarter of '19? I presume your crewing is fine for the summer per previous commentary, but the productivity is obviously important to understand if you recover capacity? Thank you.

Nicholas Cadbury: Hi, Neil. Good to talk to you. I haven't got the loyalty numbers for 2019. But I can tell you, just we had it on our slide six was versus 2022, loyalty was up €8 million year-on-year overall.

Just in manpower numbers, we're trying to probably give that every half actually rather than every quarter. Just looking at it kind of comes rather meaningless looking at every quarter. In terms of kind of employment, we've recruited about 17,000 people over the last year into the business, about just over 10,000 of those come into British Airways overall.

Luis Gallego: I think to add something to that, I think this summer, we don't see any problem with the number of people that we have. We have enough people to fly all the capacity that we are explaining you today.

In the first quarter, for example, in British Airways, another 2,500 people they have joined the company. But the risk that we can have this summer is that we are in an ecosystem. We also need airports, and we need air traffic controllers to do their part of the job. So still we are worried about the forecast of number of passengers in Heathrow because with the plan that we have, we are considering that we are going to have more passengers than they think.

And also, as I said before, the French ATC strikes can have an impact on our customers and that's something that we are trying to change. And with the rest of the industry, we are talking to the European Commission in order to have protection of our flights in France and even to have a use of arbitration in case it is required to protect the rights of the passengers.

Nicholas Cadbury: Just going back to your earlier question about loyalty versus 2019. 2019 in Q1, we made around about €50 million, so up from €50 million to €81 million.

Neil Glynn: Thank you, all.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Harry Gowers, JP Morgan. Please go ahead.

Harry Gowers (JP Morgan): Good morning, gents. Thanks for taking the time. The first one is just on, are you expecting corporate traffic to continuing recovering over the summer, and that could provide maybe an extra boost yields given the strong leisure demand already? Or is that more of a Q4 and a 2024 story?

And then the second one, just on if you could quantify maybe how much slack or lower productivity have you actually built into the system for this year, given the rest of operational disruption, and then maybe that can provide a boost going into 2024 as well? Thanks.

Luis Gallego: Okay. I think the corporate traffic, Nicholas said before, I mean, the last five weeks, we see a positive evolution on BA. We are around 65% in volume and 75% by revenue if we compare the situation that we have in 2019. Different situation in Iberia, where they are in 95% in volume and above 100% in revenue.

So business travel is recovering, but it's recovering at different rates across the different airlines. But we see a positive evolution. As we have explained previously, small and medium enterprises are travelling more than large corporates. And in the big corporates, we have different behaviour in the different sectors. So for example, financial services are recovering faster than other sectors like technology.

So what we see in general is the corporate customers are coming back to travel, and we expect to have more business passengers in the future.

The second question was about productivity. Yes, I think as we are recovering the capacity, you see that we are improving our unit cost. And also we are also improving the labour cost because we have the fixed cost, we can dilute with more ASKs. So it's something that is improving, although we are negotiating with the different unions in order to increase the productivity for the future.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Conor Dwyer from Morgan Stanley. Please go ahead.

Conor Dwyer (Morgan Stanley): Thanks very much, guys. Just to come back quickly on fuel for the first question. You were saying that you're not taking into account fully the prices that have come down so much. I was wondering what's stopping you from basically locking in the lower prices even via options, if you're expecting a bit more of a decline going forward?

And then the second question is we've seen a lot about the disruption in Q1, but the impact for you guys and the rest of the sector so far seems to be somewhat limited. I'm just thinking about going into the summer. I think the risk is increasing as we head in there and capacity obviously ramps up. Or do you think that, particularly for you guys at Heathrow, the risk is a bit more calm than it would have been certainly for last year, but versus the start of this year as well? Thanks.

Nicholas Cadbury: Just on the fuel, I mean, we are 63% hedged for the rest of the year, which we have our own internal policy and we kind of work with the tram lines of that policy. I guess we don't hedge for two reasons. We don't know if it's going to fall even further and then you come uncompetitive. So that's the kind of danger of that as well. And also just in terms of the markets at the moment, it's quite challenging to get hedging in the market at the moment. Not just for us, but for everyone. It's quite expensive. And you kind of get – you end up with caps and colours, which are not particularly effective. So you're just going to be a bit careful with that at the moment.

Luis Gallego: About the disruption of the strikes that we had during the year, I think the HAL strikes that we had during Easter didn't have a big impact, although we needed to reduce or to cancel 5% of our flights. But also with the Vueling strikes that we had in January, I think that we handled that situation well. As I explained before, the difficulty was the ATC strikes in France, where we had 34 days of strikes between March and April. So 30% of daily European flights were impacted according to the report from Euro Control.

Spain was the second most impacted country and UK the third. And this, for sure, has an impact on our passengers.

So if we look at the cost of disruption, for BA, they are in the region of €30 million in the first quarter. And maybe, Sean, you want to comment on that?

Sean Doyle: Yeah, I think that's the reduction versus the year before. But as we said, about 60% of BA short-haul flights will be impacted by French aerospace. I think we're number three in terms of exposure to it as well as Vueling, and that's what we're trying to work mitigations around at the moment.

More broadly, I think just on Heathrow, looking ahead, as Luis said, the in-house strike doesn't have too much impact on the ones that are ongoing today. Again, we're navigating through that very well. And I think our picture is in much better place this year than we would have been last year. But we do have air traffic controls and the external ecosystem to cope with and mitigate against.

Conor Dwyer: Okay. Thanks.

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

Sathish Sivakumar (Citi): Yeah. Thank you. So I've got two questions. The first one is around Aer Lingus. Obviously, if I look at the load factor, it is underperforming versus the other airlines, which is still around 74, 75 mark. I just want to understand, is it all down to the lack of business travel coming in or are you actually seeing even some weakness within the leisure segment there? Or the network itself has changed something where you need to like ramp up and build that load factor there?

And the second one actually on the other revenues. Could you actually give us colour on the holiday bookings, standard curves as we go into Q2 and Q3? That would be helpful. And then also the trend in Q1, the trend between loyalty and holidays, would be helpful. Thank you.

Luis Gallego: Okay. About the question of Aer Lingus financials that Lynne can talk more about this. So we have a very strong leisure demand from the US. But it's true also in the leisure-focused destinations in Europe, but the corporate business, they are more exposed to the technology sector. And you have seen that there is a slowdown in that sector. But maybe, Lynne, do you want to comment on that?

Lynne Embleton: Yeah, let me come in. So overall, actually, our load factor for Q1 '23 is above our load factor for Q1 in 2019. And of course, we've been growing our long-haul business, and we've been filling our seats there well. The weakness, which really links back to what Nicholas and Luis have already talked about, is in that one-day trips, one night stay business travel, particularly between Ireland and the new European markets, like the UK.

Now we have seen some positive signs in recent weeks that that's picking up again. So I'm hopeful that we'll get bigger loads on our business traffic in the months ahead.

Nicholas Cadbury: Yes. Just in the split of other revenue. Other revenue went from – in the quarter from €348 million to €525 million. So up around 50%. We don't give the split in the quarter. But you can look at the year-end results to see how it generally splits overall. But actually, it covers maintenance, MRO, covers our holiday business from BA Holidays, and it also covers our loyalty business.

And we saw all three of those areas were strongly up year-on-year and on a three-year basis as well.

Sathish Sivakumar: Yeah, thank you.

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

Andrew Lobbenberg (Barclays): Can I ask about labour. In the context of productivity, you just said your talks ongoing with unions have improved. And obviously, unions are very interested in mitigating inflation. So yes, how are the relations across the businesses in the main work areas in terms of inflation talks and productivity? And I think you've cut back the capacity at Vueling. So are there issues there that remain unresolved?

Second question would come around slots. Obviously, you've got the slots back from Flybe and you just sent them out on loan to Loganair. Would you be expecting to take those back into the family and start flying them yourself and when? And equally, the slots that are out on lease to EasyJet at Gatwick. You're expecting to take those in, in the coming years? Or do you expect to be selling them or keeping them on lease? Thanks.

Luis Gallego: Okay. So about the different locations that we have. I think the situation is different in the different airlines and the different countries. So if we start, for example, with Iberia. They closed agreements with all the groups of employees, and they have agreements in place until the end of 2025.

Iberia Express, for example, they have reached an agreement with the ground staff and they are trying now to close an agreement with cabin crew and also with pilots.

Vueling, as you said, they are trying to reach an agreement in order to invest in the future, because we want to have an agreement that reflects the situation of the company. We understand the pressure from inflation. We all suffer that, but we need to understand also that what we can give to our employees must be related to the performance of the company and the performance of the Group. So they are right now in the middle of the negotiations, and it's true that we have adjusted the capacity for the summer because we need to be sure that we are going to have a CBA that allows the Group to invest more in the company.

And in the case of British Airways and Aer Lingus, they are now in the middle of the negotiations. And again, we want a similar model. We want to reward our people, and we understand the pressure everybody is suffering. But we want also to link the reward with the performance of the different airlines, with the productivity, with the customer experience and with the results. And that's what we are trying to do right now.

Sean Doyle: In relation to slots, let me start with Gatwick. Yes, the Gatwick situation is that we have launched Euroflyer, it's flying about 19 aircraft this summer and the AOC migration has gotten underway. So that's very much on track according to our original plans. And we will, over the next four years, take back stuff we have leased out to continue to grow that business. And of course, Vueling has expanded in Gatwick as well. So I think over the next four years, you will see that slot portfolio come back into the IAG hand.

The situation in relation to the Flybe slots it's a bit more dynamic. Those slots came back to British Airways pretty late in the day as a result of slightly going into administration. Those slot pairs are available for people to apply for as a result of the original British Midland merger remedies. So that situation is fluid.

So I think we'd have to understand two things first. One is what's the likely go of somebody else coming in and applying for that remedy and taking up that across portfolio. And I think if that likelihood is low, then there is optionality to figure out what we do with those slots in the future. But at the minute, the slot portfolio British Airway has, excluding those remedy slots is more than sufficient to fulfil our expansion plans. But we just have to wait and see what happens in relation to remedy uptick before we have clarity on those slot periods.

Andrew Lobbenberg: Thanks.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Johannes Braun from Stifel. Please go ahead.

Johannes Braun (Stifel): Yes. Thanks for taking my questions. I have also two. The first one actually is going back to the outstanding CLAs for this year, especially for BA. Can you give us any indication when those talks will actually close and what kind of labour cost inflation you have included in your unit cost guidance for this year? Not sure if the unions have voiced any concrete demand in terms of wages.

Secondly, how do you see the industry's capacity developing this year but also the next years? One of your main competitors talking about structural bottlenecks in the industry relating to airports, spare parts, engines, maintenance capacities and so on, which will obviously keep supply-demand in a positive position, not only hopefully for this year, but also for next. Just wondering if you have the same view.

Nicholas Cadbury: I was going to just talk about employment. Just in terms of employment, we've given you guidance on where our non-fuel costs are as a Group overall. So I think we're going to leave it at that level at the moment. I think it wouldn't be appropriate to talk about what we are expecting to negotiate with us in a negotiation that we're under at the moment. But it's early days in terms of where the negotiation is. So we'll keep you informed as we go through the quarters.

Luis Gallego: Yes. And about your second question, as I said in the first question, the capacity in our main markets are still below the capacity that of the total market that we had in 2019. And if we add to that the problems that the different OEMs are having for delivering the aircraft, I think this situation is going to continue for several years. So the delays announced in the 737s are not going to impact us, and we expect to take delivery of 29 aircraft in total this year. So we are not going to be affected. But the restrictions in the number of aircraft in the market, the problems with the supply chain is affecting capacity. So for example, we are suffering that in the engineering part of our business, where we are having some issues with enough spare parts to maintain the fleet, and that is also impacting the utilisation of the aircraft.

The airport(s) are going to be a challenge. Again, this summer, I think everybody is in a better situation than last year. And as I said before, we hope that Heathrow is going to have enough resources for all the capacity that we plan to break.

Johannes Braun: Thank you.

Operator: Thank you. As a reminder, if you would like to ask a question, please press star one and one on your telephone. We will now go to our next question. And your next question comes from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar (HSBC): Yes. Good morning, everybody. Two for me, please. So going back to your loyalty programme. So basically, you added 1.2 million new customers. In terms of profitability, what kind of growth do you see? And what are you're planning to do there to sort of accelerate the profitability in that business? And what kind of profitability do you see going ahead, given that you're adding so many new members?

Secondly, about your EPS and SAF. So it's – if next year emission allowances are cut, how do you see yourself as compared to your competitors? And if you could also give us a bit of colour on your SAF off-take agreements, please? Thank you.

Nicholas Cadbury: Just on the loyalty programme, we're not giving long-term forecast on our loyalty programme. I think we just started to disclose the profitability last year, which was over €200 million. And as we just said, we've grown the profit from over the last three years from €50 million to €81 million, and it's up again year-on-year this quarter as well. So good growth. You're seeing particularly strong growth. Obviously, the Avios points are generated by our airlines. But we're seeing particularly strong growth from some of our non-partners like Amex, Barclay Card as well.

And we're just starting to also launch other new programmes as well. So if you want to stock up on your wine, the best place to do it is from our Avios wine website as well. So you'll see more of those kind of initiatives coming online, which hopefully drives longer-term engagement, both for Avios points, but also for our airlines as well.

Luis Gallego: Okay, about the SAF question. I think there is good progress in Europe and also in UK about the SAF mandate. And also in UK, I think there is a good progress with the second mandate SAF consultation that we are having right now. But what we need is a clear policy in order to invest to have enough plants to produce the 10% SAF that we want to use in 2030.

For that, we consider 14 plants will be needed in the UK. At the moment, the plan is to have 5 under construction by 2025, that is not going to be enough. So we have now assured 25% of the SAF that we need for 2030, and the investment that we have made is $865 million. But yes, we need more SAF. We need more affordable SAF, and we consider it's an opportunity also for UK and for Europe to try to lead the production in SAF that is going to be required to achieve the net zero emissions of IAG for 2050.

Operator: Thank you. I will now hand the call back for closing remarks.

Luis Gallego: Okay. So thank you very much, everybody. I think as I said, we are happy to present a profitable first quarter after – the first one after 2019, and I am sure that we are going to continue giving good news during the rest of the year. Thank you very much.

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