



Q1 2024 Earnings Conference Call

Friday, 10th May 2024

Luis Gallego
Chief Executive Officer

Thank you very much. Good morning and welcome to the IAG trading update for the first quarter of 2024. With me today is Nicholas Cadbury, as well as members of the IAG Management Committee.

I am pleased to announce that this has been a very good first quarter for IAG. We have seen a strong demand in most of our markets and, in particular, our three core markets of the North Atlantic, South Atlantic and in Europe. This has driven increased unit revenue versus the same quarter last year in the North Atlantic and Europe, and supported the high-capacity investment we are making in Latin America. This has been helped by good Easter holiday trading. As a result, our revenue has increased by over 9% to €6.4 billion, and we have delivered an operating profit of €68 million, a €59 million increase compared to the first quarter last year.

We are continuing to invest in our businesses to deliver customer and operational benefits that will sustain best-in-class margins over the long term. Unit costs were as we expected, so a little bit higher in the first quarter than they will be for the rest of the year due to the timings of this investment. We are already seeing the benefits, in particular in BA's operational performance.

Our balance sheet continues to strengthen at 1.3x leverage compared to 2.1x at the first quarter last year due to our strong performance and focus on free cash flow. And finally, we are well-positioned for the summer.

On that note, I will pass you to Nicholas for more detail about our financial performance.

Nicholas Cadbury
Chief Financial Officer

Thank you, Luis, and good morning everyone. In this section, we will review the financial performance of IAG for the first quarter, highlighting the key revenue and cost drivers in our strong balance sheet. I'll start with the profit bridge, walking through both the drivers of the improvement in profits since last year, and then the results by each operating company.

On the left on this slide, you can see the increase in revenue has been the biggest profit driver combined with the increase in capacity with strong unit revenue growth and benefiting from the timing of an early Easter. Cargo revenue was down on last year, which was when we were seeing high cargo demand due to the supply chain disruptions in the market. Non-fuel and fuel costs reflect the higher level of flying activity in the year. On the right, you can see all of our airlines except for Aer Lingus have improved their profit year-on-year, which I'll come back to later.

This page shows our key metrics for Q1. We continue to invest in our network, increasing capacity by 7%. At the same time, our passenger unit revenue, or PRASK, increased +4.4% compared with last year with our load factor up 1.6% and our yields up 2.4%. All of our airlines

saw an increase in their PRASK with the largest increase at Aer Lingus and Vueling, both of which have a high mix of leisure passengers.

Our non-fuel costs increased by 3.7% in line with our expectations for the quarter but higher than our expectations for the full year. This higher Q1 reflects the timing that employee, pay deals, recruitment, aircraft deliveries and inflation materialised last year. For the full year, we continue to be confident that non-fuel CASK will increase in line with the guidance we gave in March, up slightly on last year. These revenue and cost metrics have delivered another profitable first quarter, generating €68 million in operating profit, which is €59 million improvement year-on-year.

We further reduced our net debt to €7.4 billion with leverage at 1.3x EBITDA, significantly lower than the end of last year and compared to Q1 last year. These results continue to demonstrate the strength of our business and brands coupled with our unique disciplined approach to capital allocation and our transformation initiatives.

This slide is a breakdown of performance by business, with most of our businesses delivering an improved profit performance during the quarter.

Aer Lingus is a highly seasonal business and typically makes a loss in Q1. Capacity grew by 4%, but the loss remained broadly flat year-on-year, with a small improvement in operating loss margins. British Airways's profit increased to £22 million, driven by the strength in the North Atlantic, and Iberia built on its performance last year by delivering another record profit in the quarter, reflecting robust market demand in their core Atlantic and European markets. Vueling was the standout year-on-year performer. Vueling delivered strong revenue and cost metrics in the quarter, driven by high exposure to leisure traffic and again benefiting from the timing of Easter. Lastly, our Loyalty business also built on the strong performance last year by growing profit to £80 million, showing the benefit of their non-seasonal business model.

Turning to our revenue performance, this slide shows our revenue performance in terms of capacity and passenger unit revenue.

Overall, we saw strong demand in the quarter, driving high revenue and an increase in unit revenue across most of our geographies. We're particularly pleased with the performance in our core profit pool markets of North Atlantic, Latin America & Caribbean and Europe.

In the North Atlantic, we had an improvement in unit revenue growth compared to Q4 last year, with all our airlines seeing an increase in unit revenue on last year. Given its relative size, the improved performance was principally driven by British Airways. We saw strong unit revenue growth on broadly flat capacity, benefiting from both business and leisure volumes growing ahead of capacity in the quarter.

Latin America and the Caribbean performed very strongly. Our investment in the region saw capacity increasing by 14%. This level of investment typically takes time to mature, but robust market demand, particularly from visiting friends and relatives and leisure segments, drove only a slight reduction in unit revenue performance.

Our capacity was broadly flat in Africa, the Middle East and South Asia, but we saw a 4% decline in unit revenue, largely reflecting the ongoing conflict in Israel and Gaza and competitor capacity growth in India.

Asia Pacific, which is only around about 4% of our ASKs, saw the largest capacity growth, with British Airways continuing to recover to 43% of IAG's pre-COVID levels of capacity. The unit revenue declines in this market, reflecting the timing of re-entering markets and weakness in demand from China.

Our short-haul geography has performed particularly strongly in the quarter, with strong leisure demand and a good Easter holiday period. In Europe, all our airlines except Vueling grew capacity to satisfy strong demand, and all our airlines increased unit revenue in the quarter. Routes to Italy, France and the UK were particularly strong performers.

This next slide shows our results after tax with a loss of €4 million. This was an improvement year-on-year at both pre- and post-tax levels. I would just highlight the tax line, where the benefit from a one-off exceptional non-cash credit of €89 million relating to a constitutional court ruling in Spain earlier this year. This court ruling allowed our Spanish businesses to be able to recognise higher previous year's tax losses.

This chart shows our balance sheet and liquidity positions. As you can see, our balance sheet remains strong with a reduction in both net debt and leverage, reflecting our strong performance and positive seasonal working capital flows. CAPEX guidance, which as a reminder is gross, not net CAPEX remains unchanged at €3.7 billion for the full-year 2024, and I wanted to highlight that next quarter sees a peak in our aircraft deliveries, with Q2 accounting for around about seven of the 21 aircraft delivered in the quarter.

To conclude, we are pleased with the operational and financial performance of the business, and we have strong conviction in the future free cash flow creation of the Group this year and beyond.

And at that point, I will leave you now in the hands of Luis.

Luis Gallego

Chief Executive Officer, IAG

Thank you, Nicholas. I will now briefly talk about some of the strategic initiatives that our operating companies are carrying out that will help us to achieve our financial and non-financial objectives in the medium and long term.

As always, these are focused on our strategic framework of strengthening our core, including strengthening our global leadership positions and strengthening our portfolio of world-class brands, driving earnings through our asset-light businesses and operating under our strengthened financial and sustainability framework.

Aer Lingus continued to focus on its unique North Atlantic position, building to 21 destinations in North America, with a return to Minneapolis last month and adding Denver later this month, as well as broadening its short-haul network of popular European destinations.

As mentioned earlier, British Airways is at the forefront of our customer and operations investment. They continue to recover their long-haul network, such as their recent return to Abu Dhabi as well as the returns to Bangkok and Kuala Lumpur this coming winter. And their

transformation programme includes investing in new digital systems that are already helping to deliver improvements.

Iberia are continuing to build on their recent strong performance. Their capacity investment is very focused, in particular by adding frequencies to core cities in Latin America as well as in the European and domestic short-haul network. They also continue to drive improvements to customer proposition, such as customer assistance and improving food and service on board.

Vueling's network strategy is still to de-seasonalise the schedule to winters and destinations, and mainly through aircraft utilisation. As you could expect, they are focused on improving the way they serve their customers in an efficient but helpful way such as through self-service disruption technologies.

And finally, Loyalty continues to focus on maximising its earning and spending value proposition as well as expanding the number of ways you can earn Avios such as on Finder Flights now. It is offering members more ways to redeem them. The transfer of BA Holidays to Loyalty will be a key driver of value to both our customers and IAG's airline brands.

And the outlook. We strongly believe that growing demand for travel will continue to be a long-term positive trend, as we are seeing this year. So we are well-positioned for this summer.

As we invest in our core Atlantic and European markets, our plans continue to be to grow our overall capacity by around 7% in ASKs. Our investment in customer and operational benefits, which will allow us to maximise the benefit of a strong demand, means that we continue to expect non-fuel unit cost to increase slightly this year as previously guided. This obviously means that it will be better for the rest of the year.

As mentioned at full-year results, one of our key objectives is to generate significant free cash flow, which will allow us to maintain our strong balance sheet and to invest in the business. We remain focused on our strategy to deliver world-class margins and returns, and we are also committed to sustainable shareholder value creation and cash returns.

And now will hand over to Q&A.

Q&A

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question, please press star one-one on your telephone keypad and wait for a name to be announced. To withdraw a 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 the loudspeaker. This will help with ensuring that your audio is clear, and your question is understood. Thank you so much. Please stand by. We'll compile the Q&A roster. This will take a few moments.

And now we're going to take our first question. And it comes to the line of Andrew Lobbenberg from Barclays. Your line is open. Please ask your question.

Andrew Lobbenberg (Barclays): Good morning, guys. Can I ask, please, about the industrial relations situations at Aer Lingus, Vueling and indeed in Spain, where your structure of the Scope agreement with Iberia Express, I think all those things were in play when we spoke at the full-year results?

And then my second question would relate to the BA improvement plan. And could you update us, please, on how you're going with the on time performance and the Net Promoter Scores at BA? Thank you.

Luis Gallego: Okay. Good morning, Andrew. So in industrial relations, you know that we don't deal with this at a Group level, so maybe it's better that the different CEOs they can answer where we are. So, Lynne, please.

Lynne Embleton: Yeah. Hi, Andrew. We've got, as you know, talks going with our pilots' community with IALPA. That went to the Irish Labour Court over the last few weeks. So we're still in process. We haven't heard back yet from the labour court, and then we'll take it from there.

Luis Gallego: Marco, on Vueling?

Carolina Martinoli: Okay, so, hi, Andrew. This is Carolina. So we have started engaging with SEPLA at this point and are having constructive discussions. So, yeah, all going as planned.

Marco Sansavini: And also in Iberia and Iberia Express constructive dialogue with both representatives to work on the future.

Luis Gallego: And talking about BA, I think the improvement is clear. Punctuality for the first quarter was close to 80%. So it's very similar to the punctuality that we have in 2019. And NPS is also going up. Maybe, Sean, you can expand on this?

Sean Doyle: Yeah, Andrew, I think the other kind of backdrop is that while we've been driving punctuality, we've also been expanding the airline. So we had 10% more passengers in the first quarter, about 5% more ASKs. And as Luis said, that's a 19-point improvement in on time performance. I think it's better than some of the similar hubs that operate in similar environments to us. So we're very encouraged by that. And we also have a number of initiatives that we'll implement over the summer that will help build on that strong progress that we've made over the first quarter. So encouraging, you know, despite the fact that, you know, some days we've had a lot of external challenges that we've had to navigate through.

Andrew Lobbenberg: Cool. Thank you very much.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of James Hollins from BNP Paribas. Your line is open. Please ask your question.

James Hollins (Exane BNP Paribas): Hi, good morning. Thank you. First for Nicholas, I was wondering if you could – most obvious question you're going to get – give a bit of chat on Q2 pricing. You know, if it's up, down, sideways, given that is the company's talk, maybe your view on Q2 consensus at 1.1 billion, which is down 13% year-on-year?

And the second question, probably for Luis. Are we still seeing Madrid as the new Miami? Or a more broader question, maybe some of this LATAM long trends and maybe on competitor capacity on LATAM would be useful. Thank you.

Nicholas Cadbury: Hi, James. Thank you for that. Thank you for that. We don't usually kind of give quarterly guidance overall. You can see we haven't given full-year guidance overall, particularly on kind of PRASK, overall. I think one thing I would say about PRASK is for quarter two, your – we talked about actually just the timing of Easter, which pulled some sales forward.

So you have potentially to have a kind of softer April as a result of that. We also had a very strong Q2 last year as well, and adding 7% capacity. So kind of that combination of strong last year and capacity, you'd expect to have some impact on your PRASK overall in quarter two as well. Overall over the full year, if you took the fuel price it is today, you'd expect a small improvement in fuel CASK over the year. But actually, just because of the seasonality, actually it's slightly worse year-on-year in Q2 as well. So I think that's kind of enough guidance, I think, I was going to say on Q2.

Luis Gallego: Okay. And about Madrid, yes, we continue seeing Madrid very strong. So Iberia is starting this year around more than 15% of capacity there, and the RASK is performing well, almost flat RASK, with that increasing in capacity. And when we see the growth that Madrid have to – is going to have this summer, is going to continue strong, not only because of Iberia, also because of the competitors. We see also a strong premium traffic, lesser traffic that we didn't have in the past.

I don't know, Marco, you want to add something?

Marco Sansavini: Yeah. If we look at all the investments we made in Q1, they are all performing extremely well. Increasing capacity that we had in Bogota, in Lima, in Santiago, Chile. And indeed, as you were referring to, the sort of positioning of Madrid as the new Miami really continues. If we look at expenditure of tourism in Madrid, it kept growing. It grew in the first quarter, 35% versus 2023, and in particular, the luxury tourism, so the premium economy and premium travel keeps increasing in a very, very significant manner. So we're confident also that the continuous increases that we're going to do also through the year, we're going to still increase capacity through the year in other Latin American destinations, will continue to be performing very well.

Nicholas Cadbury: And your corporate revenue is up to about 95%. It's 96%. So nearly back to where it was in pre-COVID as well.

Marco Sansavini: Yeah. In Latin America, yes.

James Hollins: So corporate revenue up 96% in Q1, was it?

Nicholas Cadbury: It's about 95% of where – 96% of where it was pre-COVID as well. So it's almost fully recovered as well. So, in Iberia.

James Hollins: Thanks very much. Thank you.

Luis Gallego: Welcome.

Operator: Thank you. Now we're going to take our next question. Just give us a moment. And the next question comes from the line of Harry Gowers from JP Morgan. Your line is open. Please ask your question.

Harry Gowers (JP Morgan): Thank you. Good morning, everyone. First one just on British Airways if I can. It's obviously early days in the transformation programme, but I guess, what sort of time frame are you confident you can catch up that EBIT shortfall versus 2019 levels?

And then the second one is on LATAM as well, if I can. I mean, we've seen the US carriers call out overcapacity and then some yield weakness going from the US to LATAM. Is that a specific North America to LATAM issue, do you think? I saw your PRASK for LATAM was down a little

bit in Q1. Is there competitive landscape from Europe to LATAM a little bit softer? Thanks a lot.

Nicholas Cadbury: Thanks, Harry. Hi, it's Nicholas here. Just in terms of the timetable shortfall. So what Harry's referring to there is in last year we had profit just over €1.4 billion. In BA and pre-COVID, we were at €1.9 billion. So we expect to get that back. We haven't given a timetable for that, but given the strength of the market, would expect it over the next year or two.

Luis Gallego: Yes. On the second question, as I commented before, I think LATAM is very strong. We need to take into consideration that we are adding around 15% of increasing capacity. And even with that capacity, the RASK is well above the RASK that we have in 2019 and in line with the RASK that we have the previous year. So I think it's a strong market.

Maybe, Marco, you want?

Marco Sansavini: No, indeed. Also, the comparison with 2019 confirms that we are with a high-double-digit increase versus 2019 is a very strong performance.

Harry Gowers: Thank you, guys.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Savi Syth[?] from Raymond James. Your line is open. Please ask a question.

Savi Syth (Raymond James): Hey, good morning. I was just wondering if you can expand a little bit on the corporate demand. I know you gave that for Iberia, but curious where it is overall and what the trend is, if that's improving or stable, what you're seeing on that front?

And then for my second question, I know you kind of noted that BA Holidays is going to move into Avios. I was curious what your plans there are and, you know, and the reasoning behind that move?

Luis Gallego: Okay, so first question about the corporate bookings and business traffic in general. We continue seeing a slow recovery. We had a good January and February, in BA and Iberia, but we have more negative marks, mainly due to the timing of Easter. But in BA, the volume has increased in the first quarter, around 5% if we compare with the first quarter of 2023. Revenues and yields are in line, but we see an increase in volumes. In Iberia, we are in a similar situation, but you know that in Iberia the volume is around 85% in comparison with around 70% in British Airways. And we know that this is linked also to the number of people coming back to work that is different in Spain than in UK.

So I think in general, we have seen also a very strong recovery versus last year in our network to India. And also, as we are recovering the network to Asia, we see an increase in business traffic. So in general, we see the trend that we expected. We maintain the objective to come back to 85% in volume, but it's going to take longer.

And maybe, Adam, you can comment on ...?

Adam Daniels: Sure. Very happy to. Yeah, in terms of the BA Holidays question, we think bringing the two businesses together makes a lot of sense. They're two asset-light businesses that are growing very fast, and we think we can continue that growth and probably speed it up by bringing two businesses together and working more closely. So, as an example, last year

we allowed customers booking BA Holidays to pay with their Avios to reduce the cost of their trip. And now we see 20% of all bookings on BA Holidays using, essentially reducing the cost of travel for that. So that's the start of that. We think we have more potential to come, and we think bringing the business together makes a lot of sense.

Savi Syth: Helpful. Thank you.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Stephen Furlong from Davy. Your line is open. Please ask a question.

Stephen Furlong (Davy Stockbrokers): Yeah. Morning, guys. Okay, what's not been asked? Can I ask, I mean, you talked about April being a bit quieter, I guess, post-Easter blues? How's Europe going for the peak summer? Just maybe just a general comment on that, presumably because you do mention that the businesses overall has become more seasonal, maybe with a bit more leisure and less corporate.

Second. So that's, yeah. Second question, maybe just on BA, in terms of the traffic flows, is it still very healthy in both directions on the transatlantic? You know, are you expecting some stabilisation in terms of the very strong demand from West to East, or just general comments on where the passenger flows are coming from. Thank you.

Luis Gallego: Okay, good morning. The first question, demand continues to be – to be strong for the Q2 and Q3, and we are well-positioned for the summer. So the book position that we have for the Q2 is above 80% and for the Q3 above 40%. So in general, we are confident that we are going to have a good summer, with the levels of corporate traffic that we are having and the increase that I said before, we are considering.

And maybe, Sean, you want to comment the second question?

Sean Doyle: Yes. I think we're seeing, you know, as we said, pretty robust demand on the North Atlantic. I think UK point-of-sale has been very strong. North Atlantic point-of-sale hasn't been as strong, but it's actually equally encouraging. I think, on corporate, we have seen an expansion in the market in the first quarter on the North Atlantic of about 7%, and we see that continuing as we look into the second quarter. So I think that business recovery is also very encouraging. I think the final thing is the capacity into the UK is also moderating as we look into the summer. I think, actually, Heathrow capacity in the North Atlantic will be flat year-on-year. So, you know, they are the sort of variables at play, and I think they play to the kind of strength that we've been talking about earlier.

Stephen Furlong: Thanks, guys. Thank you.

Operator: Thank you. Now we're going to take our next question. Just give us a moment. And the next question comes from the line of Sathish Sivakumar from Citi. Your line is open. Please ask a question.

Sathish Sivakumar (Citi): Yeah. Thank you. I got two questions here. First, on the premium segment, can you actually give some colour on, like, how the segment has performed? Where the load factors are? Because last time you flagged, the load factors are up on the premium segment. And also all the booking, booking curve looks within the segment.

And the second one is around the staff cost. If I look at Q1, it's probably up 6.8%. Obviously, comps related to wage deal, but how should we see that evolve versus quarter two and quarter three? Thank you.

Luis Gallego: Okay, so the first question, it depends on the different airlines, but, for example, in British Airways, one sector that is performing well this year, that was one of the weakest last year is IT technology. So they had an increase of 25% in revenue versus the first quarter in 2023. Entertainment is also high levels, energy, and the ones that are still lagging behind is banking and finance, pharma and education. So, but that situation is a little different. If we look at Iberia, for example. So they have a strong sector in government and retail, but the others are still lagging behind.

And the second question?

Nicholas Cadbury: The second question was about just kind of cost outlook overall. So we said that non-fuel CASK was up about 3.7% in Q1, and within that, employee costs were up 6% overall. And we still hold, with our guidance, that we're going to be up slightly in terms of our full-year non-fuel CASK. So therefore it's going to improve as we go through the rest of the year. The reason it was up in Q1 was just about timing of when we did our pay deals last year, which would potentially Q2 and Q3 last year. So we just had a bigger jump in costs in Q1 overall. So we don't give kind of guidance by individual cost line, but they'll help overall guidance overall.

Sathish Sivakumar: Thank you.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Jarrod Castle from UBS. Your line is open. Please ask a question.

Jarrod Castle (UBS): Thank you. Good morning, everyone. So, firstly, just on Air Europa, I mean, where do things stand? And in very broad-brush terms, are there any red lines where if you have to give away too many concessions, where you just kind of walk away from the offer?

And then secondly, you mentioned shareholder returns or capital returns, but in terms of a roadmap, how close are we before you do something, what are you looking for before you reinstitute some ordinary dividend, etc.? Thanks.

Luis Gallego: Okay. On Air Europa, we continue working with the European Commission after the top of the clock. We have continued collaborating with them, and now we expect to have our solution for the deal around July if we don't have more stop the clock. And yes, we are working with different options, different remedy takers, in order to address the concerns that the Commission can have. For sure, we can have the option to walk away if we consider that the remedies are above what we think makes sense for the Group. But I think we are still in the middle of the process. I think we are progressing well. But until July, we are not going to know anything new.

Nicholas Cadbury: Yeah, just in terms of shareholder returns, it's really just the same message we gave at the year-end. We said we were focusing on three key areas. One was to make sure we maintained our strong balance sheet. And you can see we had a leverage of 1.3x the end of the quarter. And we talked about strong trading. So hopefully strong balance sheet. We talked about securing our capital plan, and the third thing was to get back to paying

dividends as soon as we possibly can. What we said at the year-end is we said we continue to see the sales momentum as we did in the end of last year going on. That would not be far off. So it's a Board decision, so I can't give any more granularity of that. But we're in our shareholders, and our leverage, and our balance sheet is in a good place. So when we get ready to do so, we'll do so with confidence.

Jarrod Castle: Okay. Thanks a lot.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Guilherme Macedo from CaixaBank. Your line is open. Please ask a question.

Guilherme Macedo (CaixaBank BPI): Hello. Good morning. Thank you for taking my question. The first one, if you could provide us your thoughts on some pricing trends across Europe?

And second, is there any kind of quantification that you could provide on the Easter impact on unit revenues in Q1? Thank you.

Nicholas Cadbury: So is that traffic trends across Europe, or was that pricing?

Guilherme Macedo: Pricing, pricing.

Nicholas Cadbury: Okay, pricing trends. We tend not to go into kind of individual pricing trends in the individual markets overall. You can see across Europe overall that in Q1, we had kind of a good ASKs. We had 9% growth in ASKs, and our PRASK was up just under 6% overall. So shows you the kind of strength of the leisure market.

And the second question was? Oh, Easter. Yeah. So, yeah, we're not going to quantify the kind of demand for Easter, and the reason for that is there's lots of moving parts, not just Easter, but also the timing of investments that we were making in the business, but also kind of the kind of when inflation hits as well. So I think it'd be misguided just to kind of give you a number just for Easter overall. But as we said, it means we had a particularly strong March and expect a little bit of a weaker April as a result of that.

Operator: Excuse me, Guilherme, any further questions?

Guilherme Macedo: No, just on pricing. I was referring more to the summer, not specifically to Q1.

Nicholas Cadbury: Yes, no, I got that as well. But we don't give individual pricing guidance. PRASK guidance, what we said, I can give you, as we said it earlier on, is we're seeing strong capacity growth across the business overall, and we had a strong summer. So both of those things together is going to impact PRASK overall. But overall, we're seeing good demand. So it's balancing those two together. So, but we're not going to give individual guidance on PRASK by region.

Guilherme Macedo: Thank you very much.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Alex Irving from Bernstein. Your line is open. Please ask your question.

Alexander Irving (Bernstein): Hi, good morning. And I hope all as well. Two from me, please.

First on unions. So one factor that's helped you for a while has been that competition between your own Group airlines and investment. But now you've seen the pilot unions in the UK, Spain and Ireland teaming up by signing an inter-union alliance. Do you expect that to reduce your ability to compartmentalise your unions and spur that competition between the Group airlines and more generally, what impact do you think it has, please?

Second question is on technology. So you can see that BA contracted to Nevio in the last quarter. What benefits do you expect us to bring versus your existing technology architecture on both a revenue and cost perspective, and how significant would you expect those to be, please? Thank you.

Luis Gallego: Okay, about your first question, the model we have in the Group is that we negotiate locally, the labour agreements, and we have different labour agreements depending on the different characteristics of the airlines, the different markets they operate, the customer segments, etc. So right now we have close agreements with the major part of our people. We talked before that we are still waiting the agreement with Aer Lingus pilots, Vueling pilots. Marco is working also to have an agreement between Iberia and Iberia Express. But every deal is different. So I think from a Group perspective, that's the model we are going to continue, talking with our labour representatives locally and trying to close the best deal possible for the future of the employees and the business.

And about technology in BA?

Sean Doyle: Yeah, I think we outlined our vision for transforming our digital experience at the CMD, and fair to say that we're well advancing on that road. I think picking a technology partner with Amadeus and Nevio for us makes sense because I think there's a lot of experience and capability already built that we can adopt because some of this kind of capability we are using has also been trialled with other airlines.

In terms of the benefits that we expect to see, well, one, I think we'll be able to price our inventory a lot more dynamically today than we do in the past. I think, two, we'd have much better merchandising and retailing capability, much more enhanced shopping basket functionality for users. Three, we expect, and we're seeing it actually in some of the prototypes that we're trialling to have higher book-to-look ratios. Four, I think we'll also be able to integrate products such as loyalty and holidays into the booking flow far more effectively. And five, I think we'll be a lot more dynamic in the way we can price and market ancillaries.

Now, the final I think, element you spoke about, about customers and servicing. What also I think this new capability would allow us to do is to service all of our price products online. And I think that will, I think, give a huge amount of convenience to customers that they don't have today. About 70% of our fare products today can be serviced online. We will get that to 100% when we complete the rollout of this new capability. So, you know, we're at the start of the kind of investment cycle, but the early trends we are seeing in some of the prototypes are encouraging.

Alexander Irving: Excellent. Thanks for the detail.

Operator: Thank you. Dear participants, who hasn't asked the question yet, you're more welcome to press star one-one on your telephone keypad. And now we're going to take our

next question. And the next question comes from the line of Jamie Rowbotham from Deutsche Bank. Your line is open. Please ask a question.

Jaime Rowbotham (Deutsche Bank): Thanks. Morning, everyone. Just one from me.

Nicholas, it was helpful to hear you talk about the phasing of staff costs and how those might lead to lower non-fuel unit cost inflation in the rest of the year. Are there any other cost areas where we should be thinking along the same lines, perhaps around aircraft ownership or engineering and maintenance, where it's going to look a bit different later in the year than it did in Q1? Thanks.

Nicholas Cadbury: I think if you look at our individual cost lines, you saw Q1, we had higher, we had pretty flat supply and unit costs. You had a kind of 7% increase in employee costs and about 9% increase in ownership cost as well. So both those latter two, you'll see kind of soften as you go through the year overall, and you'll see kind of supply cost probably keep fairly stable overall.

Jaime Rowbotham: Thanks.

Operator: Thank you. Now we're going to take our next question. And the question comes from line of Conor Dwyer from Morgan Stanley. Your line is open. Please ask a question.

Conor Dwyer (Morgan Stanley): Hi guys. Good morning. First question is just on the leverage to 1.3x. I think it's also been €1 billion better than last year. Could you just comment on how much of that is perhaps seasonal benefits, timing of CAPEX, maybe that did or didn't happen in Q1, and perhaps just give an indication of where you might expect that to be ending up for the end of this year as a bit more of a helpful comparison for how it finished up at the end of last year?

On the second question, which is just a clarification question in terms of you were talking about the BA corporate volumes versus the Iberia corporate volumes, I think you said Iberia was at 85% recovered and BA was either 70% or 75%. I just didn't quite catch that.

Nicholas Cadbury: Just on the corporate travel, you said to BA volumes is about 70% overall and revenue back is 72% overall. Just in terms of our leverage, you're right. Year-on-year, we brought our leverage down from €8.4 billion to €7.4 billion. So down €1 billion. And it was down about €2 billion on the year. So just focus on the end of the year to now, so a lot of that is about just, one, it's hard performance. But actually, you get a big working capital inflow because you've got the bookings coming in for summer overall. Hopefully, those summers turns into profit and turns into – and changes from working capital into EBITDA overall. So we're not giving kind of overall guidance, but hopefully, we have that kind of strong performance that, you know, can be a consensus overall, you'd expect the leverage to come down from where it was last year.

Conor Dwyer: Okay, perfect. So a year-over-year reduction, you're just not indicating exactly how much.

Nicholas Cadbury: Correct.

Operator: Thank you. Dear participants, as a reminder, who hasn't asked a question yet, you're more welcome to press star one-one on your telephone keypad.

Dear speakers, there are no further questions. I would now like to hand the conference over to the speaker, Luis Gallego, for any closing remarks.

Luis Gallego: Well, thank you very much, everybody, for being here today. I think we have delivered another strong set of results, and we hope that we are going to continue in this way for the rest of the year. And as we said before, summer looks good, demand is strong, and our transformation initiatives are delivering results.

So thank you very much, everybody. Bye-bye.

Operator: That does conclude the conference for today. Thank you for participating. You may now all disconnect. Have a nice day.

[END OF TRANSCRIPT]