International Airlines Group Half Year 2026 Results

Jul 31, 2026

Moderator (00:00:02):

Good morning, ladies and gentlemen, and welcome to International Airlines Group Half Year 2026 results. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session through the phone lines and instructions will follow at that time. I would like to remind all participants that this call is being recorded. I will now hand over to Luis Gallego, chief executive officer to open the presentation. Please go ahead.

Luis Gallego (00:00:31):

Thank you very much. Good morning everyone, and welcome to IAG's first half 2026 results. A particular welcome today to José Antonio Barrionuevo, who has now taken over as our group CFO. Also, as usual, I have the rest of the IAG management committee with me today. This first slide captures the essence of where we are today as a group. Since its inception in 2011, we have built IAG into a world-class business. So, we now have a diverse portfolio of globally recognized brands in large and attractive markets, delivering industry leading margins and significant free cash flow and creating long-term value for our shareholders.

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These fundamentals make us well-positioned to navigate the current headwinds that the industry faces. And as a result, we have delivered a robust first half performance. We have grown our revenue base and continued strong demand for travel. This highlights the strength and diversity of our markets and propositions. Our district clean cost control during the half has supported the resilience of our margins, partly mitigating the salary increase in the price of jet fuel. We continue to have a strong and efficient balance sheet which give us the ability to manage a crisis like this with confidence. And for our shareholders, we are committed to paying a sustainable dividend and completing the excess cost return. With the actions that we are taking, we expect to deliver an operating margin within our target range of 125 to 15% despite the headwinds the industry is facing. We delivered a good financial performance in the first half with industry leading margins that again highlight the quality of IAG's business. We grew revenue by 1.0 overall in the first half, comprising a strong first quarter revenue growth of 1.9% and resilient second quarter revenue growth of 0.2%.

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This is despite the effects of the Middle East crisis, which had an immediate impact on our capacity and fuel costs that gave us limited time to respond with mitigating actions. However, we did manage to recover around 60% of the fuel costs increased through our own pricing and cost actions in line with our expectations. This variant across our regions, broadly speaking, our long fall operations were very positive and in short haul it was more competitive. IAE loyalty continues to perform well as a differentiated proposition to our airlines, increasing profit by 25% to 239 million pounds at a margin of 19.3%.

(00:03:33):

So, our profit for the first half was 1,757 million euros, a resilient performance overall. And I will now pass you to José Antonio to take you through the numbers in more detail.

José Antonio Barrionuevo (00:03:48):

Thank you, Luis. Good morning everyone. I'm pleased to share our first half results with you. This slide shows the key drivers or our first half performance, both by revenue and cost drivers on the left and my business on the right. We deliver an operating profit of 1.757 billion euros in the first half of the year, down 121 million euros on last year, a robust performance despite headwinds from fuel. We delivered an operating margin of 10.9%, which is with the sector leading first half performance, which is consistent with our confidence in delivering a full year margin within our 12% to 15% target range.

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Passenger revenue increased by 828 million euros at cost and currency driven by continued strong demand for travel and our diverse portfolio of markets and brands. Cargo revenue was down 23 million euros at lower cargo volumes, mainly linked to the suspension of roots from the Middle East, were only partially offset by a 3.3% improvement in yields. Other revenue was slightly lower than last year, mainly reflecting a change in how certain MRO components in Iberia are now charged directly by the manufacturer to our airline customers, which reduces both revenue and cost by an equal amount.

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And pleased with our discipline non-fuel cost performance as our transformation programs continue to deliver savings. However, our hedging program only partially offset the rising commodity prices leading to a 12.5% increase in fuel unit cost. FX was a net 52 million drag on abating profit in the hub with the translation impact of a weaker sterling against the euro more than offsetting a small favorable transaction impact. And on the right-hand side of the slide, you can see the performance of our business. British Airways was one of the standard performance growing operating profit by 44 million euros year-on-year.

(00:06:09):

IAG Loyalty also delivered a strong performance, increasing its profit by 48 million, reinforcing the qualities of this business that was set out at the recent investor date. Iberia, Vueling and Aer Lingus also lower profits, mainly reflecting the impact of higher fuel costs. And in the case of Aer Lingus and Vueling, some highly competitive markets in more price sensitive segments. I come back to each of these on the next slides. Turning to the second quarter, operating profit fell 274 million euros year-on-year to 1.406 billion euros with a margin of 15.8, a reduction from a 19% margin last year.

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Passenger revenue increased 318 million, excluding FX impacts driven by higher unit revenue, although this was not enough to offset the 489 million euros increase in fuel costs at cost and currency, driven by higher commodity prices following the outbreak of the Middle East conflict. This quarter was also negatively affected by the partial shift of Easter in the first half. Profits from all our airlines were affected by the immediate impact of higher fuel prices. But again, you can see in the slide the quality of the IAG Loyalty business, which increased its profits by 20 million euros year-on-year.

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And now you can take a look at our operating company's performance in the first half of the year in more detail. We this airways deliver an operating profit of 885 million pounds, an increase in margin to 11.9% with a strong first quarter improvement of 90 million pounds, more than offsetting the initial impact of Middle East cancellations and higher fuel costs. Iberia reported an operating profit of 526 million euros down 38 million versus last year, but delivering a strong 13.5% operating profit margin. Iberia continues to see a strong demand, particularly to Latin America, but the reduction in profit reflected the impact of higher fuel costs and some cancellations linked to additional engine maintenance.

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Volumes operating profit was down 49 million euros year-on-year to 46 million euros, reflecting again higher fuel costs and continued competitive pressure in some markets within the European local segment, which is naturally more price sensitive. Aer Lingus delivered an operating loss of 34 million euros compared to an 80 million euros profit last year. This was driven by the combination of higher fuel costs and competitor capacity growth, especially from US carriers. IE loyalty continued to deliver high quality, high margin earnings with operating profit up 48 million pounds to 239 million pounds with a margin of 19.3% at 3.4 points versus last year.

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Profit growth came mainly from the loyalty part of the business driven by non-airline partnerships with the holidays business affected by the suspension of the routes to the Middle East. Turning to our quarter to regional performance, group capacity was slightly down below the original plan of around 1% growth that we guided to in May, reflecting additional cancellations linked to the Middle East conflict as well as aircraft availability. In the North Atlantic, which represents around 30% of our capacity, unique revenue increased 7.3% on cost and currency. This was driven by British Airways, which deliver very strong unit revenue growth with strong premium demand and strong corporate demand in all points of sale.

(00:10:17):

Latin America and Caribbean continues to be a strong performer with unit revenue increasing 2.4% of cost and currency on a 5.3% increase in capacity. Driven by Iberia, which continues to grow its capacity to the region, including new A321 XLR routes to the CPA and Fortaleza in Brazil. For Iberia, premium demand continued to outperform with point of sale LATAM and Spain performing well. However, in point of sale Argentina and Mexico, Iberia saw a shift in demand due to the World Cup. Congratulations to the winning team by the way, with advanced tourism from this country shifting from Europe to North America. In Europe, unit revenue increased 1.2% at cost and currency.

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This very strong outperformance compared to the wider European market was delivered through British Airways Heathrow network and premium demand highlighting its differentiated proposition. The European shortfall market remains highly competitive given significant capacity growth from other airlines, which limited our ability to recover the fuel cost increase through pricing. In the domestic market, union revenue increased 1.7% on a capacity increase of 6.7% helped by disruption to raise services in Spain. And in the rest of the world, performance was also very strong.

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In Africa, Middle East and South Asia, capacity was down 17.4% as we suspended most routes to the Middle East, but unit revenue on the remaining routes increased 13.2% held by customers avoiding traveling via the Middle East, particularly corporate travelers on British Airways. And in Asia Pacific, capacity fell slightly as VA redeployed A380s from Singapore to Johannesburg, which was only partially offset by the launch of Gatwick to Bangkok Route. Unit revenue performance in Asia was strong, increasing 6.2% at cost and currency. Turning to unit costs, non-fuel unit costs decreased by 1.3%, including a benefit of three points from FX.

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Employee unit costs increased 2.4% reflecting paid deals, headcount growth driven by plant capacity growth, and the increase in employers' national insurance in the United Kingdom. Supply unit costs improved 5.4% with our cost transformation initiatives more than offsetting inflationary pressures. Although it's worth noting that FX especially impacts engineering and other aircraft costs, the majority of which are denominated in US dollars. There was also a tailwind from the change in IBS MRO contract basis that I mentioned earlier. Ownership unit costs increased 8.8% driven by new aircraft as well as customer focus and digital investments.

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And fuel unit costs rose 12.5% reflecting the significant increase in commodity prices from late February following the conflict in the Middle East. And this was only partially offset by our hedging program, which delivered hedging gains of 769 million euros in the first half of the year. Looking forward, we are around 70% heads for the remainder of 2026 and around 40% hedge for 2027. This slide, this next slide, takes us down to profit after tax. In the first half, we recognized 149 million euros of exceptional costs, 114 million at Iberia, and 35 million euros at British Airways related to their transformation and workforce programs.

(00:14:20):

Before these exceptional items, profit after tax was 1.146 billion euros down 11.9% year-on-year. So, overall adjusted EPS decreased by 10.9% benefiting from our ongoing share buyback program. We generated free cash flow of 2.905 billion euros in the first half of the year, 808 million euros higher than last year. Operating cashflow was up 409 million euros year-on-year, mainly reflecting the 447 million euros payment to HMRC, which we made last year to appeal the IE loyalty VAT ruling. On the other hand, working capital was a smaller inflow compared to last year, mainly due to fuel prepayments we made to mitigate the impact of the Middle East conflict together with lower capacity growth.

(00:15:27):

CapEx was 1.291 billion euros down from 1.690 billion euros last year, reflecting the delivery of just three new aircraft in the first half of this year compared with 13 in the first half of last year. We now expect 16 deliveries for the full year with the majority being delivered in the fourth quarter, and one delivery is now slipping into 2027 compared to the update we gave you in May. Full year CapEx is now expected to be around 3. 4 billion euros and we expect to continue to take the majority of the remaining deliveries unencumbered. We continue to take action to maintain our balance sheet strength.

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Net debt reduced to 4.7 billion euros down from 5.9 billion at the end of last year. Net leverage also reduced to 0.6 times and gross leverage reduced to 1.8 times. This was driven by the net impact of the repurchase of the convertible bonds, the issuance of new unsecured bonds, the repayment of aircraft financing, and 0.5 billion euros in aircraft lease extensions. And finally for me, a reminder of how we think about capital allocation. Our first priority is to maintain our balance sheet strength, targeting net leverage below 1.8 times and gross leverage of between 1.5 and 2.0 times. Our second priority is discipline investment in the business, targeting a return on invested capital of 13% to 16%.

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And third, we're committed to a sustainable ordinary dividend. In 2025, the total dividend was 441 million euros with the final dividend of the year of 0.0.05 euros per share paid this last year. We will update the market on the 2026 interim dividend of our quarter three results. Also, we continue to return excess cash to shareholders with around 800 million already completed of the 1.4 billion euros program that were announced in February 2026. And finally, I wanted to share some thoughts

José Antonio Barrionuevo ([00:18:00](#)):

... from my three months as IAG's CFO. Whilst I've been in the group for 13 years now, the experience over the past two months has strengthened my view that IAG has the right model, the right strategy, and the right execution capabilities. Even though the current situation is highly challenging, we're still generating high margins, between 12% to 15%, high return on invested capital, and a strong free cash flow, allowing us to continue, A, investing in the business, B, creating long-term value for our shareholders, and C, rewarding them through dividends and returns of excess cash. The conclusion is clear. The model works, we're highly resilient, and I have huge confidence in the long-term future of IAG. And on that note, I will hand back now to Luis.

Luis Gallego ([00:19:01](#)):

Thank you, Antonio. As usual, I will start with our strategy summary slide, which is how we are delivering our strong financial results. Our first priority is to focus on our strong core, which means that we strengthen and grow our global leadership positions through developing our hubs and our networks. We are also investing in our brands, with value propositions across different customer segments. Secondly, we are driving capital light earnings growth primarily through IAG loyalty. As you have seen, this is going very well. Thirdly, we are basing this on a robust financial and sustainability framework in which we focus on creating value for our shareholders in the long term. This is designed to drive sustainable profitability and accretive earnings growth.

([00:19:57](#)):

Our strong core of diverse markets and brands is providing its value in the current environment. As you can see on this slide, our resilient performance is being delivered by our leading positions in a number of large and attractive markets, with powerful brands and customer propositions in those markets. I would like to highlight that our different customer segments are making important contributions. We are seeing good revenue growth from business customers whilst leisure and VFR traffic, particularly premium travelers, provide the sticky volumes that provide underlying resilience. Our strong and resilient margin performance is driven by our ongoing transformation program, which focus on operational customer and cost improvement. This is a long-term continuous improvement culture that underpins our resilience.

([00:20:54](#)):

BA is seeing the benefits of its commercial transformation through the new revenue management and payment platforms. This is delivering revenue upside, particularly in this dynamic trading environment. BA also recently started to roll out the new app, with 93% of sessions now going through the new version, with better experiences for customers across all four aspects of its functionality. Iberia continues to implement its strategic medium-term Plan de Vuelo that was announced last year. It is growing its long-haul fleet efficiently and profitably with the new XLRs, as well as reserving its workforce to introduce new skills using the latest technology and AI to drive higher productivity.

([00:21:43](#)):

Aer Lingus has recently announced a major transformation plan in which it will make network changes, invest in new cabins, and reduce costs with a clear path to position the airline better for the long term. Vueling announced its Plan Rumbo at the beginning of this year, setting out its long-term transformation plan to carry 60 million passengers a year. A fundamental part of this will be the transition to a Boeing 737 fleet that will deliver a significant reduction in cost. In the meantime, they continue to focus on digitalization in the business with respect to both customers and operations. Finally, IAG Loyalty, its delivery of this plan to build to a billion, which I will cover in more detail in a minute.

(00:22:34):

We are continuing to invest in the business to drive a better customer experience, resilient operations, and long-term earnings growth. Our aircraft are our biggest investment, and we have 16 deliveries coming this year. This includes the final XLRs, which is an aircraft type that is performing extremely well. We are also looking forward to the first of our 60 Boeing 737 deliveries to Vueling at the end of the year. On board, we are retrofitting aircraft across our network airlines. Most of BA's Heathrow long-haul fleet will have the new Club Suite by the end of the year. And the first A380 has just started its retrofit, which will also include the new first fit as well as Club Suite. Both Iberia and Aer Lingus are retrofitting their A330s to deliver a more premium proposition with both business and premium economic cabins.

(00:23:32):

As mentioned earlier this year, we have started the installation of a Starlink across the group. This is driving the significant customer satisfaction increases on flights where it is available, and take up is very high. We have 353 devices connected on one flight, which was more than one per passenger. We expect 50% of our long-haul fleet to have Starlink by the end of the year, and Vueling will be the first low-cost carrier in Europe to have a Starlink, which will be fitted to its new 737s when they are delivered later this year. We also continue to upgrade our launches around the world with the imminent opening of the new Emerald Lounge at Madrid Barajas for Iberia. And BA has announced their intention to upgrade their lounge at the Newark Airport.

[NEW_PARAGRAPH]One of the benefits of our transformation program in the last few years has been that all of our airlines are now delivering sector-leading on-time performance on both a European and global basis. Aer Lingus has outperformed its largest largest competitor in Dublin for the last 37 months in a row. British Airways had its best ever quarter in the first quarter of this year. And Iberia and Vueling were both in the top five European airlines for the year to date. This has helped deliver a strong customer NPS and an efficient operation which underpins our profitability. As I mentioned at the beginning, IAG Loyalty is continuing to deliver strong results in terms of its financial performance as well as strategic initiatives. Avios issuance issued went up by 15% and the number of active members increased by 9%. New partnerships were signed with BP Pulse and Uber Eats in the UK and Cinesa in Spain.

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The holidays business was affected by the Middle East crisis, but has seen some additional demand in the Caribbean, Indian Ocean, and short-haul Europe. Holidays has also seen significant benefits from the new BA Club tier point link, with a significant increase in revenue per booking from gold and similar cardholders. We continue to make a good progress in our sustainability program. Primarily, we are ensuring that we comply with our obligations, securing SAF volumes toward our 2026 requirements. We are working with partners to encourage the production of advanced SAF in the future. We are also engaging with governments and regulators to ensure that carbon-related targets are achievable and do not unfairly penalize European airlines. In particular, we are evaluating the recent EU ETS proposal for its likely effects. But in principle, we prefer that they support CORSIA, the Global United Nations Initiative.

(00:26:35):

As always, it is our people that are critical to our success. We hired 6,000 people in the first half of the year, increasing our total headcount to around 78,000. This reflects the normal seasonal increases in pilot and cabin crew ahead of the busy summer season, as well more manpower in our South ground housing businesses. Business, sorry. And we have a new agreement in place with ground teams at Iberia. So moving on to the outlook, as seen in the first half, we are well positioned to navigate the near term of headwinds facing the industry, showcasing the strength and resilience of our business.

(00:27:19):

We are booked at around 57% of expected revenue for the second half, in line with last year. We continue to expect to recover around 60% of the increase in the fuel price through revenue and cost initiatives as supported by our transformation program. Based on our revenue and cost actions and our decision to take out inefficient capacity, we expect to deliver an operating margin this year within the group's 12 to 15% target rate. This in turn will generate significant free cash flow. We are delivering for our shareholders through dividends and our excess cash return, and we expect to continue to improve again next year. And we are confident in delivering long-term value creation for our shareholders. And now we are open the session to Q&A.

Moderator (00:28:16):

We'll now begin the question and answer session. To ask a question on the phone line, please signal by pressing star one on your telephone keypad. We ask you please limit your questions to a maximum of two. We'll pause for a moment to assemble the queue. Your first question comes to line of James Hollins from BNP Paribas. The line is open.

James Hollins (00:28:40):

Yeah, thanks very much. Well, first of all, congratulations, Luis and Jose Antonio on the World Cup. I think we were all a bit Spanish that day. Two questions, please. First of all, on this capacity reduction, and maybe just unpack a little bit where it's being removed, and maybe if it reflects strategic reductions or just low aircraft availability. I think you talked about that impacting Q2 and whether you're still seeing ongoing engine issues in particular. And then maybe we could hear from Lynn on Aer Lingus. I saw some media on the transformation plans. It looks like quite a biggie there. So maybe just a bit more on what's being done, cost cutting, strategy, et cetera. I think it's quite a big one to get that turned around. Thanks very much.

Luis Gallego (00:29:27):

Okay, good morning. So talking about capacity, as we said, the full year capacity now is guided flat. The main reason is that we canceled a big part of our operation in the Middle East. We are going to resume that operation, but slowly. For example, BA resumes Doha on the 1st of September, Riyadh from the 1st of October, and also Dubai and Tel Aviv. But it's taking time and we are following the situation there. The other reductions is more because we want to have capacity distilling. We are evaluating all our flights, and at the end, what we want is to preserve the margins of the company. So it's true that we've had some issues with the engines. In general, the situation is improving, but maybe Son, you want to comment about that? [inaudible 00:30:37].

Son (00:30:37):

Yeah, I think we have an improvement in the Rolls-Royce Trent availability, so we have less aircraft out this year than we did last year. And I think that's enabled us to grow the North Atlantic, for instance, in the first half, where our capacity was up 5%. We have taken reductions in the Middle East, as Luis said, but then we have redeployed some of that capacity into markets like India, where we've actually added an extra frequency to Bangalore and increased gauge in markets like Mumbai and Delhi. We've also added capacity into Nairobi, which is performing well. I think it's fair to say that we still have some supply chain challenges that we're navigating through across our fleets in long-haul, but generally speaking, we're seeing more of our aircraft operating this summer than we would've last summer due to an improvement in the trend situation.

Speaker 1 (00:31:27):

If I pick up on the Aer Lingus one there, James. So this is our first half-one loss outside of COVID for some time. And out of the 114 million swing in profitability, only 45 of that is fuel. So what we're looking at is a quite a changed structural environment to the one that we used to operate in where the group margins were more easily in reach. We've seen, since those days, 40% increase in short-haul capacity from competitors, 50% from long-haul. So we just can't sustain that level of revenue pressure with the cost base that we have today.

(00:32:12):

So we are confident we can get there. We do have a plan. It starts with head office, where we've been doing our zero-based budgeting on the cost base, but importantly, taking over 25% out of senior management so far, but we're also consulting with our unions over a similar number out of head office in total. We've taken the weakest flying out of the network, so that's a 6% reduction that we announced recently. We do have a lot of transformation on the revenue side, not in the tech side, but also in product. We've mentioned premium economy and the business class refresh. We do need to see productivity improvements as part of that bridge to get to the group operating margin. And if we do all of those things, I think we're confident that we can get to being an investment case for IAG again. We do have a lot of aircraft requirements coming up, and we'd like to make that case.

James Hollins (00:33:13):

Lovely. Thanks a lot.

Moderator (00:33:18):

Your next question comes from the line of Alex Irving from Bernstein. The line is open.

Alex Irving (00:33:26):

Good morning. Two from me, please. First of all, I want to pick up on recent comments from Emirates refusing the first 777X because of rework requirements. I think United said they also don't want them. Do you share that view or do you think they could possibly work in BA if offered? More broadly, how confident are you in getting 777Xes? I believe you're due your first ones next year. Second, some of the recent news floating around EasyJet possibly being taken private. If some parts of EasyJet were to become available for sale, thinking about holidays, UK medium haul, maybe some mainland European slots, would they be strategically interesting to you? Thanks.

Luis Gallego (00:34:04):

Thank you, Alex. So talking about the 777, we are going to receive our first 777 in principle in 2028. And we choose not to have the first serial numbers of the aircraft, so we are not concerned about that. So in principle, we don't see the same problems. And about the EasyJet, so we are as a group always analyzing opportunities of consolidation across the sector because we think that further consolidation can help to make European aviation more efficient. And the only thing we can say is that we regularly talk to airlines and assess the consolidation opportunities, but we are not going to comment anything about EasyJet.

Alex Irving (00:35:05):

Clear, thank you.

Moderator (00:35:09):

Your next question comes from the line of Steven Furlong from Davy. Your line is open.

Steven Furlong (00:35:14):

Yeah, good morning. Two questions, please. Just on, first of all, CapEx. I see the CapEx now for the year is 3.4 billion. Can you just remind me what the CapEx is expected to be or what you've said for the rest of the decade or broad indication, and obviously it steps up. I say that in the context that the net debt EBITDA is 0.6, and you talk about excess returns of 1 to 1.5. So maybe just talk about, given that where your leverage is. And the second question just on the market, you keep saying that the European market is competitive, and I'm just wondering what's the issue? Is it too much capacity? Is it

Steven Furlong (00:36:01):

Is it the competition? Is it Ryanair? Or is it inherent in the restructuring needed at the airlines, maybe in particular Aer Lingus and Vueling, because it sounds like BA is okay there. Thank you very much.

Jose Antonio (00:36:22):

So thank you. On CapEx, we guided in the February results about our CapEx profile for the following years. We're roughly in the same numbers that we shared with you at that time. CapEx for this year, 2026, it's going to be around 3.4 billion. For next two years, '27 and '28, we gave you an average of around 4.9 billion. And then for '29 to '31, a 5.6 billion average returning to a run rate of around 4.5 billion after 2032 onwards. We're roughly on the same place. There's obviously little changes that happen when the deliveries slipped to the right, but roughly this is the same. We have now the same CapEx profile that we told you a few months ago.

Luis (00:37:15):

And about Europe is the most competitive region. So we have elevated capacity growth in particular where there is ultra local carriers and in some markets, like for example, Italy. There are other markets that they continue healthy, but when there is a battle, it's tough, to be honest. But in principle, our domestic market is performing well. We see a stable trend and it's a solid contributor. So I think that's the market where we see the biggest impact.

Steven Furlong (00:38:00):

Okay. No, that's great. Thank you very much.

Speaker 2 (00:38:08):

Your next question comes from line of Connor Dwyer from Citi. Your line is open.

Connor Dwyer (00:38:13):

Hey, good morning, guys. First question actually was following up on the second question there, which was around European short-haul market. And as you say, obviously it's quite competitive at the moment, and I'm just kind of wondering what your views are on how that develops over the next few years. Obviously you had mentioned that [inaudible 00:38:33] may be taken over. Do you have any views on consolidation just for that market as a whole? And in terms of the order books within there, generally speaking, it looks like capacity rates could be mid to high single digits if retirement rates stay as low as they are. So I'm just thinking, what's your views on that run rate going forward? And then the second question is, as we look into winter, obviously your cutting capacity growth will have a higher weighing from the likes of corporate. Generally, they'd be a bit less price sensitive.

(00:39:03):

Should that improve your ability to raise pricing into the winter? And maybe perhaps an update within that of how is corporate overall tracking at the moment? Thanks very much.

Luis (00:39:16):

Thank you. It's difficult to predict what is going to be in the intra-European so-called market because if this situation continues, I am sure that some competitors, they're going to suffer and they are going to reduce capacity. So it's true that we can have some consolidation that maybe we are going to have also less capacity from people that they are not so strong in order to survive to this situation. So we are following that very carefully. If we have some opportunities, for sure we will take action. The second question was about the business traffic and corporate traffic. So Q2 was very strong in corporate revenue, high single digits year-on-year, and it was driven by volume and also by yield. So BA was very, very strong. Iberia corporate demand also work very well in North Atlantic and domestic. So it's something similar to what we are seeing for the rest of the year.

(00:40:34):

We continue to see a strong business demand, in particular, as I said in the North Atlantic and domestic region. It's true that also we have some traffic from the Middle East that is coming to our hubs and it's something that is going to decrease on time. We hope that this conflict will solve at some point, but that's also helping us. So I don't know, someone or Marco, you want to comment about that?

Son (00:41:07):

Yeah. I think North Atlantic has been very robust and we've had both volume and price increases. I think technology and financial services have been strong, but also small and medium enterprises, we've seen volume growth there. And also a combination of personal and business trips has been a growing segment. I think as Luis said, if you look at the rest of the world, flows like North America to India, we're doing very well on business traffic, and a lot of that traffic at the minute is bypassing the gulf hubs. And I think we're capitalizing on that and we've added more capacity into those markets to build on that momentum. So look, I think we're seeing that trend continue as we look into the second half of the year. And as you say in the winter, that makes up a bigger mix of our business, but the trends are encouraging.

Marco (00:41:53):

And the same can be commented from a previous standpoint. We had an 8% increase in our corporate traffic in Q2. In particular, the strongest one was North America, but in general throughout our network, longer network in particular, we did see a strength.

Connor Dwyer (00:42:09):

Wonderful. Thanks very much guys.

Speaker 2 (00:42:16):

Your next question comes from line of Jamie Rowbotham from Deutsche Bank. Your line is open.

Jamie Rowbotham (00:42:23):

Luis, Jose Antonio, two questions from me. One on revenues, the other on cost. Firstly, you've mentioned that 57% of expected revenues for H2 are booked, that that percentage is similar to this time last year. Clearly your expectation is for revenue growth year-on-year in H2. Can you offer any thoughts on how you see the constant currency PRASK for the group progressing in Q3 and Q4 from the 4.6% level seen in Q2? In particular, do you see any price cuts from US legacy carriers that might affect how that progresses? And then secondly, pleasing to see that the flat ex-fuel cash guide is there despite the much lower ASKs. But could I get you to talk a bit more about the 149 million of restructuring costs? What's been done exactly at BA and Iberia in H1? Is that just part of BA transformation and Iberia's Plan de Vuelo?

(00:43:18):

And how much restructuring do you envisage in H2 for anything else at those two airlines along with the announced restructuring at Aer Lingus? Thanks very much.

Luis (00:43:29):

Thank you. So yes, as you said, the current position is 57% of expected revenue book for second half. So it's similar to the percentage that we had last year, not in absolute terms because what we see for the second half is broadly similar behavior in PRASK of the behavior that we had in the Q2. So that's the performance that we see for the year. And maybe Jose Antonio, you want to comment on the cost side?

Jose Antonio (00:44:06):

Yeah. On the cost side, so two comments here. First one, obviously Q2 was a good reaction. It was a disciplined approach to cost. And in the new situation, we are going to continue putting focus on cost for the remainder of the year. And as you say, the guidance we're giving on non-fuel costs, even the lower capacity shows that we're disciplined and we can react quickly to the situation when it's needed. In terms of the exceptional cost, you're right that part of the transformation programs of both Iberia and BA in terms of having a more efficient employee base, especially in the case of BA more on the headquarters, in the case of Iberia also including some of the operational parts of the business. And it's a part of the ongoing transformation that we are having in both business. I'm not sure, Marco, you have something else.

Marco (00:45:01):

Yeah. Out of the 149, there are 114 millions that are corresponding to what we call the voluntary furlough scheme in Spain, the era that touches almost thousand people in Iberia that has been agreed with 100% of the support of the unions. 85% of radio people out of the 996 have been applying to that. So we are in full implementation of that. And that not only ensures that we have a change in our profiles to be prepared to face all the initiatives that we have in the Plan de Vuelo, but also allow us to have a structural lower cost base in our labor costs. So it has a double effect, both in efficiency and capability to execute our Plan de Vuelo.

Son (00:45:44):

In British Airways, it is, as Jose Antonio said, focused on our head office functions. So what we found over the last four years as we were rebuilding the airline, we felt it was the right time to have a look at how we're set up in terms of back office functions, both in terms of efficiency and effectiveness. So we're going through a range of consultations across a number of functions with a view to streamlining and removing duplication. It also puts us in a good position to exploit new technologies to be more effective and efficient. So we're probably about 60% of the way through that program, and it will carry on for the remainder of this year and into the early phases of next year.

Jamie Rowbotham (00:46:25):

Thank you.

Speaker 2 (00:46:29):

Your next question comes from line of Savi Syth from Raymond James. The line is open.

Savi Syth (00:46:34):

Hey, good morning. Two questions. Just first on the comment about the unit revenue and the second half looking similar to Q2, wondering if you could provide a little bit more color on maybe regional or other dynamics. I would've thought maybe improving because you've seen fuel move higher and maybe higher selling fares as you go through the year, and then maybe World Cup impact not as big in the second half. And then just secondly, just on competitive trends, appreciate what Lynn called out in Aer Lingus. I was wondering if you could talk a little bit more about what you're seeing at Iberia.

Luis (00:47:21):

So good morning. Yes, the pass-through that we expect is around the 60% that we set. And the reason is that the pass-through varies by region, by route, by customer segment. So for example, in the long haul, it's easier than in the short haul. We talk before about the intra-European market, how tough it is now. But overall, what we see for the rest of the year is that the performance is strong across most key markets. So North Atlantic, we see positive trends. In Latin and domestic, we see solid performance. Asia Pacific, we continue with a good evolution. And the places where we see some softness is European, intra-European that we talk before and Middle East because we are not flying mainly. So the trend continues, and that's the reason we said that the union revenue that we expect for the rest of the year is similar to the union revenue that we saw in the Q2.

(00:48:36):

We are still having the benefit of the strong business demand, mainly North Atlantic and domestic. So we don't see anything today or nothing today that can change the confidence in the full year outlook. Maybe Lynn, you can comment. The second question I think was about Aer Lingus.

Speaker 3 (00:49:03):

[inaudible 00:49:03].

Luis (00:49:03):

Oh, yeah. I'm sorry.

Marco (00:49:04):

Sorry, I didn't get it. [inaudible 00:49:06].

Speaker 4 (00:49:07):

[inaudible 00:49:07] capacity going into Dublin Transatlantic.

Lynn (00:49:10):

Sorry, I thought the question was, and what does that mean, Fabio? So transatlantic, we've seen significant capacity over the first half of the year. The accumulated impact of the capacity over the last few years is what's causing us the real problem because the market hasn't been able to grow into that. And what Aer Lingus is doing is tapping into the transfer market more. So our load factors are low, for example, have been flat in Q2, but that comes at a lower yield. We have the passenger cap likely to be lifting in Dublin. We want to make sure that we can take advantage of that, but we need the lower cost base to do that.

Marco (00:49:47):

In terms of Iberia, indeed, we have seen, of course, the Spanish market is performing well, and that attracts also long-haul capacity both from North America and South Atlantic. If you look at North America, for instance, both Delta and JetBlue increased capacity or introduced capacity from Boston to Madrid as well as some services to Barcelona. But of course, in our case, we've been drawing capacity in that region 18%. And you see still a very, very solid performance that we are having, which is a combination of the fact that demand supports the capacity that we're having. And at the same time, we have a very competitive proposition. As you know, we are doing this capacity increase primarily with the XLR that is performing very strongly. It allows us to open routes that previously were not served directly. For instance, now we're open in Toronto or we've been open in Monterey, or direct connectivity in South America.

(00:50:40):

So as you can see, our profitability despite the significant growth remains at the level where we were. And that is also a factor of the fact that in parallel, we're continuing with our Plan de Vuelo to improve our cost competitiveness. As you have seen in the first half, we have reduced our unit costs by more than 2%. So the combination of the two facts allow us to remain industry leading in terms of our EBIT margin.

Savi Syth (00:51:04):

Very helpful. Thank you.

Speaker 2 (00:51:10):

Your next question comes from line of Harry Gowers from J.P. Morgan. The line is open.

Harry Gowers (00:51:16):

Yeah. Good morning everyone. Two questions from me. The first one, I just wondered if we could get some extra color on transatlantic demand into H2. Because when I think about the shape of your numbers versus the 7% transatlantic RASK in Q2, can we actually see pricing accelerate from the transatlantic into Q3? Because the comparatives from last year with the tariff impacts are weaker and the US airlines have spoken about accelerating pricing and the strength of demand there into Q3. So just to make the color on transatlantic. And then second question, one for Jose Antonio, obviously still new to the role, but any early thoughts on what you might want to do differently with the business? Are you happy with the current capital allocation? Where can you see any room for improvement on your side? Thanks a lot.

Luis (00:52:07):

Thank you. So just talking about North Atlantic, so the second quarter performance was very good. The commercial RASK was +7.3% up to 6.7% that we had in Q1. A big part of the increase gained from British Airways. And when we look at the future, the third and fourth quarter, so in the case of BA business revenues, as I said before, continues to grow, and that's what underpins the high RASK that we are having. And in particular, North Atlantic point of sale is doing very well. But also what we see is that the leisure traffic is growing from the third quarter. So we think this is going also to help. In the case of Iberia, we talked before that they're adding a lot of capacity in North Atlantic, and this is having an impact in the unit revenues. And if we talk about Latin, the situation is different.

(00:53:24):

I think that we are having a lot of capacity in the region. The competitors also, they are adding capacity. We've had an effect of the workup and some traffic from Mexico and Argentina. They went to the north, but we see a strong performance for the rest of the year. I don't know if someone and Marco, you want to comment.

Marco (00:53:47):

Yeah. Maybe on Latin America, just quickly, what you see there is that capacity from Latin America to stay in the second quarter industry capacity increased 17%. And despite that, we can see that the unit

Marco (00:54:00):

... the units revenues that we've been having are positive in constant currency versus last year. So what we see there is that demands remain solid, even though just in June, as Luis was mentioning, we did see some world cap related most likely, in particular in Argentine effects. But the overall underlying demand remains very stable, very strong in fact, and both on the business and on the leisure side, and therefore we remain confident to keep seeing that demand continuing in the future.

Son (00:54:30):

Yeah, just to add, I think if you look at Q2, business revenues were up 16% of the year across the North Atlantic, but the US point of sale was much stronger. That was over 22%. And what we look at it, we look into the winter, we do see capacity overall begin to moderate. I think if I look here at H2 much, what's published London to US, we think we'll be down about 3% and Europe to US will be flat. So we have seen carriers pull back from published schedules, and I think that will support the fuel recovery ambitions that we have for half two.

Jose Antonio (00:55:05):

So Harry, in terms of the question to me, I think the priority, the focus of this year has to be to navigate through the current situation. We walked into the crisis in a very strong position. I think we're proving so far, and we'll prove it at the end of the year, that we have the right strategy and the right model to produce that right levels of profitability, keep an investment program that it's strong, and also give our return to our shareholders in good and in bad years. And that's what we are focusing on now.

(00:55:40):

And obviously capital discipline and capital allocation is an important component of that. We're hoping that when we talk with you again in February of next year, we could say that we're over the crisis and coming out of the crisis even stronger than we walked in. And that would obviously open new opportunities to us that we'll be exploring and hopefully sharing with you in next year.

Harry (00:56:10):

Great. Thank you, everyone.

Operator (00:56:15):

Your next question comes from line of Jack Rubin from Bank of America. Your line is open.

Jack Rubin (00:56:21):

Hello. On the Aer Lingus Turnaround program, I was wondering if you could potentially quantify your financial expectations for the brand post-turnaround. Did I hear earlier that it was supposed to be group margins as the goal? And how long do you think it will take to get there? And potentially an update on the demand environment for BA holidays as well. Do you have any color on booking trends year-on-year, pricing, accommodation, inflation? Any details should be great. Thank you.

Speaker 1 (00:56:51):

Yeah. So as part of this group, if we want investment, we need to be at the 12 to 15% as well. Luis and Jay have got plenty of opportunities to allocate their assets, and Aer Lingus absolutely want that too.

(00:57:06):

So we do believe we can get to the 12% operating margin. There's some steps up quicker than others. We believe we can take cost action quickly. We believe that the impact from things like premium economy and the business investment will take a little longer to come through. We're starting that embodiment toward the end of the year, but we don't get the full revenue benefits straight away.

(00:57:32):

And then if we can demonstrate that we're getting our one house in order and can get very close to that investible margin, then I'd hope that new gen aircraft would lift us over the hurdle rate because there's certainly efficiencies from having new gen aircraft. So yeah, we do believe we can get there. We don't think it's an immediate solution, but there's certainly a pathway that we believe we can give confidence to group so that Aer Lingus can be investible.

Harry (00:58:04):

Yeah, on the BA holiday side, it's been, I think along with a lot of the holiday providers, a tough H1. Dubai was our second-biggest destination, so we have seen an impact. But what I would say is that customers have booked elsewhere. So the Caribbean has had a very strong H1. The Maldives has been our biggest destination in H1. So you've seen the Indian Ocean and Caribbean perform very well.

(00:58:34):

As we come into the summer, short-haul beach has also been positive VRY. And I would say certainly Greece again for us has been very positive. So we continue to see that. We also continue to see average booking go up. You've seen that in the presentation. And part of that is the BA Club members realizing the benefits of booking with BA holidays, the tier points that come from it. And we're certainly seeing that trend strengthen as more customers realize those benefits.

Jack Rubin (00:59:13):

Thank you very much.

Operator (00:59:18):

Your next question comes from line of Andrew Lobbenberg from Barclays. The line is open.

Andrew Lobbenberg (00:59:25):

Morning, guys. Yeah, many congratulations on the football. Can you talk to us a little bit about LEVEL? I though that was an IAG brand that appeared to have disappeared from the presentation. I don't think it's in the optimum marketplace with a lack of premium exposure, but what are the plans for it? What are you going to do with LEVEL and where's it going?

(00:59:45):

And then can I ask just around fleet? You are really enthusiastic about the XLRs, but you're taking the last one. Why wouldn't you want some more? And a little bit surprised to see you grabbing Pratt & Whitney engines for BAs. So can you talk a little bit about that as well, please? Thanks.

Luis (01:00:20):

Thank you, Andrew. So talking about LEVEL, usually we put in the presentation the four big airlines that we have in the group and that is from that we'll talk about LEVEL. But LEVEL, they are adjusting the network and they have canceled some of the routes to San Francisco, Boston and Los Angeles. What they're doing is to give priority to capacity on routes where they have more established demand.

(01:00:43):

It's true that they have less premium customers than others. And then for them it's more difficult, for example, the pass through that we were talking before. But the opportunity in Barcelona long-haul is there. So we are also the only player in the market that we have boarding a long-haul operation in Barcelona. So we are sure that a long-haul operation from Barcelona when we can have the feet from welling is going to work. But we need to understand that in this situation that is affecting more the lesser market. We need to do adjustment, but to be a stronger layer.

(01:01:35):

And your second question was about the XLRs. And yes, it's true that we are going to receive the last one soon. And we have options to have more. We need to take [inaudible 01:01:51] soon, but we are still considering if we want to have more aircraft and where do we want to have more aircraft? We are very happy with the performance of the aircraft. Maybe Marco, you want to comment?

Marco (01:02:06):

Yeah. Is an aircraft that is performing even better than originally planned in terms of the stage length? In fact, we are operating currently to the Caribbean, San Juan and Santo Domingo, where initially we were not thinking that the range could get over there.

(01:02:20):

And in terms of units costs, it's significantly lower than the 330. So it's counterintuitive. Normally a smaller aircraft that has a higher unit cost, but this is not the case with the XLR. And of course, it allows us to open destinations where the demand is too thin to be served by larger wide-body aircraft. So it is very effective for us allowing to explore new destinations to cover our network more profoundly, both in North America and South America. So we do expect that it's likely that we will expand that, but as Luis was saying, that decision has not been taken yet.

Luis (01:02:58):

And the last part of your question was about the Pratt & Whitney export for BA. So you know we have the issue with the ETF and we have 34 aircraft affected, but what we are taking is the engine that is going to fix this problem. And we are sure it's going to be reliable. So do you want to comment?

Son (01:03:19):

Yeah, look, I think we've got a big enough short-haul fleet to have a split engine structure. And actually I think it does give us diversification away from some of the risks that we have seen in the last couple of years. And the Pratt & Whitney engine dealers is competitive and very competitive.

Operator (01:03:44):

Your next question comes from the line of Gerald Khoo of Panmure Liberum. The line is open.

Gerald Khoo (01:03:48):

Morning, everyone. A couple for me if I can. Firstly, on capacity, we talked about this year, but I know it's a little bit early potentially, but could you talk about what your thoughts are for capacity going into next year? Maybe if you assume that fuel prices remain at around current levels. And secondly, I think it was on the balance sheet slide. There was some talk about aircraft lease extension. So I was just wondering which aircraft leases to extend use, which airlines they're at and why you did that please. Thanks.

Luis (01:04:24):

So good morning. So the capacity for next years, we are not giving that because first of all, we need to see how this situation in Iran is going to evolve. We were talking before that we are going to be flat this year because we are reducing capacity and part of the capacity we are reducing is in the winter season. So we need to see how the situation continues, how the competitors are going to develop the capacity because maybe some of them are going to cut capacity with this high fuel price. So it still is too early to say what we are going to do next year. And for San Antonio, maybe.

Jose Antonio (01:05:07):

Yeah. So in the recent extensions, we're talking mainly about 787s in BA and 330s in Iberia. This was already guided in the results in February. We look at the extensions are very favorable, very positive. So we didn't decide to continue where we said in February we'll be doing.

Jarrod Castle (01:05:07):

Thanks very much.

Operator (01:05:36):

And the final question comes from the line of Jarrod Castle from UBS. The line is open.

Jarrod Castle (01:05:43):

Thank you, everyone. And I'll just limit it to one just given we're already over time. But I just wanted to get your views on TAP. Obviously firm bids from Lufthansa and Air France. Prompted two strategically for IAG, who would be the better one to win, so to speak? I mean, Air France, they're very strong already in South America. Lufthansa, relative underperformer compared to UN Air France, but got a large network, the balance sheet, potential to reinvigorate TAPs. Just to get your views, who would you want to win strategically? Who is the weaker player in terms of impact?

Luis (01:06:30):

Thank you for your question. So the first part of the question, I fully agree. I think the best place for TAP in IAG. I think is the model that can develop more the company in the same way we have developed all the airlines that they have joined our group. We have a different model.

[NEW_PARAGRAPH]It's true that we have the hardwares for investment that we were talking before. We need good performance in order to invest in the business. So in some way it's a difficult club. But because of that, we need to be or choose carefully who can join the group. And in the case of TAP, it was interesting for us from the strategic point of view. But when we analyzed the conditions of the way they are prioritizing the company, we thought was not interesting for our shareholders, and that's the reason we didn't continue.

[NEW_PARAGRAPH]And to be honest, I don't mind if finally they go with Air France or Lufthansa. I will send the best for the future of the company and the employees that we are going to have the position in our group.

Jarrod Castle (01:07:54):

Okay, thanks very much.

Luis (01:07:55):

Thank you. Okay. I think we don't have anymore.

Operator (01:07:55):

That's it for questions. I'll hand back to Luis Gallego for closing remarks.

Luis (01:08:00):

Thank you, everyone. Before I close, just summarize the key points from today. So we are proving, sorry, that the model works. We are also proving that the strategy works. This mean that we are very confident in the future of this business. So we are also confident that we will continue to deliver operating margins within our 12 to 15% target range and significant free cash flow that we'll re-allocate in [inaudible 01:08:30] and shareholder, sorry, friendly way. And on that note, I wish you a very good summer. Thank you very much. Bye-bye.