International Airlines Group Q3 2023 Results

Friday, 27th October 2023

Luis Gallego

CEO, International Airlines Group

Good morning, everyone, and welcome to the IAG 2023 Third Quarter Update. Today, as usual, I have the rest of the management committee here with me as well as the Investor Relations team.

This has been another strong quarterly performance for IAG. We have delivered a record operating profit for the third quarter of €1,745 million. Sustained demand across our network has driven significant positive revenue performance across all our airlines. The very good unit revenue trend from earlier this year has continued this quarter, up 25% compared to Q3 2019, and up 2.2% against a very strong third quarter in 2022.

As we have said throughout the year, while leisure has been good, corporate demand continues to recover more slowly, particularly at British Airways, although this is less relevant for the third quarter. And cost performance was good. Non-fuel CASK was 3.5% better than Q3 2022, including negative impacts due to disruption.

So as a result, we have delivered a Group operating profit margin of over 20%, including a very strong margin performance at Aer Lingus and at our Spanish airlines.

The other main development in the quarter was that we took the opportunity to reduce our gross debt, repaying the expensive £2 billion UKEF loan early, that we had to take out during COVID. As a consequence of this, we are pleased that S&P has upgraded both IAG and British Airways to investment grade.

And overall, our continued strong performance means that we remain on track to deliver a year of a strong recovery in 2023 in terms of operating profit margins and in particular, our balance sheet.

And with that, I will pass you on to Nicholas.

Nicholas Cadbury

CFO, International Airlines Group

Thank you, Luis, and good morning, everybody. I'll start with the profit bridge for quarter three, highlighting both the drivers of the improvement in profit since the last year and then the results by each operating company.

On the left, you can see that the increase in revenue has been the biggest driver, combining the increasing capacity with strong unit revenue growth. This was slightly offset by cargo revenue, where yields are still around 20% above the 2019 level, but a significant supply and demand imbalance remains across the freight market, which is reducing year-on-year profitability.

Other revenue offset the decline in cargo revenue with good performances in our loyalty, MRO and our BA Holiday businesses. Non-fuel and fuel costs reflected a higher level of flying activity, and you can see on the right that all of our airlines have significantly improved their profit year-on-year, which I will come back to later.

This slide shows the key operational and finance metrics for the third quarter, and at the bottom of each box is the Q3 variance versus 2022.

The 18% increase in Group ASKs compared to Q3 2022 was driven by a recovery in all airlines, except for Vueling, where capacity was held broadly flat year-on-year as the company is making progress towards a sustainable labour agreement with its pilot unions, but has not yet reached an agreement.

Total capacity for the Group compared to 2019 is around 96%. Passenger RASK was up 2.2% year-on-year in Q3, building on the strong demand we saw last summer. Fuel CASK was down 6.2% year-on-year, driven by lower commodity prices, partially offset by hedging benefits last year.

Non-fuel CASK for the third quarter was down 3.5% year-on-year. This included about a 1 percentage point of impact from higher disruption costs across the business such as the UK NATS system outage in August, with the majority of these costs in British Airways.

We've reiterated our guidance for the year of a reduction of between 6% and 10% compared to 2022 for our non-fuel CASK. And after taking into account the cost of disruption, we will be towards the lower end of this range.

As a result of these revenue and cost metrics, we've delivered a record operating profit of €1.7 billion and a margin of over 20% in Q3. Our net debt has reduced €2.4 billion since the start of the year, and our leverage dropped to 1.4 times, which is significantly lower than this time last year.

Moving on to the summary of our operating units for the third quarter. You can see that all of our businesses have performed well, with all operating units reporting improved profit year-on-year.

Aer Lingus on the left, had good capacity and rate growth, especially in North America, helping improve both its profit and margins compared to last year and a margin of 25.5%, ahead of the third quarter of 2019. British Airways profits increased €205 million year-on-year to €617 million with a margin of 15.3%.

Whilst its unit revenue was broadly flat year-on-year, its capacity growth was the highest among our airlines with good growth across the Atlantic and the recovery of capacity to the Far East to 50% of 2019. This, in turn, drove significant unit cost benefits.

Iberia has built on the exceptional and record profit in the first half with another record profit in the third quarter, a significant capacity increase, coupled with a strong increase in unit revenue and a reduction in unit costs saw Iberia deliver another record and largest operating margin increase in all our airlines to 23.1% margin. And profits increased by €194 million to €449 million.

Vueling’s capacity was slightly down compared to last year, although a strong unit revenue performance drove increased profit and the margin to 26.1%.

And lastly, but certainly not least, our Loyalty business saw significant growth in revenue and profits. While its high margin declined slightly year-on-year, this is by design as we invest to increase the attractiveness of our offering in order to drive higher engagement and higher profits in the future.

Turning to recent trading, this slide shows the Q3 capacity and PRASK growth across all our regions compared to 2022.

Despite a strong summer performance last year, when PRASK increased 22% on 2019, PRASK increased again year-on-year in most of the regions we operate in, and in most cases, on the back of significant increase in capacity as well.

In North America, this performance largely reflects British Airways given its weight on this destination with the PRASK mainly driven by improvements in load factor. There was also a particularly strong performance from both Iberia and Level.

In South America, we saw positive PRASK growth on a 24% increase in capacity with the performance of Brazil, a highlight. Europe saw particularly strong PRASK growth with BA, Iberia and Vueling performing well. And by country, Italy, France, Germany and Greece were standout performers.

As mentioned previously, we are recovering our capacity to the Far East from a low base.

Our balance sheet continues to strengthen. As I mentioned to you last quarter, we started to focus on reducing our gross debt. I'm particularly pleased that we've reduced our gross debt by almost €2.4 billion compared to the end of Q2 and by €3 billion since this time last year. This has been driven by the early repayment of British Airways' £2 billion UK Export Fund backed loan that was fully repaid in September and through the payment of the IAG €500 million unsecured bond that matured in July.

The UKEF-backed loan had a floating rate of interest significantly higher than the interest rates we received on our cash. So the early repayment will bring down our net finance costs materially.

As part of the UKEF repayment, British Airways also secured access to an additional £1 billion facility, which runs until 2028. This together with maintaining our cash balance year-on-year at €9 billion despite the debt repayment means our liquidity remains very high at around €13 billion. This gives us great flexibility to invest with confidence and look for further liability management opportunities in the near future.

Leverage has also fallen slightly to 1.4 times compared to 1.6 times at the end of Q2, driven by the improved operating performance.

This deleveraging contributed to both IAG and British Airways, regaining their investment-grade credit rating with S&P in September, which is another sign of the Group's returning strength.

As we've noted here in the slide, we continue to expect historic seasonal working capital trends to increase net debt by the year-end, but to level significantly below the €10.4 billion that we reported at the end of 2022.

We typically only show you this slide of the maturity of our debt at the full year and the half year. However, given the pay down of the gross debt by BA and the payment of IAG and the bond, we thought it would be useful to show you an updated version of this slide.

As you can see, we now have a very manageable debt repayment schedule from 2025 out to 2029 and have removed the spike that we had in 2026. We also have very little maturing debt to repay next year.

Moving on to our fuel hedging position. We are a little over 73% hedged for the fourth quarter and for Q1 next year. Once again, fuel has been volatile during the last quarter with the price of jet fuel coming close to year-to-year highs since September.

The US dollar has also strengthened since this time last year. Given we are close to the end of the year, we haven't given you a sensitivity as we've done in the past few quarters. Instead based on recent forward jet fuel and spot foreign exchange rate, we expect fuel in the full year 2023 to be approximately €7.6 billion.

And the last slide just shows for me – it just shows our results of down to net profit after tax, including the operating profit of €3 billion in the nine months to-date. I just wanted to just draw your attention to the fact that due to the rise in interest rates, we are now starting to generate higher income on our cash balance that you can see circled here.

Finance income in the nine months of this year was €285 million, offsetting roughly a third of our finance costs. Of this finance income in the quarter – and the finance income in the quarter was €180 million.

On that note, I will now pass you back to.

Luis Gallego

CEO, International Airlines Group

Thank you, Nicholas. I will now spend a few minutes highlighting some of the key points relating to each of our main operating companies.

So starting with Aer Lingus, we saw particularly strong demand in premium cabins across Atlantic with record load factors in the business coming. They are naturally targeting the US market with their network development, starting a new route to Cleveland this year. And for the next year, they have announced a new route to Denver and are reopening Minneapolis. Operationally, they are experiencing many of the same ATC issues that UK-based airlines are, which is affecting their on-time performance.

Moving on to British Airways, they too saw good North Atlantic demand, particularly in the premium leisure segment. Naturally, for the third quarter, Mediterranean routes were also very strong, and Euroflyer continues to grow its network.

BA's network plans focus on efficient expansion through frequencies and growth. And they announced last week that they are returning to Abu Dhabi next year. British Airways invested in stabilising operations over the summer and made some progress even though the operating environment was consistently challenging, as Nicholas has highlighted. The NATS system failure was a particular pain point.

Iberia is seeing a strong demand across all of its network and its corporate demand is much closer to getting back to pre-COVID levels. The Latin American network has seen particularly good performance, where Iberia is using its newer aircraft to serve those markets more efficiently through better aircraft utilisation.

Iberia has also maintained its high on-time performance and continues to be one of the world's most punctual airlines.

Moving on to Vueling. It continues to see very good results from its strategic move to drive ancillary revenues and higher load factors, while capacity growth over the summer was more constrained. They have also benefited from lots of work over the past few years to improve operational performance, and OTP improved by 8 percentage points compared to Q3 2019. And overall, they have delivered a very good result in the quarter.

And finally, IAG Loyalty continues to grow well with a record quarter for Avios issued and redeemed and 1.3 million customers joining IAG programmes, another record for us. Their investment in the customer now includes the release of further Avios-only Flights, as well as addition of Finnair's loyalty scheme to the business.

Moving on to our outlook. We expect our capacity for the full year to be at 96% of 2019 levels, slightly lower than previously guided due to cancellations earlier this year. Our customer bookings for the fourth quarter are as expected and are currently around 75% of expected passenger revenue. This is typical for this time of the year.

We remain particularly mindful of the wider uncertainties that could impact our customers, including macroeconomic and geopolitical challenges, such as the conflict in the Middle East.

As Nicholas has already mentioned, our non-fuel unit cost guidance remains the same of an improvement of 6-10% compared to last year, albeit all at the lower end of the range due to the impact of disruptions. At the current fuel prices and exchange rates and taking into account the 73% of hedging we currently have in place, the total fuel cost for the year will be c€6.6 billion.

And we expect to generate positive sustainable free cash flow this year and for net debt position to reflect the usual seasonal patterns for the fourth quarter.

So in summary, this has been a very good quarter with a strong demand and improving revenue trends across all of our operating units delivering a record operating profit for IAG.

Our strong cash generation has allowed us to continue to de-lever and we took the opportunity to repay £2 billion of expensive debt early. And we have now achieved investment-grade status with S&P.

Overall, we therefore expect that the full year will see a strong recovery in operating profit, margins and our financial strength. We look forward to welcoming you to our Capital Markets Day in a few weeks, where we will present IAG's strategy and objectives to deliver strong margins and returns for the medium and long term.

And now we are open the call to questions.

Q&A

Operator: Thank you, sir. As a reminder, to ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. Once again, it's star one and one for any questions or comments and wait for your name to be announced. To ensure everyone has the opportunity to ask questions today, please limit yourselves to just two questions. Please also ensure that you are very close to your microphone and not on loudspeaker. This will help ensure that your audio is clear, and your question is understood. Thank you. We are now going to proceed with our first question. And the questions come from the line of Sathish Sivakumar from Citi. Please ask your question.

Sathish Sivakumar (Citi): Yeah. Thank you. Sathish here. I've got two questions. So firstly, around the disruption cost in quarter three. If you could give any colour of how directionally this is versus say last year given the UK NATS impact that we had, if you could share any colour on the disruption cost that would be helpful.

And the second one is around the BA Holidays. And out of the bookings, it looks like into the next March or into Easter actually, and how does that compare versus, say, last year? Thank you.

Nicholas Cadbury: Hi. It's Nicholas here. So I'll answer the disruption cost one. So we just said, it impacted our non-fuel CASKs by about 1% year-on-year. If you do the math on that, that's about a €50 million increase year-on-year or over around that.

And the BA Holidays, I can't quite get the question on BA Holidays. Is that about forward bookings on trends?

Sean Doyle: Yeah, I think BA Holidays continues to book probably in line with the capacity plans we have next year. So I think the robustness that we saw this year, certainly in the early stages of the booking curve is consistent with what we're seeing next year.

Now that said, we get into our sale periods as we head into Christmas and the new year. And that's when you get the bulk of the bookings for '24 come in.

Nicholas Cadbury: Yes. In the UK, the majority comes in Q1 to the bookings.

Sathish Sivakumar: Does that increases actually from BA and not the sister airlines.

Nicholas Cadbury: BA Holidays is mainly for BA.

Sathish Sivakumar: No, sorry, on the disruption cost, the €50 million increase year-on-year is mainly from BA, right?

Nicholas Cadbury: The majority of it was from British Airways, but not only. Yeah.

Sathish Sivakumar: Okay. Got it, yeah. Thank you.

Operator: We are now going to proceed with our next question. And the questions come from the line of James Hollins from BNP Paribas. Please ask your question.

James Hollins (Exane BNP Paribas): Many thanks. Good morning. Two, please. Just on business travel. I don't know if I missed it. Maybe you could put a number on BA volumes. I think you had talked about 61% last time we spoke, maybe how that's tracking into the even more important period in October?

And then secondly, you're going to say wait for the Capital Markets Day. I'm wondering if you could guide or give any thoughts on 2024 capacity year-on-year currently, those sorts related to delivery schedules, maintenance, etc. So any colour would be great. Thank you.

Luis Gallego: Okay. So about business travel, as we said, it's taking more time to recover. In the first quarter, we were at 65% of volume if we compare 2019 and 74% in revenues. The second quarter, 60% in volumes and 69% in revenue, and in Q3, the volume was 64% of 2019 and revenues 74%.

As we have said, we see a correlation between the business travel and the people returning to the office. There is also a difference in the rate of recovery between the different types of business trips and between regions. For example, the long-haul business trips of over two days have recovered faster than the recovery of short-haul trips and overnight stays.

All this has been offset by a stronger leisure. And the recent trends show that business ANC's bookings in the last five weeks are for IAG, 69% in volumes, and 78% in revenue. As I said, we have different rates across all our airlines. For example, in the last weeks, BA is around 64% in volume and 75% in revenue; Iberia, 86% in volume and 96% in revenue; and Aer Lingus closer to 60% in volume and 72% in revenue.

But in any case, we are pleased that – to see that as we said at the time of the Q2 results, business volume for BA has increased circa 10 points from the levels that we saw at the end of July. Second question was?

Nicholas Cadbury: The second question was about capacity for 2024.

Luis Gallego: Okay. So we expect this year capacity to be around 96% of the 2019 level. All of the airlines of the Group at except BA will finish the year about 100% of the 2019's level.

The main reason is BA retired during COVID all of its 747 fleet. Because of that, the long-haul capacity will only reach 2019 levels by 2025, and it's going to take even more time for the business class capacity to reach 2019 levels - around 2026. So I don't know if you want to add more colour to that Sean?

Sean Doyle: Yeah. No, I think our business class capacity would be down about 11% this year. We think it will then moderate back to 2019 levels by about 2026 when we start taking delivery of 777-9Xs.

The other effect of both, which is affecting ASKs, as we report them is we're doing less Asia flying, and that means we're flying shorter sectors. So we also have a gauge like change because of the mix of traffic in less Asia and more Middle East and North Atlantic.

Nicholas Cadbury: But overall for next year, we expect to be 100% in capacity, if not a little bit higher, but we'll give you a bit more detail on that later.

James Hollins: All right. Good data. Thanks very much.

Operator: We are now going to proceed with our next question. And the questions come from the line of Savi Syth from Raymond James. Please ask your question.

Savanthi Syth (Raymond James): Good morning. Thank you. Could you talk a little bit more about some of the kind of mitigation measures you're making with the GTF issues. And actually, just more broadly, what you're seeing on the maintenance cost side and how you're thinking about the magnitude of the headwind that can be in 2024?

And then just also for my second question, just – as you think about the business trends, just following up on the business commentary before, is there anything about kind of BA and Aer Lingus' networks, that means that they can't get to what you're seeing at Iberia? Or is it just more of a – you think Iberia is more of a kind of leading indicator here?

Luis Gallego: Okay. The first question, the GTF issues. We have been working with Pratt & Whitney to identify the engines that are affected. We have 32 aircraft affected, 29 in Vueling and three in Iberia. But for us, this is less than 10% of our fleet, that is over 360, 320 in the short haul. So this is going to have an impact for us, for sure. We are working with Pratt & Whitney in order to reduce the effect that we are going to have in our case.

The big impact is going to be in winter season of 2024, so it's not as relevant for us as for other airlines that have the same type of engine.

Sean Doyle: Yeah. I think historically, corporate and business traffic is a higher percentage of traffic we have across the North Atlantic than you would see maybe across the South Atlantic or Asia Pacific and the rest of the world. So with BA's weighting towards that market, I think that probably explains the slower recovery to an extent compared to what we see at Iberia. So I think that's one factor.

I think secondly, what we are seeing probably more out of London is probably a decline in day trips. That's beginning to recover, but that's something we see across the short-haul network in terms of people travelling out back on the same day.

Savanthi Syth: Makes sense. A clarification on the maintenance. Beyond GTF, do you see kind of headwinds with some of the supply chain issues from a kind of cost perspective into 2024? Or is that not much of an issue?

Luis Gallego: I think the main challenge is going to be to bring aircraft from the market to try to restore the capacity that we plan to fly but we are working with Pratt & Whitney in order to have an impact in our cost.

Savanthi Syth: Understood. Thank you.

Operator: We are now going to take our next question. And the questions come from the line of Jarrod Castle from UBS. Please ask your question.

Jarrod Castle (UBS): Thank you. Just coming to Avios, 1.3 million members added. Can you just give us an update, what is the total membership? And just clarification, do you need to be an active member to be included in that number? And what's driving the additions at the moment, do you think?

And then just interested to get any thoughts on – I mean, again, maybe it's for the Capital Markets Day – but non-fuel or ex-fuel costs next year, given that it sounds like you're a little bit more cautious for this year, given disruption. So hopefully, it's less disruption. And at the moment, it sounds like you're going to be adding low-single-digit capacity. So directionally maybe if you could just give some views there? Thanks.

Nicholas Cadbury: Yeah. Just on the non-fuel cost into next year, we're not giving guidance into next year at the moment, Jarrod. But I think we're hoping that inflation is going to subside from where it has been this year. We've got a little bit of capacity increase, which will help offset that as well, but we've also got our own transformation programme. We're working hard as well. So we'll give more direction on that overall.

Just in terms of the Avios questions, I'm not sure I haven't got the number for that so maybe Adam can answer that.

Adam Daniels: Yeah, sure. Happy to answer it, Jarrod. So in terms of the membership, certainly, we're pleased with the growth of the membership that we're seeing. That increase that you saw is members joining the programme, and we think that's because they're seeing the changes that we're making in terms of the easy redemptions, the easier collection against partners that we've signed up.

So we think that's why we are seeing them turn into active members. Of the number of 1.3 million, we expect the majority of those to be active, and that's doing something within a 12-month period. So certainly pleased with what we've seen in that space.

Jarrod Castle: Thank you.

Operator: We are now going to proceed with our next question. And the questions come from the line of Ruairi Cullinane from RBC Capital Markets. Please ask your question.

Ruairi Cullinane (RBC): Yes. Good morning. So on slide nine, you showed the long-haul routes are lagging in terms of year-on-year growth in passenger unit revenue. Would you just attribute to that capacity coming back in or the prior year comps? I'd be interested to see your thoughts.

And secondly, some airline management teams have been quite vocal and scope for aircraft availability, to keep capacity constrained until the end of the decade. I'd be interested to hear your view of the sector outlook in this regard. Thank you.

Nicholas Cadbury: Yeah. Just in terms of long-haul capacity, we think it was a good performance overall. I mean, if you look at North America versus 2019, we're up 6% overall versus 2022, we were up 22% in terms of ASK. So we think that was a strong performance overall.

And if you look at South America from Europe, that's been incredibly strong. So South America ASKs have been up 24% overall just from Iberia, and 24% for the Group overall. So actually, we still think it has been a very solid performance overall.

Luis Gallego: Yes, now aircraft availability. All the aircraft that we have in our plan, in principle, they are going to be delivered. So we have the issue that we talked before about the GTF, but the impact for us is small.

So yes, I think we are going to have a problem with the supply of aircraft and also, we are going to have a problem with the maintenance and with some parts. But in our case, we continue with the business plan.

Nicholas Cadbury: I think in terms of the guidance we've given, we've always been quite cautious in terms of our delivery plan actually. So we said at the beginning of the year, we'd have 30 aircraft delivered and we're still going to get 30 aircraft delivered this year actually. So I think we've been taking into account that when we've talked to you before. So I don't think there any change to our plans.

Operator: We are now going to proceed with our next question. And the question comes from the line of Alex Irving from Bernstein. Please ask your question.

Alex Irving (Bernstein): Good morning. Two for me, please. First, there was news update with the new Spanish coalitions considering the domestic flight ban where trade exists. How large would the impact on IAG be?

And then secondly, there's also JetBlue is that it's trying to begin service between Dublin and Boston and New York, and that would take two and three player markets into three and four player markets. What ability do you have to respond competitively to that? And how large would you expect the impact on Aer Lingus to be, please? Thank you.

Luis Gallego: Okay. So first question about banning domestic flights. The impact is not clear from the proposal, but the possible impact for us is very reduced. But what is more important is that the impact in reducing CO2 is close to zero. What we are asking is for real connectivity between the high-speed train in Barajas. But what has been announced is, for us, going to have a reduced impact.

Nicholas Cadbury: Does Lynne want to talk about JetBlue?

Lynne Embleton: Yes, should I comment on JetBlue? Well, JetBlue is coming from JFK and Boston, it's no surprise to us at all given they've already been putting their toe in the European market for a while. We've got a strong market share, we've got a good schedule, we've got year-round service. JetBlue are coming in on a seasonal basis. And we are used to competition across the Atlantic.

And I think in terms of our fares and our product, I think we'll be competing really well there. And if I look ahead, we've got the XLR coming into the fleet in the next couple of years, and that will enable us to strengthen our scheduled proposition further.

Alex Irving: Thanks.

Operator: We are now going to proceed with our next question. And the questions come from Harry Gowers from JP Morgan. Please ask your question.

Harry Gowers (JP Morgan): Good morning. I've got two questions, if I can. First one is just on the Q4, ex-fuel CASK. Appreciate the full year guidance, you talked about the lower end of 6-10%. But I mean, what's the best-case scenario for this quarter? Could Q4 be down a similar year-on-year rate to Q1, which I think was down about 13% year-on-year?

And then just secondly, thoughts on where you expect full year net debt to maybe end up? I think consensus is currently around the 9.3 billion mark? Thanks.

Nicholas Cadbury: Yeah. So just on the kind of 6-10%, yeah, we've given guidance, because we think the kind of 6% range end in that as well. We haven't given specific guidance for Q4 in particular. But if you go through the quarters, we were 13% better in Q1, but that was kind of skewed by the ASK. It came back about 2.5% in Q2, 3.5% in Q3 overall.

So at the balance we get comes down 6%. So I think that gives you that inflation to do the math overall.

Just in terms of net debt overall. So at the end of Q3, we have finished at €8 billion, and we said that was a good reduction since the year-end, so really good. You naturally get a working capital outflow in Q4. And I think consensus is around about €9.2 billion overall, which is sensible.

Harry Gowers: Cool. Thanks a lot.

Operator: We are now going to proceed with our next question. And it comes from the line of Muneeba Kayani from Bank of America. Please ask your question.

Muneeba Kayani (Bank of America): Good morning. Just wanted to ask on your forward bookings for the fourth quarter with a 75% booked. Are you seeing kind of any signs of demand weakness in any region? And could you give a sense of what sort of yields you're seeing on those forward bookings?

And then secondly, can you talk about your plans for Gatwick? Thank you.

Luis Gallego: Great. So about the first question, we are very pleased to see how the business is performing. I think for IAG overall, bookings for Q4 are inline with expectations. And for Q1 and Q2, we have a very reduced visibility. So as we said in the segment, we are very mindful of the geopolitical and macroeconomic uncertainty, and in particular, the events that we are having in the Middle East right now.

But the impact for us is limited because the flight to Cairo, Amman and Israel for us, it's less than 1% of our total fleet. So it's true that it's too early to see or to conclude if we are going to have any wider trend and implication.

So in general, bookings are in line with what we have in our forecast, but we are conscious about the situation that we have in the market.

Sean Doyle: Yeah. In terms of Gatwick, we're making progress in – as we said actually in the highlights in building our Euroflyer business and Vueling are making progress as well in building their presence.

So British Airways would have flown about 19 aircraft at Gatwick, and we would plan to expand that as we head into next summer. And our long-haul business at Gatwick continues to perform well, and that's a stable schedule of about 11 aircraft that we deploy there.

Muneeba Kayani: Thank you.

Operator: We're now going to proceed with our next question. And it is from the line of Sumit Mehrotra from Société Générale. Please ask your question.

Sumit Mehrotra (Société Générale): Thank you. So do you think we are now close to peak levels because I'm taking my cues from the BA PRASK was flat, indeed on very strong capacity growth. But we also saw a very strong US point of sale, there's help from FX, etc. So really, is this as good as it gets on long-haul leads? That's my first question.

Secondly, on your liquidity levels, €13.7 billion in third quarter, down from €15.6 billion in the first half. Just wanted to know what elements now drive your strategy towards normalising these levels? How do you see the liquidity levels evolving from here? Thank you.

Luis Gallego: Yeah, I think about the first question. I think the performance in the Q2 and the Q3 as you have seen, is very nice. If we look, for example, to the North Atlantic market, our RASK performance has been very, very solid, considering that we have growth of more than 15% of capacity in the quarter.

So in the rest of the markets, Latin America, with a big increase in capacity, PRASK is above the situation that we had in the previous year. And where we see the internal European market and the domestic market, adding a huge amount of capacity, we are still seeing an improvement of PRASK. So for the time being, we see a strong environment of revenues. But as I said before, we will monitor the situation.

Nicholas Cadbury: Just in terms of liquidity overall. So we've got liquidity of about €13.6 billion, that's made up of about just over €9 billion of cash overall, which is the same as it was this time last year as well. So we've been able to keep good liquidity despite the paying down of gross debt overall. That's sort of a particularly high level overall compared to our overall revenue.

The reason we feel comfortable with that is we still have quite high gross debt, and we'll continue to look at kind of opportunities to pay down gross debt and reduce our interest further in the near-term overall.

Operator: We are now going to proceed with our next question. And it comes from the line of Conor Dwyer from Morgan Stanley. Please ask your question.

Conor Dwyer (Morgan Stanley): Great. Thank you very much. So my first question of the two is around profitability. So if I look at the consensus number that you collected recently for this morning's piece, it gets you at a margin level very close to the lower bound of the 12-15% margin level you would be targeting over the next few years. Then if I go to the slide eight of the presentation, there's still quite a bit of a margin gap for BA to close, let's say to the rest of the carriers. I'm just wondering, is this a bit optimistic to expect that that gap can be closed? And if it isn't, do you actually think that maybe the margin over the next few years could be a bit closer to the midpoint of that 12% to 15% range or even towards the upper end? Interested to hear thoughts there. Thank you very much.

And on the second question would be on capacity. So not your own capacity, but overall market capacity on the Atlantic looks actually like it's due to accelerate quite a bit through the winter. I'm just wondering, are you concerned at all in terms of pricing pressure that, that might bring about into early next year, if indeed those schedules can be fulfilled by other players in the space? Thank you very much.

Nicholas Cadbury: Sean, do you want to do the capacity one or? Just in terms of the margin one overall – we've got a Capital Market Day just in kind of four weeks' time. So we'll talk about that overall, what we've always talked about is kind of 12-15% margin and just given levels of investment that we're making in the business and the uncertainty we've kind of – so we won't be at the top end of that at the moment. But I think we're going to talk about more about that at the Capital Market Day, if that's okay.

Luis Gallego: And about the capacity, when we see the capacity from all Europe to North America, the Q3 capacity was still minus 3% if we compare with 2019. In Q4, it's going to be above 4%. It's true that London to North Atlantic capacity in Q3 was above the capacity that we had in 2019. And in Q4, it's going to be above 2%.

But if we see the situation in Spain, it's totally different. So the capacity in Q3 from Spain to North Atlantic was minus 14% and capacity in Q4 is going to be minus 5%. So that's one of the reasons that competition in some way is better from Spain that the situation that we have from London.

And I think in Dublin, for example, we see the traffic from Dublin to North Atlantic in Q3, the capacity was 3% above the capacity we have in 2019 and in Q3 it is going to be around 3% also.

Conor Dwyer: Okay, perfect.

Operator: Proceed with our next question. And it comes from the line of Neil Glynn from AIR Control Tower. Please ask your question.

Neil Glynn (AIR Control Tower): Good morning. If I could ask the first question. If the data that I'm looking at is correct at least capacity on the South Atlantic to South America, seems to be going back to pre-pandemic levels over the winter. So a similar question, I guess, to Conor's last question. Is this changing Iberia's ability to maintain the unit revenue premium for 2019 as that capacity is fully restored?

Then second question, if I look towards your unit costs line by line against 2019, the labour costs or the employee costs, as you report them, stood out in the third quarter are seeing a very significant uptick in terms of growth on 2019 levels. It was up about 17-18% per ASK versus 2019, whereas the half year a little up about 12%. So is there something specific going on within that employee cost. Is it normalised? And if you could help me understand that step up from the first half to the third quarter, that would be great. Thank you.

Luis Gallego: Okay. So about the situation in Iberia. As you said, capacity in the South Atlantic is recovering - the market share of Iberia after COVID, passing through, and in Q3, they have increased the market share by 11% if you compare with the situation they had in 2019.

And in Q4, they're going to be around 8% higher in the total capacity between Spain and Latin America.

Nicholas Cadbury: So again, just looking at the employment CASK as you go through the quarters. I mean we were up about kind of 12% in H1 and we’re at 17% I think in Q3 overall. I wouldn't read too much in the kind of quarterly variability overall.

We've taken quite a lot of staff into British Airways to help with the operational stability through the summer overall. But I wouldn't read too much into the quarter by quarter in that.

Operator: We’re now going to proceed with our next question. And it comes from the line of Andrew Lobbenberg from Barclays. Please ask your question.

Andrew Lobbenberg (Barclays): Hi there. Two questions, please. Can you speak a little bit about what's going on with the Air Europa competition policy review? It all seems to have gone very, very quiet.

And the second question would come back to Vueling. And I know you answered to Savi, saying that the number of aircraft impacted on the GTF were small relative to IAG overall. But relative to Vueling, it's really not small, it's quite material. And at the same time, you've got the ongoing labour dispute at Vueling. So yeah, how are we meant to think about what's happening at Vueling with their labour dispute, and a very significant number of their aircraft needing fixing? Thanks.

Luis Gallego: Okay. So about Air Europa, we are continuing in the pre-notification phase with the European Commission. So we are in the process of submitting the information. We are engaging with potential partners for remedies, and we are still seeing that the operation is going to take around 18 months, so we think that this is going to be long, if finally, we can do the operation in the last quarter of next year. About Vueling, Marco?

Marco Sansavini: Yeah, with regard to Vueling. So we are in tight contact with Pratt & Whitney to mitigate and minimise the impact of the engine issue that we're facing, and we do not plan to have capacity reductions for next year, so we're planning to have all the mitigation activities that will enable us to really minimise the impact on our fleet.

And as far as the labour conversations, they are proceeding positively. We have achieved an agreement with our cabin crews, and we are progressing positively also with the financial wing. So we do believe we are going to be able to give some news during the Q4 about that.

Operator: We are now going to take our last question. And it comes from Johannes Braun from Stifel. Please ask your question.

Johannes Braun (Stifel): Yes, good morning. Thanks for taking my questions. There's recent news that the EU Commission might ask for tougher remedies in any M&A transaction in Europe. What do you think about that one? And to what extent, I guess, will it impact also your plans with Air Europa and any further M&A plans there?

And then secondly, just curious, any reason why not to give us a full year EBIT guidance at this stage? I think last year, you gave us a complete guidance at Q3. Thank you.

Luis Gallego: Okay. About the first one, we are in the middle of Air Europa preparation. I think European market needs consolidation. We need to compete in a global world with a big group of airlines, and we need to have the scale.

Also in Europe, we are going to have more pressure in the sustainability area. And I think scale is going to be critical to achieve the objectives that we have committed to comply with in the mandate that we have. I hope that the approach is going to be to help the consolidation in the market in order to help the airlines in Europe, so that we can be sustainable.

Nicholas Cadbury: Yeah. Just in terms of why we haven't given guidance. We gave guidance at the back end of last year. That was clearly as we were going from a kind of pre-COVID era to hopefully a post-COVID era, so there was quite a significant step change and we just wanted to help guidance with that overall. Going forward, we wouldn't think – we’re a medium to long-term business, and that's why we focus on medium to long term rather than short-term kind of profitability and guidance overall.

And if we were far off external guidance and expectations, we would have to say something, and we're not seeing anything now. You've got guidance out there; I think our last published one was about €3.2 billion. And I think if you look at Q3, we've probably beaten guidance by about €100 million to €200 million overall. So that will flow through.

Johannes Braun: Yes. Thank you. Just going back to the first one. I think the EU commission was saying that they would, in future, not only ask for slot transitions but also for other remedies. Any idea what that might be?

Luis Gallego: No. To be honest, we are in the process of Air Europa. We don't know to be honest, what this is about.

Johannes Braun: Yeah. All right. Thank you.

Nicholas Cadbury: If I could just go back to a previous question, there's a question about kind of labour costs vs 2019. In 2019, we had strikes in British Airways in Q3 as well, which actually meant that our costs were lower in Q3 2019 than normal. That's where you see a bit of a jump.

Johannes Braun: Okay.

Operator: We have no further questions at this time. I will now hand back to Mr Gallego for closing remarks.

Luis Gallego: Okay. So thank you very much, everybody. In summary, a good quarter and Q4 looks positive. So looking forward to seeing you in our Capital Markets Day on 21st November. Thank you very much.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect your lines. Thank you.

[END OF TRANSCRIPT]