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EDITED TRANSCRIPT

HALF YEAR 2025 INTERNATIONAL CONSOLIDATED AIRLINES GROUP
SA EARNINGS CALL

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to International Airlines Group half year 2025 results. (Operator Instructions)

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 Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Thank you very much. Good morning, everyone, and welcome to IAG's half year results for '25. As usual, I have Nicholas Cadbury with me, our Chief Financial and Sustainability Officer; as well as other members of the IAG management committee.

I would like to remind you of the key elements that make IAG a world-class investment case. Firstly, our fundamentals are strong. We have unique strengths in our network, our hubs, and our brands. Our customer base is strong and resilient across all of our airlines. And we are growing our earnings opportunity through IAG Loyalty and our global partnerships.

Secondly, our execution is strong. We are consistently delivering world-class margins through our transformation program, powered by our talented employees across the globe. And thirdly, we are creating substantial value for our shareholders through sustainable earnings growth, robust free cash flow generation, and significant shareholder returns.

We have had a strong first half of 2025. Revenue grew by 8%, reflecting continued strong demand for our network and brands. Operating profit reached almost EUR1.9 million, up 43.5% year on year, with Q2 delivering EUR1.68 billion, an increase of 35.4%.

Our transformation program supported a 2.9 percentage point increase in operating margin to 11.8% as we improve our customer offering and our operations. We are investing in our digital and technology capabilities and are driving efficiency throughout the group

Our balance sheet remains strong with net leverage of -- at 0.7 times, giving us flexibility on capital allocation. And we continue to create significant value for our shareholders. We have grown adjusted EPS by 70%. And so far, we have announced EUR1.5 billion of cash that we are returning to shareholders through dividends and share buybacks.

I will now pass over to Nicholas for his review of the numbers

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

Thank you, Luis. Good morning, everyone. I'm pleased to announce another excellent set of results for the first half of 2025. This slide breaks down the key drivers of our profit improvement, highlighting our strong performance and the benefits from fuel and FX tailwinds in addition to our transformation program, which continues to deliver benefits across our businesses.

Total revenue grew around 8% to just under EUR16 billion, reflecting strong demand for our network and brands. Passenger revenue grew 5.6% with capacity, up 2.7%, and yields, up 3.9%, which more than offset the small decline in overall load factors. We delivered good growth in our cargo business, the IAG Cargo team prioritizing premium products and high-yield regions such as Asia Pacific and India. Our third-party MRO business saw particularly strong revenue growth alongside our growth in Loyalty and Holidays.

The revenue performance more than offset increase in non-fuel costs, which were as we expected and as previously highlighted, weighted to the first half. We've split out the FX in a separate item, and you can see we benefited from the depreciation of the US dollar in the first half and the lower effective fuel prices. Putting these together, we increased operating profit by EUR569 million to EUR1.878 billion.

August 01, 2025 / 7:30AM GMT, HALF YEAR 2025 INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA EARNINGS CALL

Now let's look at how our operating companies performed in more detail. I'm very pleased that most of the operating businesses have delivered an improvement in operating profit in the first half. Aer Lingus increased its operating profit by EUR71 million to EUR80 million, and operating margin by 6 percentage points to 6.8% in the first half.

H1's performance was driven by the record second quarter operating profit with strong unit revenue across long and short haul, disciplined cost control and a benefit of EUR20 million from the annualization of the pilot strike last year.

British Airways' operating profit increased GBP260 million to GBP824 million with margins improving by 3.5 percentage points to 11.7%. This was despite GBP50 million impact of the one-day closure of Heathrow in March that we've already mentioned. The improvement in profit was driven by strong demand in the North Atlantic market and lower fuel prices and favorable FX.

Iberia continued its excellent trajectory, delivering EUR202 million increase in operating profit to EUR564 million and a 14.5% margin, which was up 4 percentage points. Strong demand, especially in South Atlantic, continues. And again, we benefited from the lower fuel prices.

Vueling's operating profit margin was broadly flat in the first half with a favorable fuel and FX and good leisure demand being offset by the weaker demand in some markets such as Germany and the Benelux.

IAG Loyalty reported GBP191 million profit, operating profit, broadly flat year on year, but this now reflects the required adoption of HMRC's view of account for VAT on the issuance of Avios, which the group strongly disputes. Excluding this change in treatment, IAG Loyalty would have reported a 9% improvement in operating profit to GBP210 million with an operating margin of just over 17%.

Moving on to our regional performance for the quarter in more detail. Overall, we continue to see strong demand and unit revenue in our core markets during the second quarter. We grew capacity by 2.2 percentage and delivered a unit revenue increase of 2.6%. This performance was driven by high yields and helped by a small currency tailwind of 0.4 percentage points.

If we look at the performance by region, the North Atlantic unit revenue increased by 0.6% in the second quarter on a capacity increase of 1.8%. Although this was lower growth in Q1, we were very pleased with this result given the level of uncertainty in the market. And as previously indicated, we also had easier comparative in Q1 2024.

Similar to Q1, our premium cabins performed well and mitigated some softness in US point-of-sale economy cabin leisure demand. Latin America and Caribbean continues to be one of the star performers in the network. Unit revenue growth increased 5.1% on broadly flat capacity. Routes to Argentina, Peru, Colombia and Ecuador performed particularly well.

Europe unit revenue performed well for tourist and leisure destinations. And I've already mentioned that we saw some weakness in Northern Europe markets overall. And to finish off, Africa, Middle East, and South Asia also performed well despite the impact of the conflict in the Middle East.

As noted last quarter, we guided that the increase in our non-fuel unit costs for this year will be weighted to the first half of the year. Non-fuel unit costs increased by 6.6% in H1 with the 4.6% increase in Q2, in line with our expectations.

Three factors contributed to the increase. Firstly, approximately 0.6 percentage points, which were attributable to the negative impact of foreign exchange, primarily caused by the strength of sterling against the euro.

Secondly, approximately 3 percentage points was driven by the non-airline business of the group, particularly MRO, but also Loyalty and Holidays. And in particular, you can see the related revenue benefit for MRO in the increase in our other revenue.

And thirdly, about 0.5 percentage points was due to the negative impact of the one-day closure of Heathrow in March. So this leaves an underlying airline non-fuel cost increase of around 2.5 percentage points.

Fuel unit costs reduced by approximately 10%, driven by lower commodity prices, and we continue to benefit from the fuel-efficient new generation aircraft that we're purchasing. We now expect non-fuel cost to increase around 3% compared to previous guidance of 4%.

We have a small increase in underlying costs compared to our previous guidance due to lower capacity growth and slightly higher resilience costs with FX now expected to be a small tailwind in the second half at current exchange rates.

On fuel, we are approximately 77% hedged for the remainder of the year and now expect fuel costs to be around EUR7.1 billion at \$700 million -- \$700 per metric ton.

August 01, 2025 / 7:30AM GMT, HALF YEAR 2025 INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA EARNINGS CALL

This slide shows our financial results down to net profit. Pre-exceptional profit after tax increased approximately 60% to EUR1.3 billion in the first half, which in addition to the lower share count from our share buyback program, drove a 70% increase in adjusted earnings per share.

The 60% increase in profit after tax was driven by an operating profit increase of approximately 44% as well as net finance costs, lower net finance costs, primarily due to the reduction in gross debt as well as FX retranslation benefits. This was partially offset by the increase in tax which has now broadly normalized this year against the credit that we received last year stemming from the Spanish Constitutional Court decision.

We generated EUR2.1 billion in free cash in H1. Operating cash flow was EUR3.8 billion in the first half. Although this was incredibly strong, this was a decrease compared to the first half of last year. Whilst we generated EUR560 million more in operating profit, there was a reduction of EUR427 million of working capital, mainly due to foreign exchange impact ongoing and due to the impact of the ongoing impact of VAT payments on our Loyalty program.

CapEx was EUR1.7 billion, an increase compared to H1 2024, but in line with our guidance, reflecting the delivery of 13 new aircraft. We also made a net EUR447 million payment to HMRC to clear VAT ruling in IAG Loyalty, which again, as we state, strongly dispute.

I'm pleased to report that our balance sheet continues to strengthen. Gross debt reduced EUR2.5 billion compared to the end of last year, benefiting from EUR577 million bond buyback in January and the maturity of EUR500 million of unsecured bond in March 2025, and we also benefited from the FX benefit of about EUR1.3 billion. Gross leverage reduced to 2 times.

Net debt has decreased to EUR5.5 billion, down from EUR7.5 billion at year-end. The net leverage now at 0.7 times, benefiting from the strong results and the seasonal working capital inflow, which we expect to predominantly by the year-end

We still plan to keep approximately two-thirds of our 25 expected aircraft deliveries this year, unencumbered. And just to note, the BA NAPs defined benefit to annual valuation has now been agreed on pension fund with a scheme having a surplus of GBP1.7 billion, an improvement from the deficit of GBP1.6 billion in 2021, which confirms we do not have to make any deficit reduction payments.

As a reminder, during the business -- ensuring the business is approximately invested in is a priority for us. This slide shows our CapEx guidance for the year, which remains at around EUR3.7 billion. We now expect to take 25 new aircraft deliveries this year, one aircraft fewer compared to the 26 deliveries we expected at quarter one with one A321-XLR delivery slipping into next year. And as a reminder, this is our gross CapEx expenditure before any sale and leaseback transactions.

And finally, for me, I just want to remind you about how we think about our capital allocation, which, as you know, is core to creating value for all of our shareholders.

Our first priority is to maintain our balance sheet strength, targeting net leverage below 1.8 through the cycle, which is a proxy for investment grade. Our second priority is to invest in the long-term strength of the business with a focus on rebuilding our fleet, improving our customer experience, enhancing our digital capabilities, and advancing our sustainability agenda.

And of course, we're committed to a sustainable shareholder return, firstly, through ordinary dividends, which has been set to be sustainable through this cycle with the interim dividend announcement moving back to our historic quarter three cadence; and secondly, by returning excess cash to shareholders. We started to do this with EUR300 million -- EUR350 million share buyback program that we launched in November last year.

And we have approximately two-thirds the way through our EUR1 billion share buyback program we announced in February of this year, which is expected to complete this November.

And on that positive point, I will now hand back to Luis.

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Thank you, Nicholas. The condition of this strong set of results is based on the relentless execution of our strategy to deliver world-class margins and returns.

As I mentioned at the beginning, the three strategic imperatives to deliver these are: strengthening our core businesses; accelerating capital-light earnings growth; and maintaining a robust financial and sustainability framework.

Our medium-term ambition is clear. Operating margins of 12% to 15%; return on invested capital of 13% to 16%; and net leverage below 1.8 times through the cycle. This time last year, we presented this next slide to highlight the three biggest near-term drivers to achieve our ambitions. Last November, we told you how we are transforming British Airways, taking it from a 10% margin business in 2023 to 14.2% last year. And we are making good progress towards delivering its 15% margin target by 2027

Last month, we told you how Iberia has transformed from losing EUR1 million per day in 2012 to annual operating profit of just over EUR1 billion in 2024 to a business that is targeted to deliver EUR1.4 billion of operating profit at a margin of between 13.5% and 15%. And we will give you more detail on how IAG Loyalty plans to deliver higher margin, cash generative, capital-light earnings growth for the group from just under EUR500 million in profit last year.

We have a diversified portfolio of leading positions in our core markets. In the North Atlantic, London to the US is the world's largest premium air travel market, and British Airways is the market leader. So it is continuing to build its presence in this highly attractive market.

At the same time, the delivery of the first Airbus 321 Xtra Long Range to Iberia in Aer Lingus is opening up a highly profitable fly-in through frequency seasonality and point-to-point network opportunities that rely on the unique positioning of Iberia's hubs.

Next, Spain to Latin America is a fast-growing and highly attractive market with Iberia investing in frequencies to core cities. Thirdly, the intra-European market, including the Spanish domestic market, is one of which IAG Airlines have a strong and focused positions. Vueling is strengthening its market share at its Barcelona hub, and Iberia is enhancing its so-called feeder traffic.

As well in Europe, Aer Lingus is having lesser routes and British Airways is building its point-to-point leisure markets through Euroflyer and Cityflyer.

The biggest driver of customer satisfaction and efficiency is on-time performance, which has improved significantly in the last couple of years. British Airways delivered a 10.6 percentage point increase in on-time performance in the second quarter, driven by its new Heathrow operating model, supported by digital and artificial intelligence driven tools to speed up and improve decision-making.

Aer Lingus also saw a strong improvement also through ground operation initiatives and technologies support, while Iberia and Vueling remain among the most punctual airlines globally. This is all despite ongoing challenges from air traffic control as well as the Heathrow closure in March and geopolitical disruption in the Middle East and Ukraine.

For our customers, we are investing in strengthening our brand propositions at every stage of the travel journey. On this slide, we have given you a most selection of examples. But in reality, there are thousands of things that we are doing everyday to make our offerings the best for our customers. These investments are designed to make their travel experience more personalized, seamless, and resilient. As a result, customer NPS is strong across the group, up by 6 points in the year to date, particularly driven by improvements at British Airways.

Cost transformation remains central to our strategy as we look to deliver our businesses to their full potential. This is through initiatives to deliver efficient and productive operations, use our economies of scale to get the best deals, and to reduce overheads.

On this slide, we have given you some examples across each of our airlines where we are combining our expertise in the airline sector with a better, leaner processes and leveraging the development of digital technology.

This is also an appropriate point for me to mention that today, we are announcing that we have allocated the 50 Boeing 737s that we have ordered to Vueling. They will be delivered from late 2026 onwards. All of these initiatives are a fundamental part of growing our earnings, margin and returns in the medium term.

IAG Loyalty continues to grow strongly as they expand their airline and non-airline partnerships. We have recently launched a partnership with LeShuttle, which has seen 50 million Avios issued as well as announcing Tier point earnings with American Express.

August 01, 2025 / 7:30AM GMT, HALF YEAR 2025 INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA EARNINGS CALL

In the first half, Avios issuance was up 17%, redemptions up 15%, and active customers up 9% year on year. British Airways Holidays also performed well with revenue up 8% and beach destinations growing 18%.

Underpinning all the above initiatives, our people are at the heart of our success. We created around 2,500 jobs in the first half of this year, which will help to deliver improvements in customer service, resilient operations, and transforming the business in the long term.

We continue to invest in their skills, development and careers, which is reflected in the awards that we win. And we have reached multiyear agreements with most of our teams, including new deals with BAs non-pilot group and Iberia cabin crew.

We are continuing to make good progress on sustainability. We have secured over 200,000 tonnes of sustainable aviation fuel for 2025, 25% more than last year. We signed a landmark Scope 3 agreement with Microsoft and continue to lead policy development through initiatives like the UK SAF Revenue Certainty Mechanism. We remain committed to advancing SAF policy and reducing our environmental impact.

Looking ahead to the rest of this year, we expect to deliver good earnings growth and margin progression, which is delivering strong shareholder returns whilst being mindful of ongoing geopolitical and macroeconomic uncertainty. Demand remains strong across our core markets and brands with premium cabin strength partially offsetting some softness in US point-of-sale economy leisure.

As of July 29, we are around 57% booked for the second half of the year, in line with last year. And we remain confident in the longer-term outlook for our business.

And on that note, we will move now to the Q&A session.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)

Andrew Lobbenberg, Barclays.

Andrew Lobbenberg *Barclays Services Corp - Equity Analyst*

Congratulations on the super numbers. Can I invite you to talk to us about the headlines of the day out of Heathrow? And how you expect the process to move forward with the Heathrow proposal and indeed the competing Arora proposal that I think you're more supportive of?

And as a second question, could you update us, please, on what's happening with the revitalization of the app and web at BA because it looks like that timeline seems to be slipping. But yes, where are we going with that at BA?

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Andrew, thank you for your questions. About Heathrow, we are going to work with both parties to understand their cost proposals better. They have just submitted two credible proposals. And we are open to different options to reduce the cost, to reduce the investment and to reduce the complexity.

The good thing is that we are sure that competition is going to be good to improve things. We have seen in commercial aviation, how competition has felt to have better price and better products, and we are sure this is going to happen also at the airport.

But in any case, this is a huge investment. We continue saying that we need a change in the regulatory model in order to have a runway that can be affordable. Today, Heathrow is the most expensive airport in the world. And if we don't have control about the level of investment, we can duplicate what the passengers are going to pay. And then this growth that all of us we want will have the risk that is not going to happen.

August 01, 2025 / 7:30AM GMT, HALF YEAR 2025 INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA EARNINGS CALL

So as I said, we are pleased that there are two proposals, and we are going to work to see how we can help in this. And about the second question, Sean?

Sean Doyle *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways*

Yes. Andrew, if I give you a broader context about some of the digital transformation we're undertaking. There's a couple of key enablers of the transformation that are now live. One is the new rev man system, which went live two weeks ago, and that's a pretty critical interface with the new digital experience. The second migration we've undertaken in the last couple of weeks as well is moving to a new check-in system.

So we've decommissioned our old fly system. We're now under Amadeus JFE. And the third thing we have rolled out is the new payments platform, which is live on NDC. So they are critical sort of enablers of the broader digital transformation.

In terms of dot com, about 25% of our revenue and about 85% of our routes is going through the new dot com booking flow. So we're able to analyze a control group of the new experience versus a controlled group of the old experience, and that's pretty exciting.

And in terms of the app, as I was saying, we -- with so much change going on in other modernization, we weren't going to roll the app out for peak summer, but we're looking at Q4, Q1 to get that fully operational in the network.

So broadly speaking, we're on track. We're very happy with the rollouts that we've implemented. And in terms of our kind of expectations versus our original plan, we're we need to be.

Operator

James Hollins, BNP Paribas.

James Hollins *Exane SA – Analyst*

Two for me. Just on the US point-of-sale economy leisure. Clearly, your statement was almost verbatim, what you said at Q1.

I was wondering if there had been any sign of economy leisure or US point of sale getting better or indeed any worse? And whether there's any sign of weakness the other way around? Clearly, you've not flagged it, but just wondering had a view there?

And secondly, on the other revenue, again, Nicholas, you talked about that, I think, normalizing to about 20% after going nuts in Q1. I think Q2 is still up 30%. Maybe give us a feel for what it might be doing in H2. I know it's quite short term in maintenance, but any guidance would be useful.

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Okay. So thank you. So at your first question. In North America, we had a strong first half, as we have seen in the presentation. When we look at the second half and the bookings that we have, we still see some softness in the US point of sale in economy leisure, but it's true that this is partially offset by the strong premium cabin.

What we see is a trend that is slowing -- slowly improving, but we have volatility to be honest. This week, we are following carefully what is happening because we don't see a clear trend. Maybe about the second question.

Nicholas Cadbury International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer

Yeah, just on kind of other revenue. You can see it's been a very strong half for other revenue. And it was -- it wasn't just making sense as well. It was our holiday business and our Loyalty businesses, which were up strongly as well, but particularly strong from our maintenance business, which I think was up about 40% in the first half of the year. I think that kind of reflects that kind of all the airlines having to work harder on engines and get them ready for the summer overall.

So as we said at kind of Q1, we would expect that to moderate through the year, and we expect kind of total other revenue to roughly be around about 20% up for the year -- for the full year.

Operator

Stephen Furlong, Davy.

Stephen Furlong J & E Davy Unlimited Co – Analyst

Yeah. Maybe two questions, but I think they're probably for Nicholas more maybe. It's topical in the IT sector at the moment, but the level of investments that are needed over the next couple of years. So the airline industry, obviously, has been delays in deliveries. So CapEx is going to step up over the next couple of years. So just -- can you just talk about that again and how that helps your franchise?

And then just related to that, just seems to me that the market seems still underestimated the level of free cash flow in the business. So I guess generally or generically in the future, I mean, I assume the biggest driver is the operating performance.

But is there stuff going on in the next couple of years below that line that maybe people are underestimating working capital or cash taxes or lack of restructuring provisions or something like that, that would be great.

Nicholas Cadbury International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo

Just in terms of CapEx, what we said for this year, we said we would give about EUR3.7 billion of CapEx next year. Then we said for the next two years, we would expect it to step up to around about EUR4 billion, maybe a little bit short of that next year overall.

And just we kind remind everyone that once you get to 2029 to 2030, that's when you start hopefully getting the big kind of step-up in Boeing and Airbus' delivery and production facilities. So that's when you do get a step up in CapEx overall. So kind of we gave guidance over the next two years to put kind of EUR4 billion into your models overall.

As we've said historically, we're kind of spending about EUR1.8 billion a year on non-fleet kind of CapEx, and that's particularly around IT, around property, around kind of lounges and refurbishing of that. So we think that kind of level of spend will continue for the next couple of years, but we think that will give us a long-term benefit and payback kind of over time. So we think that's the right thing to do.

I think you kind of comment on free cash flow. I think you're right. And as you know, we did a teach in last year on free cash flow. I think we still got some way to go. I think people are getting a better understanding of it, I think, overall, particularly when we speak to investors in terms of our cash flow.

But I think you're right to kind of keep prodding that. But I think we've got a positive working capital flow overall. So it always depends on which way FX is going. We've got our kind of -- our taxes, we just kind of said, is normalizing over that time. But despite that, we're a strong kind of cash flow business.

I think the bit that people be underestimating is the kind of consistency of delivery -- that we're delivering on our EBITDA and actually overall. So I think that's a bit that's probably missing. But that strong kind of cash flow give us a strong balance sheet, which is giving us real flexibility about how we invest in the business. We continue to strengthen our balance sheet, but actually also shareholder returns as well.

Does that answer your questions, Stephen?

Stephen Furlong J & E Davy Unlimited Co – Analyst

Yes, that's great

Operator

Alex Irving, Bernstein.

Alex Irving Sanford C Bernstein & Co LLC – Analyst

First of all, to come back to Sean on the new RM system at BA. How is this performing so far? And what sort of RASK improvement are you hoping for your previous RM system when it's all bedded in?

Second question, you move on from some of the changes to the Exec Club from earlier in the year. Is this having a discernible impact by now either positive or negative on unit revenue? What impact do you expect it to have over the next couple of years?

Sean Doyle International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways

Yeah. If I could just replay. It's how the new RM system is going is the first question. And the second question is about the changes to the club.

Nicholas Cadbury International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer

Is that right, Alex?

Alex Irving Sanford C Bernstein & Co LLC – Analyst

Yes. So the impact on of a better rev man on both.

Sean Doyle International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways

Yeah, yeah. Yeah, Alex, I think one of the big benefits of new rev man system is our ability to implement what we call dynamic pricing. So historically, airlines are -- would be limited to the number of lenders in the asset in terms of inventory buckets. And our ability to do trade up pricing between those selling classes was relatively -- I wouldn't call it clumsy but limited.

Now we can put a lot more step-ups and trade-ups into our pricing ladders. And it's too early maybe to give you an assessment of the impact. We're only trialing it for the last three weeks, but my teams are very excited about its potential.

In terms of the club that we've had Adam here as well, we've seen Executive Club, our club revenue performed in line with our broader network. So no discernible difference between the remedy coming through people who are members of the club and the revenue coming through our wider network and is growing in line with the capacity that we've expanded the airline by.

I think we are in the transition phase. What we are seeing is people who were booking high-quality revenue and Holidays are getting tiered earlier, and we expect our tier sizes to be broadly at the same level they were pre change, but there will be some people who get in there who use in get some people will drop out who were in those tiers historically. So that's part of the transition that we are forecasting and expecting.

Adam Daniels *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty*

Yes, I would agree. Adam Daniels here. Just to update on particularly on the Holidays side. We are seeing an increasing number of the BA Club members start booking British Airways Holidays, and we're seeing that in terms of the quality of revenue that's coming as a result. So certainly, those people that are doing that are increasing their chances of retaining and in fact going into the next tier as well.

Operator

Savi Syth, Raymond James.

Savanthi Syth Raymond James Holdings (Canada) Inc - Equity Analyst

Just curious if you could provide an update on what you're seeing on the kind of corporate and premium leisure side across the various kind of geographic areas. And then if I might also -- yeah. On the -- just a little bit of a longer-term question. Taking a step back --

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

Savi, you're breaking up. Sorry, your second question, we haven't got your second question. Repeat it.

Savanthi Syth Raymond James Holdings (Canada) Inc - Equity Analyst

Sorry, yes. So my first question, just if I might, on the corporate, just what you're seeing on the corporate as well as premium leisure side across the various entities. And then second, maybe on the -- just a longer-term question. Just on the price-sensitive segment, kind of your view on what -- in intra-Europe and domestic Europe, like what the impact of this rising kind of taxes and fees and SAF requirements might mean for kind of price-sensitive demand, especially as you're looking to kind of invest even more in Vueling.

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Thank you. So about the business and corporate traffic. So IAG business passenger volumes dropped in the second quarter, close to 8%. It's true that when we look at revenues, it was a smaller amount, minus 1%. The biggest decline in volume was in Iberia. That was close to 12%. But the decline in revenue was less than that, around 7%. And in the case of British Airways, we saw a decline in volume, but in revenue, we were almost flat.

So North America point of sale, following the announcement of tariffs from US government, we see -- we saw some volatility. And British Airways, we had corporate revenue in the second quarter was minus 3% in comparison with last year with a huge impact in April, but mainly because the Easter this year was in the second quarter. But we maintain, in the case of British Airways, the target to improve the business revenue for this year, even driven by North Atlantic that we see is recovering.

In the case of leisure traffic, the premium leisure revenue in the second quarter, in the case for example of British Airways, was 7% above what we had last year. So things are doing well. And I don't know if you want to add something else.

Sean Doyle *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways*

Yeah. I think the Easter effect is one thing to bear in mind, but we are seeing North Atlantic revenue. If you look over the half, our business revenue was up about 4%, and North Atlantic was up about 7% in that context. So that's encouraging.

Marco Sansavini *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of Iberia*

I think maybe to add just on the Latin America part, that is the part really is performing very strong. So we are ahead both in revenues and volumes, not only for 2024 last year, but even compared to pre-COVID. In terms of revenues, we are 8% ahead of last year and 38% in the first half compared to 2019.

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

I think your second question was about the impact of kind of taxes in Europe. I think you're probably referring to kind of the taxes we've seen a skip on Amsterdam. So Carolina, can you give a flavor on what we're seeing in Vueling?.

Carolina Martinoli *International Consolidated Airlines Group SA - Chief People, Corporate Affairs, and Sustainability Officer*

Yeah. Of course. So in the Netherlands, we've seen last year, 19% tax increase, it has had an impact. So although we had yields going down, we couldn't get to the loans we wanted. And the result of everything together was we couldn't pass the taxes through. So this is having an impact on demand clearly.

Savanthi Syth Raymond James Holdings (Canada) Inc - Equity Analyst

Do you see that as a longer-term issue? Just -- I mean just looking just multiple years, I mean, is this a concern where maybe the price-sensitive pot is going to shrink over time?

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

I think we've always said that in terms of our approach to Europe, it's a very positive market for us. We're very strong in leisure destinations and city destinations. We're quite cautious in terms of what the impact of the EU kind of approach to what sustainable aviation fuel headwinds are going to be.

So we're kind of cautious about the amount of growth we put in there overall. We've always prioritized our long-haul growth given the kind of margins we made in particular across the South and North Atlantic as well.

But we do see a kind of specific opportunity, particularly in Vueling, to growing that kind of leisure destination, and particularly with the excitement of getting the new 737, which is going to make it more efficient business, helping prove its margins overall, which will really give kind of great kind of benefit to our kind of customers and to the business.

Operator

Jarrold Castle, UBS.

August 01, 2025 / 7:30AM GMT, HALF YEAR 2025 INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA EARNINGS CALL

Jarrold Castle *UBS AG – Analyst*

Very strong set of results. I don't know how much color you can give but just wanted to see if you could say anything on where things stand with you and the TAP process at the moment.

And then secondly, we've got the UK autumn budget coming up. Again, I don't know how much you can say, but any conversations you're having with the transport minister especially in the light of Heathrow and how potentially that could affect your business, I guess, in October?

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Okay. So about the first question about the TAP. So you know that the government, on July 10, they announced that they were going to privatize part of the company. In our first phase, they announced 49%, but that includes 5% right for employees. We are waiting that they sign this and then we have clear indications about how the process is going to be and the conditions.

We said in the past that we are interested to see if it's something that can be good for the group. And we think that the best place to develop TAP is a group like IAG. We have shown all the different airlines that they joined the group. They improve their performance. And also, we see that we have very complementary networks. And also, we have a vocation, Atlantic vocation. And I think that's something that is good for development of TAP.

But as I said, we need to wait to see the conditions. And we cannot obtain the margins that we have in the group between 12% and 15% in the different airlines if we don't have the freedom to do the right thing to develop the business. So that is going to be the main concern for us in this process.

And about Heathrow, we talked before. We support the expansion of Heathrow, but, and if, we have the right regulatory model with the current regulatory model to be honest, I think it doesn't matter the proposal because at the end, the customers, they need to pay almost double of what they are paying today.

And today, Heathrow's the most expensive airport in the world. But we agree with agenda of growth, but what we don't want is a new terminal empty. So what we need to work together is to define the best the best proposal, the most efficient proposal and affordable to develop the business.

I don't know, Sean?

Sean Doyle *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways*

Yeah. Just a couple of topics in relation to the autumn statement. I think -- if we think about the things we are doing with the Department of Transport, we welcome the progress on sustainability and the move to enact revenue certainty mechanic for SAF production. I think that's a very positive development. Also, the speed at which we're moving forward on aerospace reform, which will be critical to enabling the expansion that we foresee on the ground.

At the same time, like every other business, we've got to make sure about the burden of businesses that we're already bearing, whether it's National Insurance and the inflationary effects of some of the policies we've seen that need to be tempered, but we are working well with the Department of Transport on issues like aerospace and sustainability, which we welcome.

Operator

Harry Gowers, JPMorgan.

Harry Gowers *JPMorgan Chase & Co – Analyst*

First question, just on the -- on your revenue comments for H2. You say the booked revenue is in line with last year. Can I ask, within that, what are you currently expecting or seeing in terms of the FX impact on that revenue over the second half?

August 01, 2025 / 7:30AM GMT, HALF YEAR 2025 INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA EARNINGS CALL

And then second question, just on the lower capacity guidance for this year, I'm actually a bit more interested in 2026. So do you think that lower capacity that you've guided to is more structural? Or will that just be added back next year? And then just maybe whilst we're there, how much capacity growth are you actually penciling in for 2026 at the moment?

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Okay. So maybe I can start with the second one, and then Nicholas, you can talk about the FX in the revenues. So this year, we are reducing the capacity for the full year from 3% that we said to 2.5%. And I think one important part is related to the resilience that we are building. You know that we have also issues with engine availability across the group, also conflicts around the world, particularly in the Middle East, we needed to reduce flights.

And ATC across Europe and in particular France, that the situation is even worse every summer. So we build resilience in the different airlines, and we are delivering good results when we look at the punctuality, but we need to come back to a normal situation in the future, and then we will add more capacity. And our other revenues, Nicolas, and the FX?

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

Yes, just on the FX, it's probably about kind of 1%, 1.5% kind of headwind for the second half at the moment. But you know FX would be moving around a bit. So it gives us a little bit favorable on the costs and another bit of headwind on the revenue.

Operator

Jamie Rowbotham, Deutsche Bank.

Jaime Rowbotham *Deutsche Bank AG – Analyst*

Just one from me. I wondered if you'd be willing to talk a bit more about the North America PRASK. So obviously, it slowed from 13% to 1% in Q2. I just wondered how negative you think that could go in Q3. I suspect the trough then will come Q4, Q1 when the comps get very tough, and then we might see an improvement when we're comping the current quarter this time next year.

But maybe just some thoughts on the shape of that, especially as you said, you've been seeing some slow improvement in transatlantic demand in recent weeks.

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

Thanks, Jaime. I like your heading of your note this morning. Still delivering. That was right on target. Thank you for that.

So just in North America, we did see a slowdown from Q1 to Q2. I'd just remind you that in Q1 2024, which was kind of just the beginning of the kind of conflict in the Middle East, we did -- we had seen a kind of soft period. So we saw a particularly strong, slightly easier comps for this year overall, which is why you saw very strong comps in Q1 this year overall.

We're probably not going to go into too much detail overall. We've got capacity in the North Atlantic, continues to grow around about kind of 2% overall. And as Luis said, overall, but it's going to slightly down over revenue kind of year-on-year at the moment. So -- but as you said, it's been quite volatile. It's been improving slowly over the last few weeks, rather than deteriorating, which is positive.

But as I say, it's quite volatile. So we kind of don't call that a trend yet.

Marco Sansavini *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of Iberia*

This is Marco speaking. We do see continuing the strength in South America. You have seen that in H1, we've had a RASK improvement over capacity increase, both of ourselves and the market, and we do see the positive trend to continue.

Operator

Muneeba Kayani, Bank of America.

Muneeba Kayani *Bofa Merrill Lynch Asset Holdings Inc – Analyst*

Firstly, just wanted to ask on your thoughts around the buyback at this point. The current one ends in November. Leverage is well below 1.2. Kind of how is your thinking put another buyback in November potentially?

And then secondly, just a bit more on capacity. What are you seeing from the industry capacity across your main market? You've talked about strong demand and some of these improving trends. Do you think there could be more capacity coming back on the transatlantic?

So just what you're seeing on that?

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Okay. So I'll start with the second one. Capacity. What we see for the third quarter and the fourth quarter is Europe to North America capacity in Q3 and Q4 is going to increase around 3% versus last year. But when we look at our hubs in the case of Heathrow is going to be capacity almost was flat. We see an increase -- important increase again this summer in Dublin. American carriers, they are adding capacity there. We have an increase in Dublin of around 9% in comparison to the capacity that we had last year.

In case of Europe, Latin America, we see also an increase in capacity from 3%. And in the case, Madrid, Latin America, the increase is similar. It's around 3%. We see that the American carriers in general, they are moving capacity from the north to the south hubs, and then we have places like Fiumicino, Lisbon, and Madrid where they are allocating more capacity.

But in general, North Atlantic except the situation of Dublin, we see a good environment for the last quarter.

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

Yes. On the share buyback, kind of just an approach to it as well, we finished the quarter with 0.7 leverage, which is a good position, and it came from a strong operating performance, also helped as well by a little bit of FX as well. The FX kind of gave us probably about 0.1 to 0.2 kind of benefit over that period as well. And I think as I said, the consensus for the full year is around a kind of 1 to 1.1 overall. So that kind of puts us in a -- is a really nice place to give us kind of flexibility and gives us options overall.

I'll leave it to discussions we're going to have at the Board in Q3 about how much we give back and in terms of share buyback and dividends. But I think our overall approach to it has always been we want to make sure that the dividend is sustainable. So I think you'll see moderate increases in dividend in kind of Q3 overall.

And although we've had a really good rise in our share price over the last year, we're still in a PE ratio of kind of 6, 6 times overall, which if you look at our long-term average of kind of 8 times and if you look at where the US carry it 8, 9 times at the moment, and we're serving similar markets that we still think that actually the right thing to do is to prioritize the share buyback program going forward.

So I think that we're going to leverage and that kind of mentality gives us kind of good opportunity positive outlook on where we should be going in the next year.

Operator

Guilherme Sampaio, CaixaBank.

Guilherme Macedo Sampaio *Bpi Pensoes Sociedade Gestora de Fundos de Pensoes SA – Analyst*

So the first one on ex fuel unit costs, you have a relatively benign environment for the second half of the year. The comparison basis is going to be inflated for the early part of 2026. So is there any initial thoughts that you could provide us on your expectations for ex fuel unit cost evolution in 2026? And secondly, on Vueling, I appreciate your comments on the 737 allocation. Is there an initial idea that you could provide us on where are these -- when we allocated?

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

Yes. Just on the Vueling, we've got about three aircraft kind of allocated in 2026.

Carolina Martinoli *International Consolidated Airlines Group SA - Chief People, Corporate Affairs, and Sustainability Officer*

Yes. It starts in 2026. We're going to work on the plans and give more information later. But the first planes will come to Barcelona.

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

By the end of the year overall.

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

On ex fuel pricing for next year, we'll probably give you a bit more color on there, but the next six months rather than give that now. We're focusing on making sure we deliver about 3% that we've committed to you today. So overall

Operator

Gerald Khoo, Panmure Liberum.

Gerald Khoo *Panmure Liberum Capital Ltd – Analyst*

A couple for me, if I can. Starting with the going to Vueling. I'd like to say that's going to leave Vueling with a mixed fleet, at least for the time being. And what's your plan to firstly mitigate the cost and complexity from mix please? Secondly, is that -- is that likely to stay a mixed fleet in the long term?

And secondly, on BA Holidays, I think you talked about beach holiday, beach destinations being strong. Can you just clarify, when you say beach, do you basically mean Mediterranean? Or does that include Caribbean? And more broadly, what's the shape of the destination mix for BA Holidays, long haul, short haul beach or non-beach? I mean, can you just give us some color in terms of what the important destinations for that business are, please?

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

Okay. So about the first question about the Vueling fleet. So what we have announced today is that 50 Boeing 737 that we have orders, we are going to allocate in Vueling. The intention for sure is that at the end of the process, we replace the whole fleet of Vueling with Boeing product, but that is going to be the dependent on the performance of vueling for sure. Vueling complies with a plan that we have.

The intention is to replace the fleet and to reduce in a reduced period of time, understanding that is going to be a long period because we are talking about a lot of aircraft. So we are talking about maybe six years of replacing aircraft, if we can comply with the plan.

Carolina Martinoli *International Consolidated Airlines Group SA - Chief People, Corporate Affairs, and Sustainability Officer*

Yes. And about, of course, having a mix fleet for some time creating inefficiencies, we have a very strong plan to minimize those inefficiencies. Of course, you have with crew, with training and everything, but we have plans to mitigate that. And this is for Vueling, I have to say, great news because Vueling has been in a strong transformation process. You can see the results on our non-fuel CASK evolution in the last two years.

And this will be absolutely key to help us along with transformation to restructure our cost base and amplify the growth opportunities for Vueling.

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*

About the BA Holidays, Adam?

Adam Daniels *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty*

Yes, sure. So in terms of when we're talking about beach and the link, that's primarily focused about shoulder beach. So we are seeing some good strength there, particularly in places like Corfu, Greece, generally, Málaga is very strong. But we are seeing also some strength in other beach destinations. So certainly in the Indian Ocean, Dubai. And Caribbean is certainly coming back, I think, as well. So that's where we are in terms of beach destination. Short-haul, beach is our biggest segment and performing well.

Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer*

So I look forward seeing your holiday booking coming through, Gerald.

Operator

Ruairi Cullinane, RBC Capital Markets. Ruairi Cullinane, RBC Capital Markets.

Ruairi Cullinane RBC Capital Markets Inc – Analyst

I did miss the beginning of the call so if this has already been addressed, please ignore me. But in the last 12 months, you've delivered a 15% EBIT margin, so you're slightly over earning relative to the midpoint of your medium-term margin targets. Would you accept that? Or your targets now a bit conservative?

Nicholas Cadbury International Consolidated Airlines Group SA - Chief Financial and Sustainability Officer

We just finished the quarter. Kind of let's say just under 12% margin overall for the half year. So good progress year-on-year overall. We've got our margin at 12% to 15% target. We've kind of reiterated that in March, so a bit early to kind of go on top of that.

I think you've seen kind of -- there are a few things we're seeing a strong market at the moment. You're seeing a kind of favorable fuel price. You're seeing favorable FX. And there's always opportunities at the top end of those range at the moment. But we think the best thing to do is kind of keep it that guidance at the moment.

Ruairi Cullinane RBC Capital Markets Inc – Analyst

Okay. Yes, the last 12 months was the 15%.

Operator

There are no further questions. I will now hand back to Luis Gallego for closing remarks.

Luis Gallego Martin International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director

Okay. So thank you very much, everybody. I think to wrap up, we have seen another strong set of results. We are operating with very good brands in very robust markets. And I think the most important thing is through our transformation program and the execution that we are taking, we are delivering what we are promising to you every quarter.

We are going to continue working hard to achieve the results that we want for the rest of the year, and we wish everybody a very good summer. Thank you very much.

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