International Airlines Group Half Year 2023 Results

Friday, 28th July 2023

Luis Gallego

CEO, International Airlines Group

Thank you very much. Good morning, everybody, and thank you for joining the IAG results presentation for the first half of 2023. With me today, I have Nicholas Cadbury, our CFO, as well as members of our management committee, including the CEOs of our main airlines.

We have had a strong start to the year, reflecting that our airlines are based in large markets with good demand for our services. We have recorded a record profit, both for the half year and the second quarter with operating profit for the first six months of €1.26 billion, which is also a big increase compared to this time last year.

Specifically, our Spanish businesses are performing very well, with a record profit at Iberia. Iberia's margin in the second quarter was just under 18% compared to 8.7% in second quarter 2019. At the same time, we are continuing to invest in our customers and operational performance, where the operating environment is currently challenging.

Bookings are looking strong for third quarter, due in particular to a strong leisure demand. And financially, we expect net debt and leverage to continue to come down as we generate more profit and positive free cash flow this year.

I will now hand over to Nicholas to talk you through the financial results for the period.

Nicholas Cadbury

CFO, International Airlines Group

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

On the left of the slide, you can see that the increase in revenue has been the biggest driver, combining the restoration of capacity with strong unit revenue growth. That is slightly offset by cargo revenue, where yields are actually still 20% higher than 2019 levels, but there is a significant supply and demand imbalance across the market.

The other revenue growth came from across our loyalty, our MRO and our BA Holidays businesses. Non-fuel and fuel absolute costs reflect the higher level of flying activity and also the higher hedged fuel prices in the half. 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 financial metrics for the half, and at the bottom of each box are the Q2 variances versus 2022. The 31% increase in ASKs compared to H1 2022 was driven by a recovery in all airlines, especially in the first quarter when we were annualising the Omicron constraints and a 20% improvement in ASKs in Q2.

Passenger RASK was up 18% in the half and up 14% in Q2 versus last year with very good growth in unit revenues across all of our IAG Airlines, reflecting the strong demand. Fuel CASK was up 5.7%. Fuel spot commodity prices were actually lower year-on-year, but we benefited last year from hedges put in place before the Ukraine war sent prices higher.

Non-fuel CASK for the half was in line with our guidance, down 7% year-on-year. In the quarter, non-fuel CASK was down only 2.5% lower, lower than our full year run rate expectations due to additional disruption costs and investments we made in resilience. These added around 2% to 3% to our CASK.

Despite this, we are still comfortable with our previous guidance for the full year of non-fuel costs being down 6% to 8% on 2022.

As a result of these metrics, we've delivered a record operating profit in the half at €1.3 billion and a margin of 9.3% in the half and a margin of 16.3% in the last quarter. With this good profit performance and a strong inflow in working capital, our net debt has come down again to €7.6 billion, and leverage is now 1.5 times, significantly lower than this time last year.

Moving on to the summary of our operating units for the half. You can see it has been a good financial half for all of our businesses. Aer Lingus has returned to a profit after a loss-making first quarter, reflecting the more seasonal aspects to its activities. British Airways has made a big step-up in profit comparisons to last year, driving both revenue and unit cost benefits year-on-year.

Iberia has had an exceptional start to the year, making a record profit of €372 million and 11% margin following strong demand across the South Atlantic. The increase in non-fuel CASK year-on-year largely related to the MRO and Handling business.

Like Aer Lingus, the Vueling result is also more seasonal, but they performed very well with £96 million profit for the half. And finally, we have given you more detail on the Loyalty business again, and you can see how it makes an important contribution to the Group's profit at a good margin of 25%.

This next slide just shows you how our operating profit of €1.3 billion reconciles to our statutory post-tax profit of €921 million. I'll just draw your attention to the fact that we are now starting to get much better financial income on our cash, where we're earning around 3.5% in Q2 at an increasing rate compared to our current average cost of financial debt of around about 5%.

Moving on to our cash flow. We've generated a net €2.4 billion cash flow inflow in the half. You can see that this has been achieved by the €2.2 billion EBITDA and a positive deferred income of just under €2.4 billion as we built strong Q2 revenue. Offsetting this is our continued investment in our fleet, customer propositions and IT programmes with €1.3 billion of Capex and €225 million of ETS' purchased in the period.

As mentioned earlier, our net debt at 30th June was €7.6 billion. We expect to continue to benefit from the positive EBITDA across the year with a large proportion of the working capital unwinding in the second half, in line with normal seasonal trends.

We maintain our previous capital guidance of around about €4 billion for the year with 19 more aircraft expected to be delivered in the second half compared to 11 in the first half. Given the recovery of the business and our strong liquidity, we're starting to focus on reducing our gross debt. And in July, we repaid a €500 million unsecured bond.

At the year-end results, we gave guidance that net debt would be flat year-on-year. At this point, when we gave this guidance, consensus operating profit was around about €2 billion.

As we said at the Q1 results, we expect net debt to reduce in line with any operating profit improvements above this level.

We show in the next slide, at results in February to remind you of the manageable debt maturity profile over the next few years. And as mentioned, we may look for opportunities to repay some of our gross debt in the second half if the markets are favourable.

Moving on to our fuel hedging position. We're around about 67% hedged for the remainder of this year and just over 40% for 2024. Again, as the commodity price has been so volatile over the last year and the last few months even, we've shown some scenarios of our total fuel bill at different levels.

Turning to recent trading. This slide shows the Q2 ASKs and PRASK growth across all of our regions compared to 2022. I won't go through these individually. But you can see our core markets of South and North America, and Europe are showing a strong performance overall. We've shown very large ASK growth in Asia Pacific, reflecting that the market was substantially closed last year, and we've now opened up flying to China, Japan, Singapore and Australia.

And lastly, for me, what does that mean for the rest of the year? We continue to see strong demand in the third quarter, which is 80% booked. We have less visibility into the fourth quarter, which is very typical for this time of year. And so far, for Q4, we are seeing no sign of weakness, and our booking curves are actually slightly ahead of normal years. This is due to the strong leisure demand that books further out. Although with a higher mix of corporates in Q4, we expect this to normalise as we go through the rest of the year.

Our capacity expectations for the year are unchanged at 97% of 2019 ASKs with the main area of shortfall coming from BA's Asia network, with growth at each of the other airlines.

Our non-fuel cash expectations continue to be in the range of 6-10% as previously guided. And finally, as mentioned a couple of slides ago, we expect net debt to continue to reduce year-on-year.

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

Luis Gallego

CEO, International Airlines Group

Thank you, Nicholas. I will now spend a few minutes talking about the strength of the Group and its business model and highlighting some of the work we are doing to deliver our strategy.

Firstly, I would like to remind you that IAG has a unique structure based on driving high and sustainable returns in our operating companies. A big part of that is the way we have deeply managed our portfolio to maximise value.

And I think if you look at these results, you can see the benefits of that portfolio approach in the balance of success we are having in our core markets. We are investing in our fleet, our cabins, the service delivered by our people, both onboard and elsewhere and in our digital offerings. We have historically improved efficiency at all our airlines, and our transformation programme is designed to do exactly that over the next few years.

And finally, we recognise that our sustainability agenda is essential to the future of the business. The result of all this is that we are very focused on driving long-term sustainable value for our shareholders.

One of the major drivers of long-term success is the leadership positions that we have in our hubs and major markets. We continue to invest to ensure that our market positions are strengthened. On the North Atlantic, from London, British Airways is now flying the equivalent capacity of its pre-pandemic schedule. However, the market dynamics are slightly different as we have less premium capacity than we flew before due to the retirement of the 747 fleet.

So we are focused on that market as we restore our fleet capacity, which will drive an increase in business class seats with an associated revenue benefit. Aer Lingus has a strong position in Dublin, particularly addressing its core US market, balancing efficiency with an attractive and value-oriented products, and they are expanding their network to places like Cleveland and Hartford.

On the South Atlantic, this is a slightly different market to the North Atlantic, where we fit the Madrid hub and compete with other carrier groups from across Europe. Iberia is focused on building its market share, such as adding frequencies to destinations like Bogota and Mexico City.

And finally, Vueling and LEVEL contribute both to our strong leadership position in Barcelona, but also through LEVEL to the North and South Atlantic proposition.

We are currently investing a lot in our fleet, which drives a better customer product, is more efficient and is more reliable. On the left, you can see that we have now mostly restored our narrowbody fleet to pre-pandemic levels with a few more to come still at British Airways. And on the right, you can see that both British Airways and Iberia are still recovering their widebody fleets after the retirement of their old and inefficient 747 and 340 fleets, respectively.

Our announcement last night means that we can accelerate that recovery process with BA's firm order for six 787s and the addition of one A350 to Iberia. It is worth noting that this year, Iberia has been delivering a large part of its long-haul growth through greater utilisation, as Vueling has done in short-haul.

And in the boxes above each chart, you will see that over 40% of both narrowbody and widebody are more efficient new generation aircraft, which is over 240 aircraft.

At this point, we are also recognising that for many of our customers, we would like to improve our operational performance. It's not helping that the European aviation environment is extremely difficult, weather-related cancellations have increased by over 200% on 2022 at BA in the first half. The Ukraine conflict has cut EU airspace by 20%, which has a knock-on impact in other parts of European airspace. And we have also seen sustained amounts of industrial action, ATC strikes in France, Italy and Germany, as well as strikes earlier this year by some Heathrow staff.

Iberia continues to be one of the world's most punctual airlines, and Vueling is proving very resilient. On-time performance at both BA and Aer Lingus have suffered. The situation compared to last year is different. At BA, the core operation is more stable with significant recruitment being the biggest part. The main focus this summer has been on recruitment, managing the supply chain and the use of well-leased aircraft in both the long-haul and short-haul fleets.

Elsewhere across the network, we have a number of initiatives that are focused on delivering a resilient operation this summer. Aer Lingus has focused on removing bottlenecks, such as check-in, and for US connections.

At Vueling, it has mostly been about using data and systems to have a more joined-up approach between planning and on-the-day delivery. So they are Europe's second most punctual low cost carrier despite their significant exposure to French ATC.

And at Iberia, one of the most punctual airlines in the world, they are looking to improve even on this performance with investment in additional resources. We believe that this as well as a large number of other initiatives will deliver better performance for our customers.

As well as in our fleet and operations, we are continuing to invest in the customer proposition for all points of the customer journey. Part of that is to ensure that our premium products are attractive and support the demand from both leisure and business travellers in the future.

Both British Airways and Iberia are implementing new business suite products with 55% of BA's Heathrow-based long-haul fleet now embodied with a new product. BA is also enhancing and developing its lounges and lounge products such as the new JFK Terminal 8 lounges, but also at Heathrow Terminal 3, Newark and Chicago.

And all of our network airlines are investing in an enhanced food offering for both premium passengers and also economy passengers. We continue to invest in IT and digital and our major investment in moving systems into the cloud is continuing.

From a customer service perspective, we are rolling out digital capabilities such as live chat, baggage tracking, customer pre-flight messaging and online menus. And we are investing in our customer service with a new bigger call centre that is equipped with a new CRM and better telephony systems.

Our Loyalty business continues to do well, as a high growth, capital-light and cash-generative part of the Group. We continually innovate to create ways for customers to engage with Avios. And in particular, we do this as we invest in our proprietary technology.

On the collection side, we are working on both the airline and non-airline sites, such as through airline and financial service partners. We are also making it more attractive for our members to redeem their points.

British Airways has now released Avios-Only reward flights to seven popular destinations. And we are also seeing growth in redemption at BA Holidays with around 20% of bookings now using Avios to save money.

Moving on to our people -they remain core to our business. In the first half of the year, we have recruited 7,000 people across the Group. We are also investing to ensure we have a good supply of pilots into the future with cadet schemes at both Iberia and British Airways. We are targeting better diversity at senior levels of our organisation.

Most importantly, we are in the middle of negotiations with a number of our employee groups, and we hope to agree these over the next few months to the satisfactions of all parties.

We are working towards ensuring that we can reach long-term sustainable agreements that allow us to be competitive with other airlines and to be able to invest in the business for the future.

And finally, sustainability continues to be a long-term part of our strategy. Firstly, it is important to say that IAG has a positive impact in the economies where it operates. We asked PwC to assess this based on 2019 data. The results show the important contribution IAG is making in the UK and Europe, the jobs it is supporting, and the way it supports tourism.

This amounts to a direct and indirect contribution of €70 billion in GDP, and supporting more than 600,000 jobs.

During the first half of the year, we continue to make progress on some of our key sustainability initiatives. We are actively advocating for policies to support the production of sustainable aviation fuel, including with the design of the SAF mandates and supporting supply incentives. We continue to work towards our target of using 10% SAF by 2030, securing more supplies of SAF through investments like we announced earlier this week with Nova Pangaea in the UK.

And don't forget the investment in fleet we talked about earlier, where the latest generation aircraft are around 20% more fuel-efficient than previously. And the modern widebodies that we are currently receiving are up to 40% more efficient than the 747s and 340s they are replacing.

So to summarise, this has been a good start to the year, delivering a record first half profit. We are looking forward to delivering another strong quarter in the summer, which is now almost 80% booked and finishing the year positively. And we will continue to invest in our Group-wide transformation programme that is creating a more efficient business and opening up additional revenue streams.

As a result of the good financial performance, we expect to generate sustainable free cash flow this year and to continue to deliver year-on-year. And looking beyond 2023, we are convinced that IAG's unique business model and attractive markets can deliver sustainable benefits for all stakeholders in the long-term.

And now we are ready for your questions.

Q&A

Operator: Thank you. As a reminder, to ask a question, please press star one-one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. To ensure, everyone has the opportunity to ask a question today, please limit yourself to two – to just two questions. Please also ensure that you’re close to your microphone and not on loudspeaker. This will help with ensuring that your audio is clear and your question is understood. Thank you. So we will now take the first question. And the first question comes from the line of Stephen Furlong from Davy. Please go ahead.

Stephen Furlong (Davy): Hello. Thank you for that. Okay. Maybe two questions, please. Can I ask about sustainability and the excellent efforts you're doing there. My understanding is that if CORSIA isn't kind of further developed another more countries are – become part of it, then there's a provision for – in the EU for ETS, long-haul to fall into ETS in 2027 onwards. And I'm just wondering what you think about and you – are you worried about that, that long-haul will have to pay more allowances? That's the first question.

And then kind of a particular one on Gatwick. I'm just maybe – my understanding is in Gatwick, BA wants to expand and the slots that it gave back in the pandemic, whether in-house to Vueling or to easyJet. Maybe you can just talk about what are the plans there for the slots that you gave back? That would be great. Thank you.

Luis Gallego: Thank you. So good morning. Yes. As you said, we are pushing to have CORSIA as the solution – the global solution that we need in aviation. And in parallel, we have the ETS rules that are going to apply to intra-European flights. You know that the allowances are going to be reduced. We are pushing that this ETS scheme can, in some way, help the production of SAF. We have a short base and the SAF that we have is very expensive.

So SAF is the only sustainable solution for long-haul flights. We have commitments of $865 million in order to comply with our commitment of 10% sustainable aviation fuel by 2030. So in UK, what we are asking the government is to have a mechanism to stabilise the price in order to guarantee the investment in the plants that are needed to have this 10% of SAF.

We are going to continue leading this transition to sustainable aviation, and trying to change the policy that we have in Europe and the UK more oriented to what they are using in the US, and is helping more to the development of the industry there.

About the second question about Gatwick, maybe Sean, you can answer about that.

Sean Doyle: Yeah. Stephen, yes, on Gatwick, Euroflyer is now up and running, obviously, at a fairly significant scale. We have set up a separate airline operating certificate, and we're operating about 18 aircraft there this summer. Our plan would be to get that up to about 26. And we do have arrangements to take slots back from people we have leased them out to, particularly easyJet over the coming years to enable that. That's in the headroom and capacity for Vueling's current operation, which again has increased and it's performing very well.

Stephen Furlong: Okay. Thanks, guys.

Operator: Thank you. We will now take the next question. It comes from the line of Savi Syth from Raymond James. Please go ahead.

Savanthi Syth (Raymond James): Good morning, everyone, and thanks. If I might, just if you could provide a little bit more colour on business and premium demand trends? I know you mentioned it, but basically, essentially a business, just where is it trending relative to the past? And the second question that's tied to that then is just I know your plan as you kind of thought about this kind of coming out of COVID was that business kind of recovers to maybe 85%, and we've definitely been surprised at how strong premium leisure has been. What are the implications for earnings seasonality going forward, on a long-term basis? Or do you kind of expect it to be pretty similar to pre-pandemic? Thank you.

Luis Gallego: Okay. So good morning. Corporate traffic is recovering more slowly than we thought at the beginning of the year. It's true that business travel is recovering at different rates across our airlines and the different regions. We see a correlation between business travel and people returning to the office. So for example, our Spanish airlines are seeing a stronger recovery in business travel, if you compare it with British Airways or Aer Lingus.

It's true that the summer period is not a big period for business travel. And recent trends show that BA's revenue was around 69%n and volumes remain around 60-61% of 2019 levels. At Iberia, they see something different. Revenues closer to 95% and volumes of 82%. We see also a difference in the rate of recovery between the different types of business trips.

For example, long-haul business trips, over two days trips have been recovering faster than the recovery of our short-haul day trips. And if we look specifically to British Airways, for example, so since the end of COVID, business volume has recovered each quarter. In the period – from the second quarter of 2022 to the first quarter of 2023, the average increase in volume compared with 2019 was 10% per quarter. But from the second quarter of 2023, we didn't see any recovery. The volumes are plateaued at 61%.

It's true that the volume of flight cancellations don't help, but we see that things are not improving recently. But we are more optimistic about the future because for the third quarter, BA is forecasting to reach 68% of corporate traffic compared with 2019. And that's a 7-point improvement if we compare with Q2. Mainly it's going to be due to less disruption. Also we need to take into consideration, and in 2019 we had a strike, but it's important also to note the underlying growth.

When we look, for example, at September, bookings are coming – business bookings are coming in well, and are ahead of the expectations that we have. So as you can see, things are coming back, are coming back slowly. Are we going to reach the 85% that we said? We think we are going to come back there, but it's going to take more time than we thought originally.

Savanthi Syth: That's super helpful. And just on the kind of the earnings seasonality thoughts there that I mean, if it even does have an impact?

Luis Gallego: Yes. In the Group, we have different airlines. Seasonality is different in the different airlines. For example, we see now that this slow recovery of corporate traffic is having a bigger impact, for example, in Aer Lingus and now we have a more seasonal airline. But in the case of British Airways or Iberia, we don't see that this is affecting the seasonality of the company.

Savanthi Syth: Very helpful. Thank you.

Luis Gallego: Welcome.

Operator: Thank you. We will now take the next question from the line of Jarrod Castle from UBS. Please go ahead.

Jarrod Castle (UBS): Thanks very much. Just a question. You say that summer is 80% booked. Do you think that's the right number? Or are you missing out on potential yield uplift for close-in bookings?

And then just related to pricing, there's obviously been some comments from US airlines on pricing weakness, maybe it's US airline specific or those airline specific. Do you think some of that will come Europe's way, I guess, in the future?

And then just lastly, new Heathrow's CEO starts I think at the beginning of October. So I guess what would be on your hit list in terms of things you'd want done differently at Heathrow or things reinforced and, I guess, just the health of that relationship at the moment and going forward? Thanks a lot.

Nicholas Cadbury: Yeah, just in terms of the 80% bookings for the summer, I think we're looking at the right number there. It's slightly ahead of where we were a year ago in terms of booking trends, and I think you'd expect that kind of a big mix of leisure that we're seeing. And of course, during the summer period, you are much less dependent on corporate travel. So I think at the moment, you're seeing actually those short-term bookings are being filled by leisure at the moment. So we feel quite comfortable. And as we said earlier, we're not seeing any signs of weakness and a similar sort of trend in yield that we saw in Q2 as well across that as well.

Luis Gallego: Okay. And about the question about Heathrow, I think we welcome the new CEO. And for sure, we are going to try to continue improving the relationship with the airport. In the end, it's going to be beneficial for the customers. And I'm sure that we will talk about a lot of things, but main topics, I'm sure will be the Heathrow charges that have been a battle and we continue with the battles because we are operating in one of the most expensive airports in the world, and the experience of the customer is not one of the best, to be polite.

And also, another topic is the electronic travel authorisation that you know that we are talking about now, and it's something that can be a big problem for the connecting traffic in Heathrow if we compare with other hubs in Europe. So I don't know, Sean, if you want to add any?

Sean Doyle: I think that would be one thing we'd work with Heathrow to have alleviated, because I think having an ETA for clients and customers doesn't make sense. And we need to work together on that. But as Luis said, I think we need efficient and very much improved infrastructure and delivery for customers. And we need to make sure that the charges sustain a competitive position for Heathrow. And we'd work with Thomas in the same way that we've worked with the previous regime on delivering that.

Luis Gallego: Yeah. And I think you asked also about the weakness in general in the unit revenue. And as we said before, we don't see that. We see for the third quarter a similar trend that we had in the second quarter, a unit revenue increase compared to the 2019 similar to the one we had in the second quarter. It's true that we see a decrease in the last quarter, but it's not linked to any weakness. It's linked more to the normal seasonality effect.

Jarrod Castle: Okay. Thanks very much.

Luis Gallego: Welcome.

Operator: Thank you. We will now take the next question from the line of Jaime Rowbotham from Deutsche Bank. Please go ahead.

Jaime Rowbotham (Deutsche Bank): Good morning, gentlemen. Two from me. I was going to ask about Q3 yields, but you just covered that. So instead, just looking at slide 20, big difference in on-time performance between BA and Iberia. I think that probably has a lot to do with Heathrow, which you just talked about a bit, the differences there versus Madrid. But maybe you could just expand a bit on what you can do to improve on-time performance further at British Airways?

And then the second question relates to IAG as a platform for consolidation. Just wanted to get a sense of how ambitious you're feeling in the current environment. Obviously, Air Europa has agreed subject to antitrust. I think the Portuguese government said a process for TAP will take place before October. And presumably, there are other lower profile opportunities around Europe. So how great is IAG's appetite in this current phase of industry consolidation, please? Thanks.

Luis Gallego: Okay. Starting with the OTP, it's true that we have two different behaviours in British Airways, Aer Lingus and Iberia and Vueling. I think the environment that we are operating in Europe is very difficult this summer. As I said before, we have air strikes, ATC problems, ground handling. We have less airspace as a consequence of the situation, the Russian invasion of Ukraine. We are having problems with weather, including thunderstorms, high winds, etc. And we are having issues that in all the industries, supply chain issues.

British Airways and Aer Lingus are particularly impacted. It's true that we are managing better the situation in Spain. I think in the case of Iberia, it's a process that started a long time ago. And they changed the company to become one of the most punctual airlines in the world. And they are managing better the situation. It's true also that during the COVID, in Iberia, it was possible to maintain all the employment. So they have – the people that they had before, they have the right skills. And in the case, for example, of BA, they have hired a lot of new people for this summer. And you always need a period in order to improve the performance.

But in any case, when we look at, for example, at the number of cancellations in BA this summer, and we compare with the last year, the late cancellations have been reduced 40% flying, 20% more flights. So our ambition is to improve punctuality in Heathrow, in Gatwick, in Dublin. But it's true that the environment is not helping, but we know how to do it, because as you said, we are having very good operation in other airlines of the Group.

And about the platform for consolidation, yes, we continue – we created IAG as a platform in order to consolidate the European aviation because we think this is needed. For that reason, new companies joined the Group in the past, and we always are looking to opportunities to develop the Group. So in the case of Air Europa, it's something that we closed in November 2019. And we are – even with COVID in the middle, we continue trying to do this operation that is critical for the development of Madrid hub that we have seen in these results is a hub that is growing.

And I'm sure it's going to be a big support for the Group in the future. We are still in the pre-notification phase with the European Commission. We are in the process now of submitting the information. We are talking with potential partners for remedies. And we are working, trying to demonstrate the consumer benefits that are going to come with this operation, and also trying to show that Madrid needs a hub to compete with the bigger hubs in Europe. And that the European airlines, we need to have the size to compete also in a global world, where you have the US carriers that are – yes, they have concentrated their market or you need to operate to compete with Chinese carriers, Gulf carriers, etc.

And that, as you said, is something that we are analysing, but we need to wait until the privatisation process will start, probably in October. And at that point, we will determine if it's something interesting for the Group or not.

Operator: Thank you. We will now take the next question from the line of James Hollins from BNP Paribas. Please go ahead.

James Hollins (Exane BNP Paribas): Hi. Good morning. Two for me, please. One on pilots, the other on British Airways. So on the pilots, I guess, for Nicholas, I was wondering in your cost guidance, what you're assuming on BA, Aer Lingus, Vueling wage increases? And any more detail on where we are on those negotiations? And perhaps while we're on pilots, whether the Iberia pilots are agitating for a pay increase despite them having a long-term deal?

And then for Sean, I read a very interesting article in The Sunday Times about – for an interview with yourself. Turning on this platform, you might discuss a little bit more detail on some of those issues you were talking about British Airways, whether it's staff morale, some of the costs required to improve the business back end, front end, etc., a key focus. I'd just love to get a bit more on this platform from you, Sean. Thank you.

Nicholas Cadbury: So James, just starting on pilots. We're – as you know, we've agreed for the next three years with Iberia, our CBA. So that's in a good place overall. And you can see with the operating – the company is operating incredibly well at the moment as well. This is the season where we're in negotiations with most of our other airlines at the moment with our pilots and our cabin crew as well.

So I think right now, it would be kind of inappropriate for me to comment specifically on any of those deals as well. But we're going to be expecting a robust flying pattern over the summer holiday. So really, the guidance I'm going to refer you to is the guidance that we've given you before, which is, we think overall, both employee and our supplier costs and our ownership costs, we're down about 6% to 10% year-on-year overall. So I think that's as far as I can go on that overall.

Sean Doyle: In relation to BA, yeah, I think we are kind of midway through transforming the company. And I think there's a lot of progress being made. But maybe if I structure this in four key components. I suppose the first thing is leadership and the kind of people we have driving the transformation. And we have brought in, I think, a lot of very, very strong leaders to really accelerate the pace of improvement in the business. And more recently, we have a new Director at Heathrow, Tom Moran, who's joined from Thameslink. And he's a very, very impressive and experienced professional who I think will really help with the Heathrow challenges that Luis has spoken about.

I think secondly, is resourcing. We've made significant progress on rebuilding the resources in the company. We've added 3,000 people alone in the first half in advance of this summer. And we've covered about 13,000 more people since the start of the end of the pandemic. So the resources are getting there.

You mentioned morale. I think we are seeing significant improvements in employee engagement. We're putting a lot of work into making sure that people have the right skills, the right training and the right tools to do the job of the day and make sure really that we support all of our frontline operational people in looking after our customers, and that's trending very much in the right direction.

If we look at investments, we have, as Luis mentioned, significant fleet deliveries coming. And the great news is they all come with new products. The Club Suite is very, very well received. I think it's in the top four business class experiences globally. And we now have 55% of our Heathrow fleet with the Club Suite. That will rise to 63% by year-end. And we start reconfiguring the 787-8s and 9s next year. So I think the hard product will work, and that's going very well.

We've also put significant investment into our contact centres. We've had a new site in Delhi, a new site in Bucharest and a new site in Kuala Lumpur. We've increased our call handling capability by about 30% year-on-year.

And finally, it's putting in some foundations on tech and experience. And a lot of work going in to migrate out of our data centres into the cloud, we'll be complete with that next year. And we're redeveloping ba.com and looking to transform the digital experience. And again, we have a new leadership team leading that programme in British Airways. So there's a lot of foundations going in, a lot of progress being made and very exciting developments that will begin to impact the business positively in the next 12 months or so.

James Hollins: Thanks, Sean.

Operator: Thank you. We will now take the next question. One moment, please. And the next question comes from the line of Guilherme Sampaio from CaixaBank BPI. Please go ahead.

Guilherme Sampaio (CaixaBank BPI): Hello. Thank you for taking my questions. Two, if I may. The first one coming back to bookings again. If you could provide some view on how our bookings performing across your key geographies? And if you could provide some granularity on gross bookings and cancellations?

And the second question, if you could update us where your NDC volumes are at the moment? And to what extent these are being channelled through the GDS? Thanks.

Nicholas Cadbury: So just for bookings, we won't go into individual geographies overall. And I think we've already said that we've seen the kind of continuation of Q3. There's been similar trends of Q2 with no weaknesses in there. And we've seen particularly in our core markets of North America, South Atlantic and across Europe continuing to be strong. All leisure destinations, again, continue to be holding up very well. So the only area where we're cut on capacity rather than bookings at the moment is flying East. And that's just because we don't have the number of planes flying across to the same number of destinations, the same number of frequencies that we had in the Far East previously. And that will take us a couple of years to get back up to that sort of level of capacity. So I think that's where it is on bookings.

Next question was on cancellations overall, which you'll see, I think if you look at cancellations overall over the this year versus last year, actually you'll see the level of cancellations overall is down. We're still higher than we would like it to be, of course, but we're still focusing on making sure they continue to come down a little bit.

There was another question as well, which I missed actually.

Guilherme Sampaio: On NDC, if you could update us where are your volumes right now in terms of the overall volumes? And to what extent these volumes have been channelled through the GDS?

Nicholas Cadbury: I don't think we disclose the actual levels of NDS that we do specifically overall, but it's an increasing share of our business overall. And pleased with how that's going at the moment. The direct side has continued to grow as a proportion of our business, both for leisure and for corporate.

Guilherme Sampaio: Okay. Thanks.

Operator: Thank you. We will now take the next question from the line of Harry Gowers from JP Morgan. Please go ahead.

Harry Gowers (JP Morgan): Hi. Good morning. Two questions, if I can. So the first one is disruption. There's been, I guess, increased noise around potential disruption in the last few weeks, especially in places like Gatwick. So how confident are you, you can complete your Q3 capacity without large delays or last-minute cancellations? Are you relatively confident in the system in general or your major airports?

And then just second one, just going back to the corporate travel point. Because it sounds like you think the slower recovery versus expectations this year is probably more cyclical in nature rather than a higher structural impact. So is that the case? Because it sounds like structurally, you still expect those corporate volumes to get back to around 85% of 2019 levels? Thanks.

Nicholas Cadbury: Yes. So I'll just start on the corporate one. I'm not sure about cyclical overall. I think in some sectors, you've seen it probably a bit more cyclical. I think you've seen in the finance sector at the beginning of the year was a bit subdued, levels of transactions that were going on actually, but we've seen that recover a bit lately overall.

So I think it's just a steady growth back. It's particularly correlated to when people are working from home and as they're coming back into the office as well. So you've seen Spain recover almost back to 100%. And if you go back to offices in Spain, they're back to almost 100%, where if you go to Ireland, it's still kind of Mondays and Fridays are work from home. So it's kind of correlating with that at the moment.

And you'll see in the UK, as work from home is going to continue to – work from office is continuing to improve. And so, it's going to be improving with that base as well. And as we said, we're starting to see Q4 very early, but we're starting to see encouraging signs from bookings on the corporate travel.

Sean Doyle: Just on the disruption in the UK airports. We're in 29th of July, so we're in peak summer. And we've already been in peak summer as well in June, which is a very big period for North Atlantic. So I think July, we've seen improved reductions in disruption compared to June, and we expect that to carry on as we head into August.

I think Gatwick, our operation is obviously smaller than some other operators out there. And I think we're not seeing the level of disruption for the BA operation than Gatwick as you may see overall at the airport, but that has some specific challenges in relation to air traffic control capacity that we monitor closely.

At Heathrow, as we said earlier, I think our resourcing picture is much better. We obviously are vulnerable to the external environment and the airports we do fly to the Northern Europe as well are seeing similar levels of challenge. But we are focusing on the things we can control, particularly supply chain, technical resilience and resourcing. And we do see them be stable and getting better as we look into August.

Harry Gowers: Okay. Thank you.

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

Andrew Lobbenberg (Barclays): Hi there. Can I ask, let's just say at Gatwick and inquire what your attitude is towards the ambitions of the airport to get their second runway there?

Then can I have a couple on the North Atlantic, please? Obviously, there's great demand and your product is great. But part of the thing that's helpful is that Norse is a great deal smaller than Norwegian was before the pandemic. But next year, Norse is expecting to take five 78s back from Air Europa. And meanwhile, we've got the Valiant people at Global Airlines expecting to put four A380s from the North Atlantic from Gatwick. What do you think about the ambitions of these disruptors?

And the final one on the North Atlantic is how do you see the development at American as a partner, as a feed provider for you in the Northeast US, given that the partnership with JetBlue has fallen down? Thanks.

Luis Gallego: Okay. So I will start with the North Atlantic situation. 75% of the market now in the North Atlantic is between the three joint businesses that we have. And if we look at the traffic between Europe and US; in the second quarter, the capacity was minus 2% versus 2019. In the third quarter, it's going to be plus 1% versus 2019. So the traffic even with the exit of Norwegian has recovered. It's true that when we look specifically to the London Heathrow US market, the situation is that in the second quarter, we have 11% more capacity than we had in 2019. And in the third quarter, we are going to have 13% more capacity. And it's true that what is happening is part of the traffic from Gatwick is going to Heathrow.

So when you see London, considering together Heathrow and Gatwick, we have in the second quarter, minus 1% of capacity, and in the third quarter, we expect plus 4% of capacity. British Airways also has less premium seats that they had in 2019 because of the retirement of the 747, and we have other competitors that they are adding more premium seats.

But when we see the situation with British Airways plus American Airlines, we are slightly above the market share that we had in 2019. So that's the situation that we have in the market.

Talking about American and JetBlue, we are sure that we can continue working with American and trying to develop the network without this agreement between American and JetBlue. I don't know if you want, Sean, to add something?

Sean Doyle: Yeah, I think the Northeast is an important market for us. But Andrew, being a hub carrier-based Heathrow and having hubs at Madrid, we can drive an awful lot of traffic behind our gateways and feed it into terminating traffic in places like Boston and New York. So we've never really built our model on huge amounts behind feeding those markets. But I think American does give us a really strong frequent flyer presence, and it gives us a good feed over Philadelphia as the Northeast Gateway, as well as connections over Chicago and Dallas and the Southwest.

Andrew Lobbenberg: Yeah. Wait a second.

Sean Doyle: Yeah, I think that we've seen Gatwick obviously launch their plants and they're seeking DCO. We'll evaluate that closely. I think two or three considerations will come into play. One will be cost, and I think they're making a pitch that it is a very cost-efficient form of airport expansion. I think secondly, it would be wider community impact. And again, I think the numbers and community impact look very manageable in terms of noise envelope. So we'll evaluate it.

Gatwick is an important gateway for us. And I think the case is one which I'm not surprised they've made and could give us opportunities in the future.

Operator: Thank you. We will now take the next question from the line of Neil Glynn from AIR Control Tower. Please go ahead.

Neil Glynn (AIR Control Tower): Morning, everybody. If I can ask three quick ones, please. The first one following on from some of the comments on staffing and resourcing. And the headcount in the first half of the year was actually higher than pre-pandemic while capacity was obviously a little bit lower. So just interested on the outlook for the future there and how you think about productivity on the labour cost side going into 2024, notwithstanding obvious negotiations, of course?

Second question on Iberia, a very impressive performance, of course. Could you give us a bit of detail in terms of the strength of flows from Europe versus LATAM originating, which may be helping their long-haul business? And to what extent is the capacity deficit on Europe, LATAM crucial to Iberia's current performance?

And then the final question, unless I missed it, I don't think you've confirmed a Capital Markets Day date yet. If that is the case, could you update us on your thinking as to when it might be appropriate? Thanks.

Nicholas Cadbury: So just on the Capital Market Day, well, yes, we're still focused on that. We're just focusing on delivering a successful summer first, and then we'll come back and announce that as soon as we get out of the summer I hope.

Luis Gallego: Okay. Talking about the hiring and productivity, your first question. So across the Group, we recruited 17,000 people last year. And this year, we are in the range of 7,000 people. We have enough people to support the operation. As I said, the problem that we are having is more problem linked to the difficult environment that we are operating within.

Of the 7,000 people that we have hired in 2023, 4,000 people were in BA and 1,800 people in Iberia. So what you said is critical, that we need to increase our productivity in this environment of higher cost because of the inflation we are having, and that's why we are trying to close in the different agreements that we are negotiating right now. The best way to reduce the cost for sure is productivity and also utilisation of the aircraft. And that's something that we are doing with Iberia, they are doing very well.

With less aircraft than they had in 2019, they are increasing the utilisation. And because of that, they are managing the cost very well. In a similar way, Vueling, they are doing that on the short-haul. I don't know, Fernando, do you want to comment about the question about traffic at Iberia?

Fernando Candela: Yeah. The recovery in the Latin America market has been driven basically because the ramp-up in the capacity in Iberia has been stronger than our competitors in the last month, in the last years. So the capacity is 98% versus 2019, significantly ahead of our competitors that are about 60%, 70%. So that's one of the reasons, because we have recovery and are performing very well in the Latin America market.

Nicholas Cadbury: Yes. I think you've seen actually that the EU capacity actually is the one that's suffered overall. EU to South America – actually, the trip to South America has remained fairly strong actually. Yes. We're seeing particularly strong bookings coming from Latin America and from North America at the moment into Iberia and into British Airways.

Luis Gallego: Yes. And also one thing that is helping Iberia in the results apart from doing a very good job. The customer base is more exposed to VFR traffic and to the leisure segment. And Madrid and Spain, they have increased their capacity for tourism. So we have more than 50% more luxury hotels rooms in Madrid if we compare with the situation we had ten years ago. That's helping. We have a lot of people that they are coming to Madrid to live. And that's something that is also increasing premium leisure traffic that was not very strong before.

Operator: Thank you. We will now take the next question from the line of Conor Dwyer from Morgan Stanley. Please go ahead.

Conor Dwyer: So it sounds like visibility is reasonably good for the rest of the year and certainly better than earlier when you initially gave an EBIT guided range. So I'm interested to hear your thoughts on why not giving an explicit guidance range now. Is it maybe perhaps elevated recession concerns through the winter? Any information that would be very useful.

And the second question is more for Sean. So the steps you talked about that were helpful in terms of BA turnaround. But I was wondering if you could elaborate on development for the BA app in terms of the customer experience? So what sort of changes should we expect there, and any sense of timing on that? Thank you very much.

Nicholas Cadbury: Yeah, you're right. We've got good visibility into Q3 at the moment with 80% booked. So we've got less visibility into Q4 than into Q3. But actually you saw, as we said, it's looking promising so far with no signs of weakness overall.

I guess just in terms of guidance overall, we're keen to get people focused on the medium to longer term on our performance overall, delivering good returns and good margins over that period and less on the kind of short-term performance overall.

I mean I think we've given good outlook in terms of consensus. It's just under €3 billion at the moment. And those have come out more recently around about €3 billion or a little bit higher. We've had a good Q2. And I think we've shown you hopefully that there's Q3 bookings and good Q4 bookings with no signs of weakness. And we've given you good cost guidance as well at the moment.

So I think we've given you, hopefully, all the components to help you to make your own judgments on the back of that.

Sean Doyle: Yeah. In relation to the BAF, we've built up a team of about 200 tech developers headed up by a guy called Mark Locke[?]. Mark has joined us from Tesco. So we're aiming to launch what I would call a minimum viable product prototype towards the end of the year and probably trial that on one of our short-haul businesses potentially at Gatwick.

But we will be looking to transform how we merchandise in retail and move to more shopping basket capabilities. We'd also like to incorporate dynamic pricing far more effectively than we do today. Also make sure that the digital experience is very similar and gives you the same booking flow and product experience, no matter what channel you book through, whether it's through dot-com and web, Mobile app or even using a contact centre, the same offering and the same product is offered up to you.

We also want to integrate two very important components. One would be ancillaries, so that they are available in terms of upselling. And secondly, loyalty, to make sure that that's far more easily convertible in the booking flow than it is today. So it's very exciting. I think we're midway through the development phase. And towards the end of the year, we'll be able to share more about what we are doing in that space.

Conor Dwyer: Great. Thank you very much.

Nicholas Cadbury: Thanks, Conor.

Operator: Thank you. We will now take the next question from the line of Tobias Fromme from Bernstein. Please go ahead.

Speaker: Good morning. Tobias from Bernstein here. Two for me, please. The first is on Air Europa. I appreciate you've answered it to a little extent. But maybe could you shed some colour around what would be possible remedies from the purchase of Air Europa? And also, do you have any steer on annual profit expectations?

And then secondly, the departing London Heathrow CEO recently said that, first of all, corporate travellers are now accounting for only 30% of traffic, down 4 percentage points versus pre-pandemic. But he also said that there might be a softening in leisure demand going into H2 2023. Does this match your expectations? Thank you.

Luis Gallego: Okay. So I'll answer the first one about Air Europa, and maybe, Sean, you can comment about the second one.

So Air Europa, as I said before, we are still in the pre-notification phase. We are engaging with potential partners. The first time we tried to do this, we presented some partners. We had some challenge on that. So now we are trying to identify more partners that can be satisfactory for the European competition authorities. But at this time, we are not disclosing who they are.

But I think, as I said before, the most important part is to try to demonstrate that this operation is going to be good for the customer. It's going to be good for Madrid hub for developing the network and in order to compete in Europe and in the global world.

Nicholas Cadbury: Sorry, I missed the question on Heathrow.

Speaker: Yes, sorry. No worries. So actually, it's the departing Heathrow CEO who said that corporate travellers are down 4 percentage points versus pre-COVID in terms of overall traffic. And then secondly, he also said that there might be a softening in the leisure demand in H2 2023. And I was just wondering whether this is in line with your expectations as well?

Nicholas Cadbury: Well, I think we've covered the corporate travel that we are seeing that down overall. So again, we say it's been flat over the last quarter, but we do see some very early signs for Q4 that it's picking up a little bit, but we'll wait to see how that comes through in Q4 overall. And in leisure, we're not seeing that measure softening out.

Luis Gallego: I think in leisure, all the surveys and credit card spending reports so that consumers after the COVID are giving priority to holiday traffic over other areas of spend. So I think it's more important now after COVID taking annual vacation than it was before. The segment of visiting friends and relatives, as I said before, in some markets is very, very resilient. It was even during the pandemic.

To be honest, we see that the situation, for example, in the UK, the economic situation now is a little better. So employment levels in UK are high. And because of that, and recent developments in economy, we don't see any impact in the leisure traffic.

In the Spanish and Irish economies, they are also in good shape. They have lower levels of inflation, and a higher GDP, if you compare with other countries. And I think also that in the case of British Airways, the demography that we have is different to other carriers. So I think we are more exposed to customers with high average incomes. And what we see is they are also less affected by mortgage rates that are increasing.

The demographic of the customer is different - if we compare with other competitors, we have 15% of our customers over 65 years of age. And that customer profile is less impacted by the rising of mortgage costs, for example. So leisure intakes in British Airways are 115% in revenue and 93% in volume if we compare with 2019.

The held position remains strong. It's particularly strong in the short-haul intakes, where we have 121% in revenue versus 2019 and around 100% in volume.

Sean Doyle: And also if you look at the BA customers, about 65% of them come from London or Southeast as well, which tends to be a wealthy part of London, and a good proportion come from the main wealthy parts of London as well. And no one is immune from a downturn, but I think we do feel that they should be protected more than most.

Speaker: Great. Thank you.

Operator: Thank you. We will now take the next question from Muneeba Kayani from Bank of America.

Muneeba Kayani (Bank of America): Good morning, everyone. So my first question is just on your medium-term outlook. I think in the past, you've said that you expect margins to kind of be at the lower end of the 12% to 14% range you were doing pre-pandemic. But if I look at 2Q, you're actually 2 percentage points above 2Q of '19. So are you just being conservative? I heard you on some of the investments that are needed on the business. But if you could just revisit that range and how you're thinking about that and risks to upside downside?

And then secondly, on your balance sheet. So leverage at 1.5, net debt actually at similar levels to where you were at year-end 2019. So how are you thinking about dividends and/or share buybacks at this point? Thank you.

Nicholas Cadbury: So just in terms of medium targets, the company has operated at kind of 12-15% margins over a number of years before the kind of COVID hit. You're right we had a very good margin in Q2. Q2 and Q3 tend to be our kind of highest margin periods and Q1, Q4, slightly softer and softer demand for travel globally on those areas.

So it tends to dilute that over. So you can see our margins just below 10% for the first half overall. So we think kind of towards the bottom end of that is probably a good place to aim for. We think that takes account of probably the higher inflation that we've had across the industry in that and actually also kind of making sure that we're investing in our customer and our IT, in particular, at a good pace as well. So that's the reason why we kind of going towards that end as well.

In terms of our balance sheet, yeah, the good performance we've had in profit has really enabled us to deleverage our debt faster than we probably could have imagined a year ago, which is very good, very pleasing overall. You can see that the net debt, as you say, right now is similar to what it was in at the year-end in 2019. That's a bit kind of not quite looking at the same thing. It's a bit deceptive that because you've got working capital movements, and you tend to have kind of a €2 million adverse working capital movement in the second half of the year. So our net debt will go up from this level.

But as we said, we think it will be lower than it was at the year-end. So we reduced net debt by about €1.4 billion last year, and we think we'll get a good reduction again this year as well. So continue to be in that trend.

I think our priority at the moment in terms of when you think about dividends and share buybacks, we're very focused on getting back to paying a dividend for our customers. But the near-term priority is, one is about continuing to pay down that debt. So we make sure we've got sustainable debt leverage within the investment grade.

And the second thing that we've talked about is actually investing in our customer and particularly around about getting back to the same levels of fleet that we had in 2019, and we've talked about €4 billion of capital spend over the next few years to get to that as well. So they are the key priorities that I think our shareholders will want to do as well.

What the debt delivering does though, it does allow us to think about dividends sooner as well, so well, that comes high at the front of mind. But at the moment, our priority is about deleverage and those capital spends.

Muneeba Kayani: Thank you.

Operator: Thank you. We will now take the last question from the line of Ruairi Cullinane from RBC Capital Markets. Please go ahead.

Ruairi Cullinane (RBC Capital Markets): Yes, good morning. I had a couple of questions on the unit revenue trends, which you show on slide 14 of your presentation. And firstly, very strong performance in Europe since Ryanair particularly called out the bank holidays in the UK. I was wondering if you had a particularly strong performance in the UK or in the month of May?

And then secondly, Africa and the Middle East lagging in terms of year-on-year gross growth. Would you just attribute that to the above average capacity growth or anything else? Thank you.

Sean Doyle: Yeah. I think we did see an improvement in leisure unit revenue in May as a result of having the additional bank holiday, but that would have been consistent of what others were reporting.

I think one of the things which is worth noting year-on-year in Africa, Middle East, we had kind of restored operation to those markets last year, and they have performed very, very well because of the scale of VFR traffic that they're exposed to. And I think we did see probably a quicker recovery last year at those markets compared to what you would have seen in the North Atlantic.

But I think the unit revenue comparisons generally stack up well compared to the rest of the network. It's just that the baseline was better last year compared to this year.

Operator: Thank you. I would like now to hand back over the conference to CEO, Luis Gallego for final remarks.

Luis Gallego: Thank you. Thank you very much, everybody. And I hope that you can have some rest this summer. We'll see you after that. Thank you. Bye-bye.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]