2023 Full-Year Results

Thursday, 29th February 2024

Stuart Morgan

Head of Investor Relations, IAG

Welcome to the IAG Full Year 2023 Results. Presenting today are Luis Gallego, our CEO, Nicholas Cadbury, our CFO, and we got members of the management committee here.

And on that note, I will hand over to Luis.

Luis Gallego

Chief Executive Officer, IAG

Thank you very much, Stuart. Good morning, everyone. I'm very pleased to report that we have delivered a very good performance in 2023. We have seen the return of a strong demand for travel across all our regions, and in particular in the leisure market. We have delivered a full-year operating profit of €3.5 billion, up from €1.2 billion in 2022, and even ahead of the €3.3 billion that we made in 2019. This also represents an operating margin of 11.9%, again strongly ahead of last year and close to pre-COVID levels.

We have generated significant free cash flow of €1.3 billion. This has delivered a strong balance sheet with leverage now below our medium-term target and has allowed us to de-risk the business further through the active repayment of the expensive financial debt.

And we have a positive outlook for 2024. We are confident in generating significant free cash flow. Disciplined capital allocation will allow us to maintain our strong balance sheet, and we remain committed to the creation of sustainable shareholder value and returns.

Our very good results are based on having the right strategy, as we laid out in our Capital Markets Day last November. In 2023, we increased our capacity by 23% compared to 2022 and in particular, we invested in our North Atlantic and South Atlantic market. Building on the robust underlying demand, our transformation initiatives have delivered the strong operating profit and margins that I have just spoken about.

Our Spanish businesses have performed particularly well, delivering €1.4 billion of operating profit, driven by Iberia's strong performance across its network and Vueling's leading role in Barcelona. British Airways's transformation and, in particular, its focus on operational improvement, is starting to deliver positive results. IAG Loyalty has also grown its profit by 70% to £280 million, adding 4.9 million new members during the year and launching new features and partnerships to enhance the value proposition for its members.

We continue to invest in our people who are critical to our success, with over 13,000 new hires in 2023. And we have also made significant progress on our sustainability agenda that, you know, is a key priority for us and all of our stakeholders.

We have reduced our carbon intensity by 3.6% year-on-year, and this week we announced a new contract. That means that we have now secured one-third of our SAF target for 2030.

Our strategy underpins our medium term financial target. This year, we have already delivered a strong result, but there is much more to come. Firstly, our operations are not where they should be at some of our hubs and British Airways, in particular, is investing to improve its operations. Good on time performance has a very strong correlation to customer satisfaction, but also to cost efficiency and margin improvement.

Our transformation programme of over 1,000 revenue, operational, customer and cost initiatives across the Group will also drive margin improvement and create a better and more resilient business. Of our asset-light businesses, the expected growth of Loyalty will boost Group margins as well as free cash flow. We are investing in all this in 2024, which means slightly higher cost in the year, but it will drive longer-term sustainable improvement. Margin improvement drives free cash flow and along with our disciplined capital allocation framework, this supports investment in the business and also a strong balance sheet.

And I will now hand over to Nicolas, to take you through the numbers.

Nicholas Cadbury

Chief Financial Officer, IAG

Thank you, Luis. In this section, we will review the financial performance of IAG for last year, highlighting last year's key revenue and cost drivers, and how we generate significant free cash flow and how we strengthened our balance sheet. I'll also remind you of how we carry out our capital allocation.

Let's start with the key metrics for 2023. As you can see, we've recovered significant capacity compared to last year, with a 23% increase in ASKs. At the same time, we've also improved our passenger unit revenue, which was up more than 8% year-on-year, and reduced our non-fuel unit cost by 4.4%. As a result of these revenue and cost metrics, we've delivered a strong operating profit of €3.5 billion and a margin close to 12% in the year.

We also generated significant free cash flow of €1.3 billion, after investing €3.5 billion of capital in improving our business. We further reduced our net debt to €9.2 billion, and our leverage ratio stood at 1.7x – significantly lower than this time last year. These results demonstrate the strength of our business and our brands, alongside our disciplined approach to capital allocation and cost management.

This slide is a breakdown of our performance by business. As you can see, all of our airlines and our Loyalty business delivered a significant improvement profit performance during the year.

Aer Lingus continued developing its North Atlantic and short-haul network, helping to improve its profits to €225 million and a margin of 10%.

British Airways's profit increased by over £1.1 billion to £1.4 billion as British Airways continued to restore capacity. British Airway delivered a strong performance in unit revenue, particularly driven by leisured demand, and also reduced its non-fuel costs, delivering a margin of 10%.

Iberia continued building on its strong performance in 2022, and delivered good results across its airline, its maintenance and its handling businesses. Revenue was particularly strong, resulting in profit – particularly strong, resulting in profit more than doubling to €940 million and a margin of 13.5%.

Vueling benefited from the strong leisure demand with very good passenger revenue growth and delivered nearly €400 million in operating profit and a good margin of 12.4%.

And lastly, our Loyalty business had benefited from the growth in our airlines and its partnerships, reaching a record profit of £280 million. Loyalty's high margins declined slightly year-on-year as previously guided as we reinvested to drive higher customer engagement and higher profits in the future.

This next slide shows our results at profit after tax of €2.7 billion. I would just draw your attention to our finance income that benefits from the rise in interest rates during the last year.

We showed this slide in our Capital Market Day last year. It shows how we have both high-quality and diverse earnings. The left-hand side shows the diversity of our customer revenue mix by business and leisure customers as well as by industry sector. As you can see, leisure and direct customers are 80% of our revenue and were up 30% year-on-year, as we benefited from the strong demand.

Business revenue was 20% of our revenue and was up 32% year-on-year. Within this business segment, we have had a diverse exposure to different industry sectors with no reliance on any one single sector.

On the right-hand side, it shows the contribution and recovery to our profits from each of our businesses. You can see how our Spanish businesses are significant profit contributors to the portfolio, accounting for €1.4 billion and around 40% of our profit, up from around 20% in 2019. So very good performance. It also shows the opportunity in British Airways who were only at 90% of 2019 capacity with further capacity recovery coming this year. I would also highlight that IAG Loyalty has substantially increased its contribution to group earnings to 9% of profit, compared to about 6% in 2019.

Turning to our revenue performance, this slide shows our reasonable performance in terms of capacity and passenger unit revenue for the last quarter and for the full year. Overall, it was a very good year with strong summer performance and the fourth quarter performed in line with our expectation against a tough comparative set in Q4 last year.

The fourth quarter is currently more seasonal due to the lower mix of business travel, and we have deployed significant capacity over the year that is still maturing.

In North America, we had an excellent year, growing our capacity by 23%, and our PRASK by nearly 4%. In the fourth quarter. We continued to deliver planned capacity growth through all our long-haul airlines. That is maturing. It is early in the new year, and I'm pleased that we are seeing a positive North Atlantic booking trend into the second and third quarter.

In Latin America and the Caribbean, we again had a very strong year with capacity up 19% and PRASK up 8%, with strength in leisure demand and the continuing links growing between Spain and South America. We naturally saw a softer PRASK performance in Q4, as the increase in new capacity takes time to mature. I'd also point out that our PRASK in the region is up around 35% since 2019.

In Africa and the Middle East and the South Asia, we grew our capacity and passage and unit revenue. We understandably saw a slowdown at the end of the year in some of our routes to the Middle East. We're recovering our capacity in Asia Pacific from a low base and are at around 40% of our 2019 capacity. Our capacity increase was mainly driven by the resumption of our routes to Beijing and Shanghai from British Airways.

Overall, we're very pleased with the results this year that demonstrate our ability to leverage our network and partnerships to capture the opportunities in our strong markets. And Luis will come and just talk later about some of the positive booking trends that we're seeing now.

Just turning to costs, our non-fuel unit cost improved 4.4% on last year. We benefited from the increase in capacity, our transformation programme and our efficient new aircraft, which are all helping to offset both inflation and the investments we are making to improve our customer proposition and in our IT systems.

We were a little low below our previous guidance of around about 6%, as we had higher cost of sales related relating to higher maintenance activity and revenues in Iberia, and we also had some more disruption, particularly weather related, than anticipated, reducing ASKs in the last quarter. I would note that our airline non-fuel CASK was up – was better by 5.2% year-on-year,

For 2024, we expect our non-fuel unit cost to increase slightly year-on-year, as we continue to invest in resilience, IT, customer enhancements and continue to offset inflation through our transformational initiatives.

This slide shows our balance sheet and liquidity position at the end of 2023. As you can see, we significantly strengthened our balance sheet during the year by repaying around €4 billion of expensive non-aircraft-related gross debt, including €3.3 billion of early repayments of UKEF and ICO loans and the €500 million of IAG unsecured bond which matured at the beginning of the year. This helped restore our investment grade credit rating from S&P for both IAG and for British Airways. We also maintain a very good liquidity position by replacing the UKEF loans with more flexible facilities.

At the end of 2023, we had net debt of €9.2 billion, a reduction of €1.2 billion year-on-year, and a leverage ratio of about 1.7x, slightly below our target range of 1.8x.

This slide shows the results of our active balance sheet management last year, as a result of which leaves us with a very manageable debt repayment schedule, having removed the spike that we had in 2026 from the UKEF with no significant maturities this year. And also I just mentioned that we also don't expect any kind of pension payments as well this year.

We've added this new slide to help explain how we generate positive free cash flow in 2023 and how we intend to do so again in 2024. As you can see, we generated free cash flow of €1.3 billion after investing €3.5 billion in CAPEX in 2023, driven by our strong operating profit growth and this is before funding income.

From 2024, we again expect to generate significant free cash flow as we benefit from further capacity recover and lower interest payments. Importantly, following the expensive debt early repayment. We will also continue investing in the business, and our gross debt is expected to be around about €3.7 billion, that I will come to later. I'm not going to go through each line, but this should really support our confidence in the year's free cash flow and our ability to create value for our shareholders in the future as well.

This slide shows our fuel hedging position for 2024 and into 2025, as well as the sensitivity of our fuel cost to different jet fuel price sensitivities. As you can see, we've hedged around 65% of our fuel requirements for 2024, and are a little over 80% hedged for Q1. This gives us some protection against the recent fuel price volatility. You can also see the sensitivity of our fuel cost to different jet fuel price scenarios, ranging from €730-980 per metric, which I hope helps you with your modelling.

As set out at the Capital Market Day, this slide shows our gross capital expenditure by category for 2023 as well our guidance for 2024. As you can see, we invested €3.5 billion in '23, slightly lower than planned, mainly due to the timings of aircraft delivery and pre-delivery payments and some other timing difference relating to maintenance and spare engines.

For 2024, we expect to increase our gross capital expenditure to around about €3.7 billion as we invest in 20 new aircraft deliveries in our product offering, for example, the continuing rollout of our new club suite at British Airways and upgrading many of our lounges and continuing to modernise our customer-facing and our back end IT systems and of course, purchasing ETS credits which go through CAPEX.

As we announced in November last year, we expect our gross expenditure to be around about €4.5 billion on average over the next three years. The increase from 2024 levels reflects the expected introduction of the Boeing 777-9 in 2026, the increase in deliveries of the Airbus XLRs, the refurbishment of the profitable A380s and the higher ETS purchases that will be required to make. These investments will enable us to continue to develop our hubs and networks, enhancing our customer experience and improving efficiency to support our long-term growth and profitability.

Just briefly on ETS, just to help you, the cash flow relating to buying the ETS credits does appear within our CAPEX figures as we're buying in – buying forward. As you will have seen in the cash flow slide earlier, the cash we spend on ETS doesn't appear on the operating cash flow as the amounts that we have charged to operating profit is then reversed through provision releases, overall. And I only just want to point this out to make sure that you don't double count the ETS charge in CAPEX and in free cash flow.

I'd also just point out that this capital is gross before the benefit of our aircraft financing arrangements. We don't show net CAPEX as many others do, as net CAPEX only takes into consideration sale and leaseback financing, and we have a far wider choice of funding than this, and we decide the best type of funding on several factors, including the best rates and the best terms in the market at the time.

We funded the vast majority of our aircraft CAPEX last year, and we expect to continue to do so.

This page just shows our fleet size by year and the aircraft deliveries in 2024. We will receive 21 new aircraft this year. We will take delivery of seven wide-bodied aircraft and ten narrow-bodies, as well as taking the delivery for the first time of three Airbus XLRs towards the end of the year. Also, we will receive one new A330 for LEVEL, which will be a direct lease, so will not require capital investment. These new generation aircraft will graph fleet to 592 and will help us to increase the proportion of new-generation aircraft, which at the end of last year represented 31% of our total fleet. You can see that a few of our deliveries are yet to be assigned to airlines and sit under IAG in the chart, as we wait upon the outcome of local labour negotiations. And as you know, a disciplined approach towards capital allocation is critical to the Groupas part of the success of IAG.

For my last slide, I would like to remind you about the way we think about capital allocation, a fundamental aspect of the IAG model to drive sustainable value creation.

As you know, we've had a robust and disciplined approach towards allocating capital for many years. Our first priority is to make sure we have a strong balance sheet, and with our cash generation last year we have delivered on this. Secondly, we are investing in a more efficient fleet, strengthening our position in our core markets and hubs, and targeting future growth opportunities. We are building our competitive advantage, investing in our customers, delivering the best products and services and future digital experience. And we're being one of the leaders in the aviation industry on sustainability.

And lastly, our commitment to paying dividends and returning excess cash. We're pleased with the operational and financial performance in the business, and we've strong conviction in the free cash flow creation for the Group for this year and beyond. And if this performance is sustained, we look forward to resuming returning excess cash to our shareholders in the near future.

On that point, I'll now hand back to Luis.

Luis Gallego

Chief Executive Officer, IAG

Thank you, Nicholas. This slide is a reminder of the strategic framework that we set out at the Capital Market Day. Now, I will take you through each of the strategic priorities, which, we believe, will deliver the best outcome for our shareholders and also for all of our stakeholders.

So our first strategic priority is to grow our global leadership position, and the biggest market for us is the North Atlantic, where our geographic and cultural ties give us a structural advantage.

BA is the clear number one carrier across the North Atlantic from Europe. By the end of 2023, BA was almost back to pre-COVID levels of total North Atlantic flying, with further revenue opportunities to come as it fully recovers its premium capacity. Iberia is investing in maturing its capacity, for example, to Washington and Dallas. With arrival of their A321 extra-long range, at the end of this year, they can add frequencies and secondary city destinations in a efficient and lower-risk way. Aer Lingus has been growing its US network as the airline with the highest us point-of-sale in the Group.

We mentioned that at the Capital Market Day, that level is delivering profitable long-haul, low-cost growth and is fantastically positioned in the Barcelona market. During the year, they expanded their US network, and will continue to do that in 2024.

We are similarly investing in the attractive South Atlantic market where economic, cultural and social links are driving a strong growth, in particular to Spain. Iberia's strategy in Latin America is to focus on its core markets, with multiple frequencies every day of the week to cities such as Bogota and Mexico City. This can be done far more efficiently than before the

COVID with a modern 350 fleet and also to be complemented with the 321 extra-range. And we expect the proposed Europa acquisition to be settled by the end of this year, which will unlock further network opportunities to the Group.

In short-haul, we are well-positioned with our portfolio of brands, and our disciplined approach to capital allocation give us the flexibility to direct investment within this portfolio, depending on whether the right conditions for sustainable, profitable growth exist.

Our full-service carriers focus primarily on maintaining a network to fit traffic to our hubs for long-haul connections. At our mainly point-to-point carriers, Vueling has grown efficiently through higher aircraft utilisation and through deseasonalizing its schedule through this winter. Iberia Express continues to be a great business with tight cost control, excellent punctuality and attractive customer base and network. Euroflyer has had a good first year and now has 20 aircraft focused on the point-to-point market from Gatwick. Similarly, Cityflyer is focusing on its leisure flying from London City. Finally, as we anticipated in the Capital Market Day, we are considering short-haul options with LEVEL, once it has established its AOC, giving the Group more flexibility.

And returning to the point I made at the beginning of this slide, the flexibility we have with our aircraft allocation means that we need to reach sustainable labour agreements with our pilots, in particular Vueling and Aer Lingus, in order to make further investments. In addition, Iberia and Iberia Express, they are working in a new agreement to unlock further growth opportunities.

This slide is mainly to remind you that our partnerships allow us to grow in a capital-light way. Through the Qatar business, the world's largest joint business, the Group has access to an attractive network flying to Asia and Africa. It's also supporting additional cargo volumes. At the same time, Iberia and British Airways are slowly recovering the Russian networks.

On this slide, we have set out our growth plan for 2024, which is strongly aligned to the market strategy we cover in the Capital Market Day. British Airways was at the end of 2023 at around 90% of its total pre-COVID capacity, and is rebuilding its network as new wide-body aircraft are delivered, replacing the 747s that, as you know, they were retired in 2020.

Iberia's growth is very focused on strategic opportunities and has been driven by efficient utilisation of their new 350 aircraft. Aer Lingus has options in both long-haul and short-haul, but as I said before, allocation of aircraft to deliver this growth will depend on reaching an agreement with their pilots. Vueling is also planning its growth around higher utilisation with no planned new aircraft deliveries in 2024 whilst using lease aircraft to cover for its ETS maintenance programme which is at its peak with the winter season. LEVEL has one additional long-haul aircraft this year to provide increasing operating efficiencies as well as focusing on core leisure flying.

And finally, you can see from the chart at the bottom, our capacity growth is mainly based on adding frequencies to existing routes which is much more supportive to unit revenues.

The second of our strategic priorities is to strengthen our portfolio of world-class brands and operations. Each airline is very strong in their core market and is focusing investment in the parts of the customer journey that the customers value most.

Aer Lingus has a specific focus on providing a great service supported by digital propositions such as self-service and disruption management.

At British Airways, this investment is in a premium proposition across all its cabins, so, for example, it's continued to roll out the club suite, which we expect to be 69% deployed in the long-haul fleet at Heathrow by the end of this year, but also digitally supported proactive customer care on board for passengers across all their cabins. British Airways's new website and app will be delivered later this year as part of its wider commercial replatforming, which will deliver benefits over the next few years.

Iberia's customers increasingly demand a premium service, so it's also rolling out a new cabin interior, particularly on its 350 fleet. And at Vueling, the team is investing in a seamless digital experience for all customers with investment in biometrics at the airport, self-service capability and broader digital customer care.

Efficient operational performance is an essential part of the customer journey. All of our airlines have had challenges around air traffic and airport infrastructure, like most European airlines. Despite this, Iberian and Vueling are two of the most punctual airlines in the world, and they have continued to perform very well in 2023. However, it remains a huge focus at British Airways and Aer Lingus.

At the Capital Market Day, we set out in detail BA's plan to improve this, and they have seen some good recent improvement in 2024, reaching nearly 80% OTP in January, with investment in place for the summer to sustain this improvement.

As I mentioned earlier, our transformation programme will deliver more efficient, more resilient and more sustainable businesses. It is embedded in everything we do, focusing on customer and innovation as well as efficiency, as you can see on the slide. So the overall impact will be to drive higher margins.

On customer and innovation, the biggest project is the improvement to BA's commercial platforms, as I just mentioned. Firstly, on the customer-facing elements such as the www.ba.com website and app, but over time we will be able to offer richer content and more dynamic pricing. We have similar initiatives at our other airlines, such as better booking journeys at Aer Lingus, greater content personalization at Iberia, and driving similarly through digital at Vueling.

On the efficiency side, there are cost benefits from digitalization and automation. We are also focused on procurement savings in key categories such as airports and engineering. As we discussed earlier, British Airways is also driving significant transformation change in its management of disruption.

Our Loyalty business continues to grow successfully driving engagement through increasing activity around Avios collection and Avios spend. We added 4.9 million new members in 2023, who are now part of the value chain. 36% more Avios were issues in 2023 than in 2022, as members benefited from more opportunities for collection, and as we expand our airline and non-airline partnerships – and we are creating more opportunities to spend. During the year, we offer Avios-only flights to 11 popular destinations which have seen high levels of demand. We also see a big opportunity to develop BA Holidays as part of the ecosystem. Today, 20% of BA Holidays have included our customers using Avios point. We will therefore further integrate the BA Holidays business into the Loyalty virtual cycle to accelerate both Loyalty and BA's Holidays growth.

Today, IAG and its businesses employ 72,000 people, all of whom are critical to our success. In 2023, we made 13,000 new hires, building capacity, resilience and flexibility to our Group, but also demonstrating that our brands are powerful and attracting talent as well as customers. We are investing in training and development and in particular we have invested in pilot cadet programmes at BA, Iberia and Aer Lingus. Importantly, we continue to work towards establishing multiyear wage agreements across the whole Group which will allow us to invest with confidence. This is now the case in most parts of IAG.

We have also made significant progress on our sustainability agenda, which is a key priority for us and our stakeholders. We have reduced our carbon intensity by 3.6% year-on-year and more than 10% down on 2019 levels, thanks to our investment in new-generation aircraft, our operational efficiency and our use of sustainable aviation fuel. IAG is one of the largest users worldwide of SAF, purchasing 12% of all globally-produced SAF in 2023. Thanks to the contract we signed with the eSAF producer twelve earlier this week, we have now secured one-third of our staff target for 2030, which will require approximately 1 million tonnes of SAF.

We continue to work towards our goals to make this a sustainable business for the long term. Looking forward, we have seen a positive start for 2024. The first quarter is 88% book in terms of expected revenue, and the first half is around 58% book. This is ahead of where we were last year. Demand remains particularly strong in leisure, including premium leisure, and we are seeing encouraging momentum in corporate travel, particularly in yield.

Moving on to our outlook for 2024. As I have just said, demand continues to be strong, and we are pleased with the way the year has started. We will continue to invest in our core markets, with around 7% ASK growth expected in the year. In Q1, this is expected to be around 7.5%. Non-fuel gas is expected to increase slightly during 2024 as described earlier, due to investment and inflationary effects mitigated by transformation benefits. We expect to generate significant free cash flow after capital expenditure of around €3.7 billion, and we no longer have additional pension payments or any material debt repayment in 2024.

So, what does that mean for us? 2023 was a very good year, driven by customer demand and the benefits of our transformation programme. We expect a strong demand for travel to continue based on our structural drivers as well as attractive growth in our market.

We are focused on making the business better and stronger and more sustainable through delivering our strategy. As I have just said, this means that we expect to generate significant free cash flow in 2024, which will allow us to continue to invest in our business whilst maintaining a strong balance sheet position.

Following on from that, we remain committed to creating sustainable shareholder value and cash returns.

And finally, today, we are also announcing changes to our senior management team at IAG, effective the change beginning of April. Marco Sansavini has been appointed CEO and Chairman of Iberia, moving from his current role as CEO of Vueling. Fernando Candela, who has been appointed CEO and chairman of Iberia. , who was appointed interning CEO of Iberia in May 2023, will step down as CEO of Iberia, and he will continue as CEO of LEVEL. Carolina

Martinoli will become the CEO and chairwoman of Vueling, moving from her current role as IAG People, Corporate Affairs and Sustainability Officer.

I'm very pleased that we have been able to fill these important roles from people within the Group and within the current Management Committee, and I know that they will continue doing an excellent job, as they have done previously.

And now we are open to your questions.

Q&A

Stuart Morgan: If you're asking a question, hold the button down whilst you're asking the question. And if you guys could answer questions, if you hear similarly. We'll start with Connor. Thank you.

Conor Dwyer (Morgan Stanley): Thank you. Can you hear me? Great. Connor Dwyer, here from Morgan Stanley. First question I had was on CAPEX. Obviously, €3.7 billion for this year, €4.5 billion for the three years, including this year. I'm just thinking about the phasing for the two years after. Should we just be adding €400 million onto the other two, or should we be gradually phasing it up through the three years?

And on the second question. On the on-time performance for British Airways, it's good to see that gap has been closed a little bit. But I'm wondering for the next step, I assume the target in the long term would be to get towards more like Iberia, but would assume that's predicated on more tech investments over the next few years and there'll be less low hanging-fruit going forward. Is that the right way to think about it, or should we be expecting that gap to close more in the immediate term? Thanks.

Nicholas Cadbury: To pick the CAPEX question up, yes, you should expect it to increase as you get towards the end of the year. And that's partly because we've got the 777-9s being delivered. It does step-up in 2025. You've got some of the XLRs, more of the XLRs being delivered, and you've got some of the refurbishments for 380s as well in that year as well. But then it steps up again in the last year.

Luis Gallego: And about BA punctuality, as you said, we are improving. January, we were in a level of 80%. That is something close to the levels we had in 2019. Even February has been a better month. We continue investment – investing there. It's true that usually the more challenged season is the summer, but with all the things BA is doing, I'm sure we are going to have a better summer. And maybe, Sean, you can comment on that.

Sean Doyle: Yeah, can people hear me? Yeah. I think we're making very good progress. As Luis said, we are now at our better than 2019 levels in February. I think we have ambitious targets this year. I think it's more than low-hanging fruit. I think the way we're running the operation is fundamentally transformed, and it's better than it would have been in 2019. I think Heathrow is challenging. It's a very intense airport. So we've got to work around that. But I'm very confident with the progress that we are making.

It does involve, I think, investment in resilience. Two or three things are coming our way. One is the development of the Heathrow operating model, which will go live in April, and that, I think, will drive a big improvement in the resource management and the oversight of the

Heathrow operation. The second is we're developing a lot of digital tools to really speed up the operational decision-making. And we've launched three of those tools alone in the last six weeks and are already having an impact.

So we know the environment is difficult, we know air traffic control can have an impact, but I think they're the conditions we operate in. We simply have to work around and get better. So a lot of plans and a lot of ambition.

Stuart Morgan: Two questions only. Alex?

Alexander Irving (Bernstein): Hi, Alex Irving from Bernstein. Two from me, please. First of all, on the recent announcement of the expansion at Madrid Barajas. I'd like to get some thoughts around the impact on IAG's cost, CAPEX and yields as a result of that. How much are you expecting to pay to fund that expansion? Are we going to have to have higher CAPEX at the barrier to defend your market share in Madrid? And what would you be thinking about for the overall impact in RASK out of Madrid?

Second question is more on the interplay between Loyalty and the airline business itself. We've seen your joint venture partner in the US make moves to reduce selling costs by differentiating Loyalty accrual based on the distribution channel. Is there an opportunity for you to do the same and use Loyalty to help take cost down, particularly in indirect distribution? Thank you.

Luis Gallego: To your first question, we support Baraja's expansion. You've seen we can do the Europa operation. I think it's going to be an opportunity for us. The only thing we say is that it must be done in a way that development is affordable for the different airlines and, for sure, in a sustainable way. So we are ready to work together in order to build a new airport that can allow an increase in capacity. Because, as you have seen in our results, our Spanish airlines are having a very strong result, and we are sure that we have opportunities to grow there.

Nicholas Cadbury: We've put in five wide-bodies into this last year into Madrid, which will really help.

Luis Gallego: Maybe Adam, you want to answer if you want.

Adam Daniels: Sure. On the Loyalty side, you know, our main objective is to be growing the penetration of the revenue that we have. That is growing. We're seeing more members. Luis referenced it earlier, over 4 million new members joining the programme. We continue to drive that growth. We think that's the way to go. We have no immediate plans in the area that you talked about in terms of American, but it's very much about continuing to invest in that. And it's a very important lever for us, and we expect to use that going forward. But no immediate plans in that area.

Nicholas Cadbury: Just go back to the Madrid point as well. The XLRs are a great opportunity as well, for Madrid as well, for tapping into North America and Brazil as well.

Stuart Morgan: Muneeba?

Muneeba Kayani (Bank of America): Muneeba Kayani from Bank of America. First question, just on margins. You were almost at 12% in 2023, and consensus is around 11%

for 2024. How should we be thinking about margins this year, based on your cost guide and your medium-term margin target?

And then secondly, on Heathrow, there have been changes there in terms of ownership, management. What are your thoughts there right now, and how do you think about the third runway?

Nicholas Cadbury: Just in terms of the first question, just in terms of the outlook for this year, we're not giving a specific guidance in the outlook. I mean, I can tell you where consensus is. Consensus is probably €3.3-3.4 billion. It's just drifted up. Those who have reported a little bit more recently have probably drifted up a little bit more on that year-on-year. So just slightly above that 11% overall.

Luis Gallego: On expansion, I think we always say that we support, in general, the expansion of airports with the conditions that I said before, in a sustainable way, and also if we do it in a way that are affordable for us, and we don't increase at the end, the charges to the passengers. I think UK needs more capacity, for sure. We want to develop the country and the economy. So I think it's going to be difficult to have a runway, from my point of view, in Heathrow, but we also support, for example, the expansion in Gatwick, if we can do it with these conditions that I said before. I don't know, Sean, if you want to add something.

Sean Doyle: Yeah, I think as well, the third runway, there's more going on than just the third runway debate. I think what Heathrow are saying now is they need to look at ways of expanding and improving the performance of the airport, regardless of the third runway. And I think we're keen to work on that to make sure that we can maybe expand within the two-runway operation in an affordable and an efficient way. So I think we need to focus on the medium term at Heathrow, as well as not get too distracted by the third runway. As Luis says, there's a lot of challenges with that project from both costs and a sustainability perspective.

Stuart Morgan: Jamie?

Jaime Rowbotham (Deutsche Bank): Morning. Jamie Rowbotham from Deutsche Bank. Two from me. So the CAPEX is back end-loaded. Slightly counterintuitively, the capacity growth is front end-loaded. 7% in '24 means, I think, 2-3% in 2025-26 for a 4-5% CAGR. Could you flex that up without spending more, do you think? Should the environment happily remain conducive to that? More frequencies, or maybe not retiring some of the aircraft that you'd plan to retire quite so early? I'd be interested to know what flex you've got on capacity in 2025-26.

And then secondly on emissions. Obviously, useful to see the disclosure on ETS, helpful to know where you are on SAF. What about CORSIA? Is there any update there? You've looked at demands on your cash over the next few years. There's supposed to be a trial period, I think, from 2027. Does there come a point where you have to start putting some money into CORSIA? Perhaps you could give us any update.

Nicholas Cadbury: Just on the first question, a good question. We've got the CAPEX, you say jumps up in the last year, and we're giving guidance, that 4% ASK growth over the three years overall, which is where the question is. I mean, a lot of the planes that are coming in at the back end are replacement. So it's retiring of the 777-300s which are replaced, being replaced as well. So there is quite a lot of replacement.

So in terms of growth, there is some growth in there, particularly in Iberia, but actually a lot of it is going to come through utilisation and load factor. So there will be opportunities, Jamie, but that's where we are. We've given the guidance where we think it is best today.

Luis Gallego: About your question of CORSIA, you know that we are working to have a global alignment in general and CORSIA is the only programme that we have now. In Europe, mandates will be starting in 2025. The cost of emissions is going to increase, and it's something that we are taking into consideration. But in Europe, we are going to have CORSIA, but we are going to have European training scheme, we are going to have mandate. And what we are saying, is we don't want more mandates. We always say we want more SAF. We understand that the way to do this is if we have SAF in the market at an affordable price. We have just closed the agreement with 12. As I said before, we have secured one-third of all the SAF that is needed for 2030. That is an investment of around €1 billion. That is not enough.

So in UK, they wanted to be building five plants by 2025, but 2025 is now. For the time being, we don't have anything. So I think the main issue for me is not going to be CORSIA, but in some ways, it's the minimum agreement that we have is going to be the rest of mandates and the lack of SAF that we are going to have in Europe and also here in UK.

Stuart Morgan: Harry, press down on the button.

Speaker: Okay.

Stuart Morgan: That's better.

Harry Gowers (JP Morgan): . Last – Yeah, Harry Gowers, JP Morgan. First one, last year in the Q1, you had a very small positive EBIT result. So, do you think you can repeat that again this year? And then expectations for the moving parts, maybe on CASK and RASK in Q1? And then you – second one, you talk about the cash returns in the summary slide there in the presentation. So, any latest thoughts on when they could return? Thanks a lot.

Nicholas Cadbury: Just on the Q1. Last year we had a good Q1. We're not going to give guidance on each by Q1, but I think Q1 was good last year overall. Just in terms of cash dividends, hopefully we've given you confidence that we're generating good cash last year. We're generating – we expect to generate good cash. I hope that new slide that we've added helps you show – helps you calculate how much cash we're generating or how much cash we could generate in the year. And we've given you , what we said is if we continue to see this momentum, we'll be giving you – we'll be looking at cash returns to shareholders in the very near future.

Jarrod Castle (UBS): Good morning, it's Jared Castle from UBS. We've got a budget coming up, so I'd be interested to get some know if you had a wish list for BA and UK aviation, what you'd like to see in it?

Then just secondly, BA Hotel – BA Holidays, not Hotel. You highlighted that we are seeing quite a bit of competition from, I guess, the number one and number two, Jet2 and also 2E, but also easyJet at the moment. So how do you see this consolidation trend and also at least keeping your market share where others might be a little bit more aggressive? Thanks.

Stuart Morgan: Maybe you want to answer?

Sean Doyle: Yeah, sure. Without getting into the politics of the budget, maybe I'll talk about the things that would be helpful for aviation. I think at the heart of it really is a competitive playing field. So I think we need movement on SAF because other countries have given the right incentives in terms of revenue certainty on SAF production, and it's unlocked production and I think there's a consultation going on, but it would be good to see a former treasury commitment to SAF production in the UK, which I think Luis has flagged earlier in his comments on our path to net-zero.

Secondly, I think it's smaller policies that we need to flag that can put the UK at a disadvantage. Things like the charge for the ETA for transfer passengers, we feel actually puts UK hubs at a disadvantage compared to European hubs. So tackling some of those policy issues which diminish our competitiveness is very important; and actually a recognition that aviation is already very highly taxed from an APD perspective, and that we've built a very strong industry and very strong carriers despite some of those impediments. So I think just making sure that the UK industry is supported to be competitive in a global landscape is very important for policymakers.

Yeah, in relation to Holidays, maybe Adam and I could talk about it. BA Holidays has been a very strong lever commercially for British Airways. I think we look right now, we're about 56% booked for the year, and I think we're up maybe 16% on revenue in terms of forward outlook. So what you see in leisure strength, you see coming through in the BA Holidays business. We see lots of room for expansion. We think we've got a couple of USBs in the UK market. We've got a strong short-haul and a long-haul network that we can combine with a great ground proposition. And we also have a very strong Loyalty programme. So I think it's a great opportunity for us to do something unique, to cross-fertilise both of those levers to win, I suppose, greater share of wallet of our customer base and attract new customers.

But I think Adam can talk about the opportunity in the Loyalty flywheel in a bit more detail.

Adam Daniels: Yeah, I think that – thanks, Sean. I think that we have a – Sean talks about the USB. I do think there's a USB if you compare to the people that you mentioned earlier on, we have a very strong Loyalty programme, we have a great Holidays proposition. And I think that Loyalty, the ability to extend that throughout the Holidays experience, I think is something that we look to do. We launched the pay with Avios capability 12 months ago, and now one in five of BA Holidays customers are using that to save money on their holiday. That's the start for me. I think we can do more going forward. BA Holidays has a great heritage, it has a great reputation, and we think we can do more with it going forward.

Andrew Lobbenberg (Barclays): Hey, it's Andrew Lobb from Barclays. Can I ask about the labour situation? It looks like the pilots at Lingus and Vueling are both on the 'naughty step' and they're not being given any new toys. How large is the gap in terms of the ASK from the pilots and what you're willing to do? And to what extent is there a risk of this stalemate that seems to be playing out because Vueling have been on the 'naughty step' a while, has spiralling to industrial disputes because we've got quite a lot happening, for example, at 'Lufty'?

And then my second question would be just coming back to Europa and the competition policy process because if we look at the process for Lufty and ETA it looks incredibly challenged. If we look around the world, competition authorities are blocking mergers or imposing very tough remedies in the US, Asia and Europe. So, you know, is your confidence really unblemished from where it was six months ago? It looks tougher and tougher from the outside.

Luis Gallego: Thank you, Andrew. So first a question about pilots. So we have closed very important agreements in the Group and in all the airlines. So we still have the three agreements that I said before pending. That is the agreement for the pilots in Vueling that they closed an agreement with the union. That agreement was not approved by the pilots. So they continue working on it. Because what we want is to – when you have a low-cost carrier, as you can imagine, the labour cost is critical to be successful. So what we want is to have a structure that allow us to invest in Vueling, because as you have seen, they did an extraordinary job last year. So that's what we want. But we cannot give in a negotiation what doesn't make sense. That's the problem. But we close good agreements in the Group. We have offer very good conditions to our people in line with the market and link also to the performance of the Group. If we have a good performance, they have also good salaries.

So, Vueling, we are working on it. Then we have Aer Lingus. Aer Lingus, the issue, Lynne can explain better than me, is that pilots are asking for increases in three years, that don't make any sense. Productivity of the pilots of Aer Lingus is not high. They are asking to remove the productivity measures that were agreed during COVID and because of that, we don't have a lot of space to reach an agreement. It's not that we don't want to invest in Aer Lingus. For sure, we want, and we are investing in Aer Lingus. I think it's the airline that with more growth since they joined the group because they have a huge potential. But also we need to take care because as we told you, our capital allocation model means that we invest capital where we are sure we are going to have the returns.

And the third agreement that is pending is not a collective bargain agreement. We have a collective bargain agreement in Iberia. We have another one in Iberia Express. They're having excellent performance, both of them. But as you know, we closed an agreement like ten years ago that links the growth of Iberia and Iberia Express in the short-haul. And the agreement is finishing now. And we need another one to unlock the situation. And if we unlock the situation, when you have companies that they are doing very well, we are going to have opportunities of growth.

So I think I see this in a positive way. If we close agreement, we are going to continue investing because the three businesses make a lot of sense for us. If not, we have other alternatives because it's our job to invest money where we are going to have the returns.

About Europa, we always said we are sure that this operation is, first of all, very positive for the customers because what we want is that to have more competition between the European hubs and at the end, that's good for the customer, mainly connecting passengers. So the rationale behind still makes a lot of sense.

So we are dealing now with the European Commission. We are in the second phase. We are talking about remedies. We have increased the level of remedies that we talked a long time ago. You said negative things. That is true. But also, for example, we have seen the Korean ASEAN merge was approved, and we see the level of remedies that they have proposed. And we consider that with the proposal we are making to the European Commission, we can address the issues that they are telling us that they are worried about.

So, I am optimistic about the deal. But again, we are not going to do anything that doesn't make sense for the Group if at the end the level of remedies is too high.

Rory Cullinan (RBC): Yeah. Morning. Rory Cullinan, RBC. First question, I think business booking trends were described as showing positive momentum. We have seen macro indicators improve in some markets. Would you be able to provide any more detail of what you've seen?

And secondly, linked to that, the post-pandemic travel trends for different customer segments, do you think they've got any consequences for optimal cabin configuration? Thank you.

Luis Gallego: The first one, last year, corporate demand in the Group was more or less 70% in volume and around 78% in revenue. It was different in the different airlines. So, for example, in British Airways the volume was 65% in revenues, like ten points more; 75% in Iberia was 87% in volume and 96%, if I remember well, in revenue. This year, we see an improvement in the volume. Now, we are in levels of 70% in BA, 60% in Aer Lingus, 80% in Iberia in volumes. But when you see the revenues is more than 10%, we are reaching levels of 15% more. So in BA, in the first weeks of the year, we are in levels of 85-87%. The revenues that we had in 2019, with the volumes that we are talking about, I think that's very positive.

It's true, we still don't have the volume that we want. And you know that we said we are going to have 85% of the volume that we have in 2019 in the future. It's coming back, it's different in different sectors, but we have the revenues. And in parallel we have a very strong premium leisure demand that is offsetting the lack of volume of corporate traffic. So the load factor in premium cabins is higher. We have more people, but we have different mix.

And this is linked to your second question. I think now, after the retirement of the 747s in British Airways and the A340-600 in Iberia, we have a configuration of aircraft that is more appropriate for the type of demand that we have. But corporate traffic is coming back, and we are receiving new aircraft with more premium seats.

So I think, to be honest, it's something that we didn't think about that, it was because of the COVID. We stopped the 747 because we needed to stop. But now the type of leisure demand we are having is more appropriate for the type of cabins that we have now. And it's something that is helping to the results.

Stuart Morgan: Gerald?

Gerald Khoo (Liberum): Hi, morning. Gerald Khoo from Liberum? Two for me, if I can. Following up from the last question, on – in terms of that strength of premium leisure, how does the unit revenue compare with traditional corporate premium? Obviously, traditionally corporate premium is higher, but how much of that is offset by that better load factor? And secondly, on leverage and in the context of CAPEX, can you just clarify? I think you talked about that 1.8 times target over the cycle. Would you contemplate going above that level on the grounds of CAPEX, on a CAPEX spike? Or is that only for – would that only be for inorganic acquisitions?

Luis Gallego: To your first question, we don't give guidance about the difference between the fare of corporate premium and leisure premium. As you can imagine, it's lower. But what is true is even when you mix more premium leisure customers with less corporate premium customers, the gross we are having is above the levels that we have in 2019. And an important amount. So that means that the mix makes sense. But I cannot give you details about the first.

Nicholas Cadbury: On the CAPEX, just we gave guidance for being our target, to be underneath 1.8x net leverage over the cycle. You're right. And we said we prepared to go over that at the time if opportunities arose. When I was referring to that, it was about inorganic, . But might do inorganic. But I think it was mainly about inorganic ones.

Stuart Morgan: On that note, the guys will all be around if anyone wants to stay and chat, so thank you very much for coming.