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IAG.L - Q3 2016 International Consolidated Airlines Group SA Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Q3 2016 IAG conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Willie Walsh, Group Chief Executive Officer. Please go ahead, sir.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Thank you and good morning, everyone. Welcome to our third-quarter conference call. As usual, I'm going to hand over to Enrique who will take you through a quick presentation on the results.

Enrique.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Thank you, Willie.

So we are bringing today what we think is a solid set of results for quarter 3. We've been making an operating profit of EUR1,032 million pre-Aer Lingus; EUR1,205 million including Aer Lingus. This means a EUR45 million negative difference against last-year figure, but we have to take into consideration the negative impact on these figures that the devaluation of sterling has been creating, which is EUR162 million. So we'll see later on that the like-for-like performance against last year has been positive by EUR117 million.

It has been a tough environment. We've been open about it; you know about it. Of course, it has to do with Brexit and sterling weakness; post-Brexit-type of uncertainties. It has to do with slower growth on some of our strategic markets. I will have to mention Latin America again.

It has to do with operational disruptions, and we've also been very open on this sense, especially affecting Vueling, but also other companies of the Group.

So we'll try to transmit and explain how these difficulties have been affecting the results of the Group and also the performance on the revenue side, and especially on the cost side.

This is the first quarter that we are bringing fully Aer Lingus to our comparisons on a year-to-year basis, so we have full Aer Lingus in year 2016; and we have the impact of Aer Lingus results of the third quarter in year 2015 as comparators. This also will mean some differences that I will try to explain also in terms of how we are growing and how this growth will be affecting our unit revenue and unit cost performance

So the passenger unit revenue performance has been slightly better than Q2, although we recognize that this still does not represent a change in trend. We have seen some positive signals, maybe especially on the premium side. What we are foreseeing into Q4 is a similar trend.

On the cost side, we've been achieving 1.4% non-fuel cost increase which has to do basically with the disruption that Vueling has created in terms of impact on costs, and we'll go through the different cost lines later on. It has to do also with the increasing relevance of some other businesses, as the case of British Airways Holidays, which as you will see, have a positive impact on our revenue lines, other revenues, non-passenger revenues, but also impact on the cost side.

So if we can turn to the next page, we express here a little bit more clearly how the combination of the [EUR45 million] (corrected by company after the call) of operating profit reduction with a negative impact of EUR162 million in terms of currency weakness, especially sterling, will result in a like-for-like positive improvement of EUR117 million for the quarter.

Basically, it has to do with growth, efficient growth that we've been doing in the different companies. On the revenue side, again worth to mention the non-passenger, which is basically related to Avios revenues, third-party revenues; also Iberia maintenance and handling third-party revenues. Significantly enough to mention then the growth of British Airways Holidays revenues which have been in the range of 25% on a year-to-year basis.

The fuel costs, and I will go through them with more details in the following slides, have been improving very significantly their performance of the Group with a price effect exceeding EUR400 million.

On the rest of the ex-fuel costs we have a special chart that we will go through. We have some ups and downs. A very significant improvement in employee costs, and that's something that we are going to see again through Q4. It has to do with these new initiatives that we are undertaking across the board in the different companies, especially this time British Airways and Iberia, and that will be rendering benefits already, I would say, through Q3, but especially Q4 and next year.

So if we can go to the next slide now and talk a little bit more detail on the ex-fuel unit cost performance. Again, as I've just announced, a significant positive performance on employee unit cost across the Group. So it's British Airways, it's Iberia; it is especially Aer Lingus, and Aer Lingus because of two positives that they are bringing: on the one side their own non-fuel employee unit cost reductions, but also averaging down the mix of the whole Group.

The exception is Vueling, and Vueling a deterioration in employee costs. It has to do basically with disruption and with the additional buffering in terms of resources that the company had to undertake to deal with this disruption impact.

On the rest of the non-fuel costs, we see basically ups and downs with a moderate underlying trend.

So in terms of handling and catering, we have seen there basically the impact of British Airways holidays, which is significant, and the costs are basically allocated on that cost line.

We talked about landing fees. The performance has been basically flattish for the companies of the Group, but you have to take into consideration that Aer Lingus is bringing shorter stage lengths, so additional sectors in terms of ASKs, and this creates a higher unit -- a structural unit cost mix in the case of landing fees.

Engineering has been affected because of basically two issues. On the one side, additional wet lease buffering resources for Vueling, but also a change, a gradual change in the model to which we are contracting third-party engineering works for the Group, especially for British Airways.

So that's going to be entering into a probably more stable model, switching into a pay-as-you-go which is based on accruals, and switching out of a time-and-materials model which is basically upon cash. But the switch between one model to the other will be creating a little bit of volatility on that cost line.

So selling is improving because of efficiency and because of new contractual agreements with some of our distribution suppliers.

IT and others. So what to note there a new agreement with JFK, so New York airport authorities, on the utilization of Terminal 7 where up to Q3 we were having as one of our clients and then revenue, United Airlines, and they have been leaving our terminal now. So there is a bit of a jump there.

Ownership costs very much in line with our expectations, so on a very I would say flattish type of evolvement/development, even I would say digesting higher dollar-related costs. So that's again a pattern that is fully under our control.

If we switch to fuel costs, again it has been a very positive performance in terms of market fuel prices when we compare it with Q3 2015. There is a constant currency improvement of around 22%, and that brings some important sales to the total unit cost line.

What we are seeing for the quarters coming into year 2017 and Q4 is, even at today's prices which are slightly higher than a quarter before, a consistent reduction in fuel unit costs into Q4 2016 and 2017. 2017 probably at today's prices would be showing an average unit fuel cost reduction in the range of 10% to 11%. So there's still some headroom for improvement on the fuel for the next months and quarters to come.

Switching to capacity growth and contributions for different companies, you see the typical chart per quarter that we have been showing. It comes to Q3 and Q4. Q3 on a like-for-like basis, the growth of the Group has been 4.7%. If we include Aer Lingus, it climbs up to 9.6%, as you see. This Aer Lingus year-on-year effect will be vanishing through Q4, and in Q4 we expect growth for the Group of 4.2%. Then this will be making for the year 2016 an average of 4.4%, which is about 1% below what we thought was going to be at the beginning of the year.

So gradually adjusting capacity and trimming down growth, adjusting ourselves to this new demand environment, which as I started saying, is of a lower growth than expected. This is something that we are going to be continuing through the next quarters into 2017.

We are seeing that for the last quarter of the year, the underlying growth of British Airways is in the range of 2.2%; for Iberia 2.3%. Vueling is still at the 13% level; and Aer Lingus also it's above the 10% level. Vueling will be coming down quickly to a single-digit growth level through the coming quarters.

Getting into how we have been structuring this growth in the different companies and the different networks, basically I have to say has to do with the opening of new routes.

So for Aer Lingus, as you know, it has been basically Los Angeles, Connecticut, and other North Atlantic destinations. For Iberia, it has been around reopening after several years Tokyo and Jo'burg, and opening for the first time Shanghai. For British Airways, it has been around San Jose, both in terms of Costa Rica and California; Tehran as well opening a new JFK out of Gatwick. So for Vueling it's basically Charles de Gaulle, Zurich and Amsterdam.

So we a significant presence of new routes in our growth structure.

Coming then to how this shows in terms of ASK growth per region and unit revenue growth for the same regions, first thing that I have to comment is the way Aer Lingus will be affecting this chart. It's basically, as you well know, affecting the North America, North Atlantic sector region, where you see this 13%, more than 13% growth in respect of last year. The impact of Aer Lingus North Atlantic routes is very significant on that case.

And a little bit the same for Europe. Europe has seen a 17% growth. Of course, it has also very much to do with the addition of Aer Lingus European network.

We also see adjustment in growth in the case of Latin America; very significant, coming down to 2.4%. And that's something that we are going to be still seeing in the next quarters. Africa, Middle East and South Asia still on the negative; basically adjusting these difficult regions affected by low fuel prices, as we've been doing in the past.

Asia Pacific is noting the opening of new routes that Iberia has implemented in Japan and China. Also a little bit of Kuala Lumpur rolling over effect as well.

So what we are seeing in terms of unit revenues is an average of 5.9%. It is slightly better than the last quarter. September was a good month for us, and as you have been reading, it has been a good month for the industry as a whole. It's not setting a new trend, but it's in some way pointing out that maybe unit revenues are bottoming.

So the regions we see an improvement in the domestic performance in terms of unit revenues, very similar percentages of drop in Europe. An improvement in Latin America, of course, I guess, related to the Olympics. The underlying demand growth unfortunately is still weak on that region, especially Brazil.

And then North America, which his minus 8%, has had to recognize the impact of the mix of Aer Lingus routes and passengers, which as you probably understand, are more, much more leisure related, so averaging down the mix for the Group.

So as a whole, very much in the line that we have been commenting with you and that we have been expressing publicly. No major changes, even after Brexit impact; and similar trends into Q4.

Here, we get into this chart where we show by products the structure of revenues. What to note, a little bit of a better performance in long-haul premium, as I was commenting with you that non-premium was a little bit additionally weaker than the premium. In the short-haul, it's more or less the same with a little bit of a silver lining on the Iberia performance in terms of the European network which is and has been better than average.

Again, to remind you, non-passenger revenues positively impacted by Avios, by British Airways Holidays, and a little bit by third-party maintenance and handling activities in Iberia.

So coming to this chart where we are showing on a quarterly basis ROIC performance.

Taking into account the last four quarters, so trying to make it neutral from a seasonal basis, what we see is the last four quarters in terms of ROIC for the Group has been basically flattish, so a 13% ROIC level, which is trending to our cruise speed target of around 15%.

Very positive contribution coming from Aer Lingus, both in terms of profitability of their operations, and also about capital allocation and use of assets. So the combination of those two aspects for Aer Lingus is very impressive and is helping the mix of the Group.

Vueling, of course, significantly affected by disruption through Q3, and then suffering this negative impact also on a ROIC perspective.

Iberia improving, slightly improving nearly 1% against the former quarter, so getting to 7.4%, and again I would say it's an upward trend

And British Airways stabilized on 12.5%, and at a similar level than last quarter. This means that we've been able to adjust our profitability also on a capital allocation basis in a way we are keeping our ROIC targets.

Very briefly, from the balance sheet and financial structure for the Group, what we see since June is a reduction in gross debt basically affected by our sterling debt benefiting from the devaluation of the sterling. So this is euro basis, so sterling/euro debt has been reduced.

Cash deposits have also been suffering a similar currency impact. So our sterling denominated cash deposits have been following a similar trend. On balance sheet net debt is very much aligned with June. Aircraft lease capitalizations, again very much in the same trend. So adjusted net debt just growing marginally, and adjusted net debt to EBITDAR exactly the same. So we are comfortably following this pattern of improvement that we are foreseeing coming in the next years as well.

So just to finalize, as a guidance for full year, we are setting our operating profit forecast at EUR2.5 billion. The difference with July assumption is, as Willie has been saying, very, very much related to the weakening sterling, which by the end of July, remember, was EUR1.2 and today is EUR1.11. So that's something that we need to recognize will have a translation increased impact.

We haven't seen any change in our short-term trading conditions, and we expect we are going to be keeping our equity free cash flow production in line with our ranges and with the expectations that you already know about.

Thank you.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Thank you, Enrique Now, I'm going to hand back to the call administrator to take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Oliver Sleath, Barclays.

Oliver Sleath - *Barclays - Analyst*

Three questions, please, if I may.

Firstly, on the outlook for UK leisure, I think you commented at Q2 that you were pleased with the resilience of premium leisure, and it looks like BA Holidays has been doing well in Q3 as well. But as the sterling continues to weaken and maybe consumer inflation starts to pick up a bit out of the UK, how do you see the outbound UK leisure market trending into the winter? Do you expect perhaps shorter trip lengths or a shift towards package all-in holidays? And can you work at all to compensate any weakness with increased inbound flows to the UK?

The second question is on Gatwick performance. Obviously, a lot of growth from new entrants at Gatwick on the Atlantic this year looking set to continue through the winter. What's been your experiences as you compete more directly with Norwegian and also some of the Canadian entrants at Gatwick this year?

And final question is on the UK competitive landscape. It does look like the weak sterling could be a major headwind for some of the smaller UK airlines that have such big short dollar positions. And we obviously had recent news flow on Monarch, a management departure at Flybe and some other headlines. Do you expect any changes to the UK landscape maybe through the winter into next year, and any potential strategic opportunities for IAG that have come out of that?

Thank you.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Thank you, Oliver. Yes. The trends in UK leisure continue to be good. What we've seen to date and what we expect to see talking to the team at BA Holidays, who have clearly seen these issues before, is we're still getting people traveling. If you think of the US where the dollar clearly is much stronger versus the pound, Las Vegas is still doing very well.

So we haven't seen evidence of people stopping. What they are doing is shortening their trip away. So that trend was obvious during the third quarter and as we go through the fourth quarter, and that's what they would expect to see.

We haven't seen any significant change in the flows other than our US point of sale is stronger now, as you would expect, and you'll see these change as we go through 2017. But the patterns that we're witnessing as the pound has weakened against the dollar and the euro are the patterns that we would have expected to see, and are consistent with what we would have seen historically.

Gatwick is doing well; very pleased with Gatwick. You will have seen we've announced Fort Lauderdale next year from Gatwick as well. So we're adding additional long-haul capacity at Gatwick. We're doing that because the market is good there. And our Gatwick overall performance is actually very positive and we're making some additional changes at Gatwick to give them a bit more autonomy, building on the progress that they have made there already.

And the weak pound is clearly stressing some of the smaller and generally weaker UK carriers, but there's nothing there that piques our interest. I think they're going to find it increasingly tough as we go through the winter period and into next year.

And when you look at the competitive landscape, some of those carriers with their more obvious overlap with the likes of Ryanair and easyJet I think will find it even tougher still.

So nothing there that is of any great significance to us or of any particular interest to us.

Oliver Sleath - *Barclays - Analyst*

Great. Thanks very much.

Operator

Michael Kuhn, Societe Generale.

Michael Kuhn - *Societe Generale - Analyst*

A few currency related questions as the topic tends to become bigger.

Firstly, on British Airways P&L, I would be interested to understand the net effect into next year, let's say assuming flat exchange rates. So what do you expect for British Airways fuel bill?

And also, for the top line and on a broader view on the Group, you had in the third quarter a net currency headwind of around EUR160 million for the operating result. Again, assuming stable exchange rates, what impact would you expect for the Group into next year?

Thank you.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. Well, we'll talk more about next year when we meet next Friday to deal with the outlook as part of Capital Markets Day; and we don't break out the fuel according to individual airlines, but we do give you significant guidance in our presentation on the overall fuel bill. And you will have heard Enrique say that based on our current hedge position, current fuel prices and exchange, we expect to see our fuel bill decline by between 10% and 11% in 2017. And we'll give more detail at that next year -- or, sorry; next week when we talk at Capital Markets Day.

But in general terms, I think the BA performance continues to be good and there are clearly opportunities for BA to address some of the internal costs. BA's competitive position with a sterling cost base clearly is significantly enhanced with the weak pound against our US competitors, and you'll see that the -- when we show you that chart on the ROIC, the BA margin continues to be impressive in the third quarter and is flat with last year.

So overall, sterling does have a big impact as we translate it into euro, but the underlying performance of British Airways continues to do well. And as I said, we'll give you more details on 2017 next week at Capital Markets Day.

Michael Kuhn - *Societe Generale - Analyst*

Right. Understood. Thank you.

Operator

Stephen Furlong, Davy Research.

Stephen Furlong - *Davy - Analyst*

So two things from me. I just want to ask just on the individual airlines. Maybe you can just talk why Aer Lingus is doing particularly well; Vueling not so; and Virgin, a lot -- both of them actually from the long-term ROIC targets, one good and one not so. Maybe what's happening with Aer Lingus in terms of the JV as well.

And I just wanted to know whether -- maybe it's for next week, but in the US, a lot of talk is about when are they going to, the airlines, get to positive PRASM. I was just wondering what you think the industry needs to do in terms of capacity; or is it that fuel prices have to go up before we start seeing that maybe down the road?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Thank you. Yes. The Aer Lingus performance is very impressive and we expect that to continue. And the divergence between the Aer Lingus performance and Vueling is more to do with Vueling underperformance.

So Aer Lingus is trading very much in line with what we would have expected when we acquired the business. So it's probably slightly better than we would have expected, but not significantly out of line with our expectations from -- in terms of their performance.

Vueling, Enrique has talked about it. This is a one-off issue that they've faced in 2016. We expect that to reverse significantly in 2017. So you'll see the trends return to a more normal pattern as we go through 2017.

And in terms of Aer Lingus' performance with the joint venture, that's still the issue of discussion between the parties, but it's progressing very, very well.

I think interestingly, our partners, American Airlines, are beginning to understand the value that Aer Lingus brings as part of our joint venture, and recognize that maybe trying to bring Aer Lingus in on what might be called standard terms mightn't be the right thing for Aer Lingus or for the joint venture. So we're looking at how, not just IAG, but how our joint business on the transatlantic can best utilize the Aer Lingus brand, the Aer Lingus cost base, the Aer Lingus network. So actually, it's been a very positive discussion with our partners so far.

And in terms of PRASM, Enrique, ever the optimist for a CFO who says that probably seeing some evidence of it having bottomed out. So when the CFO is optimistic, I think the rest of us are absolutely ecstatic.

But there's still a bit of a way to go, but I think some of the trends we're seeing at the moment are looking more encouraging. We're seeing capacity moderate, without question. There's evidence of people pulling back on their capacity plans.

We've always said we would do that. So we're talking now full-year 2016 at 4.4% growth versus 2015. We started, if I remember properly Capital Markets Day, I think we said about 5.5%; and then when we released our full-year results, we said about 5.3%. But we said all along, we'll look to trim that capacity growth as we go through the year if we're seeing evidence of most of our competitors doing the same. And we believe that that trend, from what we can see anyway, is continuing into the first and second quarter of next year.

That's a positive development, and I think that will help in terms of the unit revenue performance. So still a bit of a way to go, but I think the outlook on that front is looking more positive today than it would have done maybe three months ago.

Stephen Furlong - *Davy - Analyst*

Great. Thanks, Willie. Thanks, Enrique.

Operator

Neil Glynn, Credit Suisse.

Neil Glynn - *Credit Suisse - Analyst*

If I could ask two questions, please, the first one on other revenue strength. It was up EUR110 million year on year in the third quarter, which is pretty much -- I know there's moving parts, but it pretty much explains all of the underlying EBIT growth. That compared to EUR11 million and EUR12 million in the first couple of quarters of the year. So I was just looking for a little bit more understanding as to the moving parts there. I think Avios, BA Holidays, Iberia maintenance and handling were mentioned, but is it possible to break down that year-on-year growth?

And then the second question on Iberia performance. Obviously, there's been a lot of color on overcapacity in Spain given capacities shifting into that market, which I guess makes your comments on Iberia's experience to Europe all the more impressive. So has Iberia been impacted by overcapacity in Spain? And any insight in terms of how it's managed, that would be very helpful.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Thanks. No. We're not going to give you a breakdown on the other revenue. We'll talk more about it at Capital Markets, again. But you've identified all the significant moving parts there.

BA Holidays is performing well and it's good for us to have that business in the Group because it gives us a sense for -- a greater sense of some of the consumer trends ex-UK in light of the sterling devaluation.

Iberia, we have seen a lot of capacity into Spain. We've seen a lot of growth in Spain as well as people shift the Spanish market and out of some of the other more challenged leisure markets.

Where Iberia has done particularly well is utilizing Iberia Express, and the Iberia Express performance has been very encouraging. It's a small part of Iberia, but it's absolutely critical to Iberia's ability to compete effectively, not just in the Spanish domestic market, but in the European short-haul market into and out of Spain, and we're very pleased to have that as part of the Group.

So Iberia has more flexibility than a traditional legacy carrier, if you like, being able to utilize both of their brands, Iberia and Iberia Express, and to use them selectively where they see particular levels of competition, and that's what we're doing. So it's a pretty flexible business model that they have, and we expect them to continue doing that into 2017.

Operator

Jarrod Castle, USB (sic).

Jarrod Castle - *UBS - Analyst*

Jarrod, UBS. Three as well. Just sticking with Iberia, can you give some color on how the Asian routes are going and if there is any further color in terms of plans on those routes going forward?

Secondly, just any color in terms of cargo business. Obviously a lot of yield pressure, just like all cargo businesses. But in terms of operating result, can you give a bit of a steer if it's positive, flat, negative?

And then just cost cutting, you've put through this exceptional charge relating to BA. How confident are you that the benefits are going to come through, and also I guess where Q4 ex-fuel cost control stands?

Thanks.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. Asia for Iberia, a couple of things we need to note. We started Shanghai much earlier than we had expected and with very short lead time. So what you will see there is we've got good volumes but they have been at very low yield. And the reason we did that was we got slots at Shanghai earlier than expected; and given the scarcity of slots at Shanghai, we felt it was important to take them when they were offered.

But we're pleased with the demand on the route. Clearly, we have to work on the yield, but that very much reflects the fact that we started much earlier and with a much shorter lead time than you would normally do.

On Tokyo, again, it's early days. Advanced bookings are very good. What we would see there is again what you would expect. It's very much Japan outbound into Spain where there is very strong demand.

So the outlook for both of those in terms of the demand environment is good. You would expect that we would need to work on the yield environment, but as I said, it reflects a short lead time between announcing our intention to operate and launching.

But at this stage, we're not planning to do any additional Asian destinations. We will focus on those two routes for Iberia. Clearly looking for additional opportunities, but we're not planning anything else at this stage.

Cargo, we've talked a lot about cargo. Our view at IAG is that the cargo business is structurally very different to passenger. You're seeing oversupply given the amount of belly-hold capacity that's coming on to satisfy the demand for passenger growth. So you're getting more and more space in the belly-hold as the demand for passenger travel increases.

What I would say in terms of recent trends is September actually was better than we had seen, and we're monitoring that, but it does remain the case that our focus more on the premium products I think is absolutely the right thing to do.

So our general cargo performance is in line with our expectation but the general cargo market continues to be characteristic -- I think the way I would characterize it is significant supply and weaker than expected demand leading to continued pressure on yields. And while September was a little bit better, nothing that would signal a change in the previous trends that we had witnessed.

And British Airways, very confident about the ability to deliver. We're absolutely clear that fourth quarter this year, non-fuel unit costs will see a very significant improvement.

So we're seeing the benefit of some of the earlier changes flowing through into the fourth quarter. We had some significant costs last year with pilot training for 787, for example, and we won't see in the fourth quarter of this year. The change program in areas like IT and British Airways is flowing through, so we'll see benefit of that in the fourth quarter. We had some cabin crew issues as well, restructuring there. We'll get the benefit of that in the fourth quarter.

And all of this then flows into next year as well. And then the additional restructuring, we'll give you some more color on that Capital Markets, next Friday.

Jarrod Castle - *UBS - Analyst*

Thanks very much.

Operator

Damian Brewer, Royal Bank of Canada.

Damian Brewer - *RBC Capital Markets - Analyst*

I guess three questions as well, since it seems to be the fashion.

First of all, just coming back to Jarrod's question on the unit costs. If there's going to be an acceleration in Q4 to deliver the minus 1% for the year as a whole, if we're looking to 2017, would the minus 4%, or whatever would be implied for Q4, be the run rate? And how much of that is benefiting from the move and shift of transactional activity to the shared service centers in places like Poland?

Second question on CapEx. I think historically your CapEx has been H1-focused in advance of summer. For 2017, obviously seeing a much lower level of CapEx anyway. But is any of that CapEx hedged or pre-hedged in terms of your currency exposure, particularly on dollar purchases?

And then very finally on Vueling, could you update us on how things will change at Vueling? Last year, it was a pilot cost inflation issue. This year, we've had operational problems in the summer. What measures are being put in place to stop these seemingly annual upsets to what otherwise looks like a significant shareholder opportunity there?

Thank you.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. We see a significant improvement in non-fuel unit cost trend in Q4. I wouldn't read into that that that's what you'll see going through into -- throughout 2017, but we'll give you a detailed (multiple speakers).

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

So minus 1% is something that we will keep as structural target.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

But Q4 performance will be good on (multiple speakers) unit costs.

In terms of CapEx, no, we haven't hedged our CapEx. 2017 CapEx is light relative to (multiple speakers).

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Exactly. Our expectations for today's figures are very much in line with the ones that we set one year ago, and that we have been monitoring through the rest of the year. So we don't foresee any, I would say, variance in our CapEx figures for next year due to dollar strength.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

And Vueling, the operational issues have been addressed. Their operational performance now is very strong. That will continue into 2017.

As we said, I think some of these problems were as a result of maybe overly ambitious growth in certain markets which led to inherent operational challenges that clearly were exacerbated by then the French air traffic control strikes, and I've highlighted some of those.

Operating flights very close to hard closure deadlines at airports. When you're going to have operational disruption it's really not the thing to do long term and not the thing to do structurally. You can get away with it maybe on a short-term basis.

So those issues are being addressed. We're very pleased with the way the management team at Vueling are operating. We've strengthened that team. Xavier has brought in some new people with experience of larger-scale low-cost operations.

So I think we're very well positioned, and as I said, the underlying operational performance of Vueling is very strong and is significantly better than some of our direct competitors.

So you'll see the Vueling performance return to what you would expect in 2017, and then we're going to be building on it, continuing to build on it significantly as we go beyond 2017.

Damian Brewer - *RBC Capital Markets - Analyst*

Great. Thank you. Can I just follow up on Enrique's comment on the CapEx? If you're not hedged and dollar has strengthened, can we imply from that that there's a little bit less CapEx, if you like in dollar terms, than otherwise would have been anticipated for 2017?

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

There is both. There is an additional type of saving that we are bringing into the figures. But if we compare the levels of the dollar today with the ones prevailing one year ago, they are very similar, on euro terms; remember, on euro terms. Not on sterling terms but on euro terms.

So for IAG euro accounts, the reference dollar is very much the same as it was one year ago. So anyway, we've been adjusting downwards the figure as well.

Damian Brewer - *RBC Capital Markets - Analyst*

Right. Thank you very much.

Operator

Alexia Dogani, Goldman Sachs.

Alexia Dogani - *Goldman Sachs & Co. - Analyst*

I just had two questions, please. Just firstly on the North Atlantic, as you look into Q4 where the US carriers have announced more significant capacity cuts, how do you see forward booking trends there?

And on a similar note, in terms of the corporate demand dynamics on that market, clearly, September was good for the overall Group. Are you seeing any acceleration specific to that North Atlantic route?

And then my second question is just a quick one on your dividend policy. Clearly, the dividend increase of 10% is positive. Should we still be thinking about a payout ratio for the full year of 25%?

Thanks.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. Thank you.

North Atlantic, yes, I think is good. The trends are not really different to what we had previously said. We're seeing some softer corporate activity that we had witnessed. That hasn't changed much. September performance, yes, I would describe September performance as being good. So with the reduction in capacity that we're seeing our competitors take, that's -- as I said earlier, I think that's an indication of a more positive environment, and I would expect that to continue through into 2017.

So we're pleased with the transatlantic, and that's why you shouldn't be surprised as we've always highlighted that we'll look for further opportunities to expand our network, and we've announced New Orleans and we've announced Fort Lauderdale. So we see opportunities on the North Atlantic.

We'll trim some capacities on some particular routes, and we'll look for some new destinations. And that trend is the same when we look at all of the airlines. It's not just a particular British Airways trend; it's true to all of the airlines operating on the Atlantic.

And the dividend policy, we'll talk more again next week, but you will have seen that we set the increase to EUR0.11 for the interim, and that we would expect that to be an indication of not exactly one-half, but pointing to what we did last year being similar to what you should expect us to do this year.

Alexia Dogani - *Goldman Sachs & Co. - Analyst*

Thank you.

Operator

Gerald Khoo, Liberum.

Gerald Khoo - *Liberum - Analyst*

Three questions from me. You've talked about how currency is helping BA's cost base. I was just wondering how the exchange rate move impacts the transatlantic joint business, because obviously, BA gets a better cost base, but relatively, American is on the losing side of that.

Secondly, you hinted towards that some of the BA long-haul route moves. I was just wondering, obviously with Chengdu closing and a couple of new US routes, does that pivot away from Asia and back towards the US, or are there some route-specific issues there?

And finally, you've referenced the strength of BA Holidays. Is there anything in particular that's driving that? And what scope is there to repeat that in, say, Iberia and Aer Lingus?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Thank you.

Yes. On the transatlantic joint business, it's a revenue share, so it's not a profit share. So it's based on revenue performance rather than overall profit performance.

So you're right. The American carriers have a greater challenge, if you like, with the US dollar cost base competing on the transatlantic. But from our point of view, when we look at the North Atlantic, we see it as an opportunity.

BA long haul, you shouldn't read too much into Chengdu as indicating what we do in Asia. It's very specific. I think what we've seen on Chengdu is what we had expected that the premium demand would be light, but we're still struggling to attract Chinese tour groups, and that's principally because of the visa policy in the UK.

So although we've seen some improvement in visa policy, the fact that you need a UK visa as a tour group that tend to look at Europe and the UK, they're shying away from the UK because they've got to apply for a second visa which is more expensive and more difficult to get.

You also need a transit visa, and I think this is one of the things that has created a problem in attracting the transfer traffic to supplement the O&D, where you need an airside transit visa to go through Heathrow. It's clearly a significant disadvantage when you don't need visas to transfer through most of the other, if not all of the other European hubs.

So it's more an indication of visa policy restricting us, plus some of the issues that we've highlighted in terms of these markets tend to have a significantly lower premium content than some of our traditional markets. And in time, I think these issues will be addressed.

We're certainly looking at configuration of aircraft, as we talked about before, and whether we need to add more non-premium capacity in some of the aircraft (technical difficulty) some of the premium capacity as we grow our network into these emerging markets. And I think that's something we can do relatively easily, and we can talk about that again.

And BA Holidays, yes, you're right. I think there is an opportunity to replicate some of the British Airways experience in other parts of the Group. We've got quite a lot of expertise in that area that's been built up over the years, and the BA Holiday performance is certainly very encouraging. We have done some work on it, but it's at a -- on a small scale, and there is definitely an opportunity for us to expand that into other parts of the Group building on the expertise that we have at British Airways.

Gerald Khoo - *Liberum - Analyst*

Sorry. Just to follow up on the Transatlantic joint business, given the exchange rate move, how are pricing decisions made? Because clearly, BA might be keen to drop dollar prices.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

No, let me stop you. You don't need to go any further. Why would we drop our prices? We see this as an opportunity to improve our margin on the transatlantic. We're not looking to take advantage of the lower cost base to push prices down.

And I've been very clear. What BA sought to do was to raise sterling prices on the transatlantic, and if you think of it logically, that should be something that would be matched by our US-based competitors who would have a sterling revenue base translated into dollars now at a much lower exchange rate.

So we -- that's the opportunity we see here. It's margin opportunity. It's not with a view to trying to lower our pricing.

Gerald Khoo - *Liberum - Analyst*

Okay. Great. Thanks.

Operator

Mark Simpson, Goodbody.

Mark Simpson - *Goodbody Stockbrokers - Analyst*

A number of questions, for which I apologize.

First off, on the Iberia ROIC stats, you talked about the better operating margin, but on the four-quarter trend, running trend, it's down. At the half year, it was 8.7% ROIC; Q3 7.4%. Just wondering if you can just take us through the structure there that's resulted in that decline.

In terms of the other revenue, can you tell us what the operating profit contribution is?

And then on the RASK side, you've given us constant currency in the past. You've also given us reported. I wonder if you could do that.

And then finally on the employee exceptional charge, the language I thought was quite strange in the statement. You talk about an initial employee restructuring charge which obviously suggests an ongoing program. I wonder if you could just comment on that.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. Enrique, do you want to --?

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Yes. On the RASK monitoring -- sorry; on the ROIC monitoring slide that we used, we referred to the four quarters, four I would say previous quarters. If you can come back to page 13, what we show in here for Iberia is the operation margin trend versus last year. It's 0.9 positive. And, in fact, the ROIC of the last four quarters is staying 7.4%, which is basically aligned with what we were basically seeking.

So we're not seeing any deterioration in the more stable four-quarter metric of ROIC for Iberia. The other significant message is operating profit for Iberia is not deteriorating against last-year figure.

So we are not disclosing, as you know, in this quarter, operating profit for the different airlines. We will do it at our year-end terms. What we can tell you is operating profit for Iberia is not diminishing against the same quarter year 2015.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

On the other revenues and other activities, we don't break out the operating profit contribution.

On RASK, yes, we give you that. You can see the reported RASK for the third quarter is in the first chart at minus 13.7%; and you have it in the IMS for the nine months as well. The figures are there. The passenger unit revenue minus 9.8% for the nine months to September reported (multiple speakers).

Mark Simpson - *Goodbody Stockbrokers - Analyst*

I was wondering if you could do that by market.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

No. We stopped doing that some time ago. So, no, we're not doing it by market.

On the use of the word initial, it's not strange. It's just indicating to you that you should expect more. So, yes, there will be further restructuring in British Airways.

Mark Simpson - *Goodbody Stockbrokers - Analyst*

Yes. No, the reason I asked about the reported RASK is that a couple of quarters ago you did help us out with giving us both.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

We'll give you more details by year end. No?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

We did that last year or the year before. I can't remember when. But, no, we felt it was just getting too confusing for everybody so we'll give some flavor on that later on.

But you can see the currency impact yourself. So it's -- clearly is a significant issue when we have negative EUR162 million which hits our revenues significantly impacted by both the translation -- particularly the translation and our costs get benefit from the translation impact.

Mark Simpson - *Goodbody Stockbrokers - Analyst*

Fine. Okay. Thanks for that.

Operator

Johannes Braun, Commerzbank.

Johannes Braun - *Commerzbank Corporates & Mkts - Analyst*

Just two questions from, firstly, just regarding potential third runway in Heathrow, after the recent approval by the UK Government. I know it's still a hypothetical question at this point, but how do we have to think about slot value? So what is the value of your Heathrow slot currently in the balance sheet? Because I guess these values could be at risk.

And then, also, how do we have to think about market share? Would you be prepared to defend your 55% market share in Heathrow? And is this even possible under slot allocation rules?

And then secondly, there were some headlines by the Iberia union SEPLA saying that they are determined to win back the concessions of the past, at least in part. I'm just wondering if you could comment on that.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

First thing to say is that the third runway at Heathrow has not been approved. What the government has done is indicated a preference for the third runway at Heathrow. They'll now go through a period of consultation, issue a national policy statement which would then need to be voted on.

I think the statements from the government are very positive because they've made it clear that they will only support Heathrow expansion if it can be done at no increase in cost to the passenger charge.

The CAA has been even more clear and more direct in relation to that, and those of you who haven't read it I would encourage you to go onto the CAA's website and read the letter from Andrew Haines, the CEO of the Civil Aviation Authority as the economic regulator, which he has written to John Holland-Kaye at Heathrow. And he's very clear that the objective of expansion, while keeping passenger charges flat, is a key issue that they're going to have to address.

So that's the first important thing today.

In terms of slot values, the only slots that are on our balance sheet are the slots that we would have bought. We would have bought those at significantly lower prices to what people have been paying recently because we haven't -- we've never felt the need to pay crazy prices to buy slots at Heathrow, unlike some other people. So I don't see that having any impact on us. It could have impact on some others.

But if this runway gets built, you're talking 2025, so there's still a long way to go.

And in relation to the other questions that you have asked, in general what I would say is we would see a third runway at Heathrow as being positive for British Airways and positive for IAG. In the first case, it will give BA an opportunity to operate a better schedule across three runways than they can do with two runways so we'll get a better hub operation. And that to us, with all of the modeling we've done, is positive. It will also give IAG opportunities to expand our presence at Heathrow.

So I don't think you should look at this in the context of BA solely. I think it needs to be looked at in the context of IAG. But in -- when we look at everything associated with the third runway, particularly now that the government have listened to what we've said about costs and what the CAA is saying to Heathrow, we see this as positive. And we're very pleased that people have listened to us about the need to build capacity in a cost-effective manner. So I think if it goes ahead, it's going to be a positive for us.

And in relation to Iberia, we're very confident about our ability to continue to make good progress at Iberia. I'm not going to get into it and I'm not going to do a running commentary about how we intend to do that, but you've seen what we've achieved to date and you should be able to understand that we have a lot of options and a lot of opportunities.

So we'll engage constructively with the trade unions, as we have done. They've been very constructive in their engagement with us. And I think the relationship between the trade unions and the management at Iberia is excellent. It's been better than it's ever been in its history, and I see no reason why we should not expect that to continue into the future.

Johannes Braun - *Commerzbank Corporates & Mkts - Analyst*

Okay. Even though that obviously Iberia is now significantly more profitable than in the last negotiation round?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Absolutely. You've heard what I said there. It's good. We continue to make progress. And importantly, we've delivered on everything we said we would.

So Iberia is seeing the benefit of the restructured cost base in terms of route expansion, particularly long-haul expansion; investment in new aircraft. So I've absolutely no doubt that we can continue to move Iberia forward from where it is today. I'm very confident that everyone in the Company wants to see that business succeed, and everybody understands the true value of the changes to the cost base that have been made, because we would not be operating to Johannesburg, Shanghai and Tokyo if we'd not have done those things, and we would not have been investing in new A330s and A350s and in the products on board the aircraft if we'd not done those things.

So we've still got a lot of opportunity there; very strong management team. And the environment in the Company is very positive. So without question, the outlook for Iberia is a very positive outlook.

Johannes Braun - *Commerzbank Corporates & Mkts - Analyst*

Yes. I understand. Okay. Thank you.

Operator

James Hollins, Exane.

James Hollins - *Exane BNP Paribas - Analyst*

Yes. Three, please.

The first one is just on -- am I right in thinking that Enrique was hinting at the fact that you're seeing higher engineering costs right now because there's effectively a shift to more outsourced but you still have a lot of in-sourced cost and that's going to change?

The second one was just some detail on guidance for full-year 2016 restructuring charges, what you'd expect for the full year? And also, on the tax rate, that's down 4 percentage points in the first nine months; what you'd expect on the full year.

And then finally, just on that potential new strip of asphalt 10 miles south of Watford, can you just let us know when you would expect to start negotiations on Q7 which I believe starts in the start of 2019; and whether those negotiations will probably start even before, as you say, even Heathrow's even approved on a third runway?

Thanks.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. On the engineering costs, yes, there are some transitions.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Yes. They're going to bring a little bit of volatility, so ups and downs. We are entering into a more stable model with the pay-as-you-go, more predictable; and that will be coming through the following months.

In the transition, as Willie was saying, there may be some ups and downs, some volatility that I we'll be explaining to you. We don't see structurally a higher level of engineering costs into the future.

Yes. Tax rate, it's improving. Aer Lingus mix is going to be bringing some benefits, and we probably are going to see effective rates for the Group this year below 20%.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

On the economic regulation, the focus now will be on the issue of the third runway, so I think the normal quinquennial has been extended by one year. So we'll engage in that.

But obviously, the big issue and the significant focus will be on the third runway. And again, if you read the letter from Andrew Haines to John Holland-Kaye, he sets out in that letter what he expects Heathrow to focus on. The initial focus for the airport will be on engagement with the airlines to ensure that value is built in at the planning stage for the third runway.

So I'll be honest. I'm surprised that Heathrow seem to be going off and unilaterally announcing what they're going to do without having gone through that constructive engagement with the airlines, which they're going to have to correct that approach. And if they haven't taken heed of the warnings from the regulator, I think they're going to find themselves in a very weak position when it comes to the outlook for future economic regulation.

If I were Heathrow, I would not be trying to annoy the regulator at this stage, and I think some of the things they're doing if I were the regulator it would certainly annoy me.

So all of this is positive for us. The more they continue to operate the way they have historically, the more value we will generate going forward. So I think it's going to be an interesting one to watch, and hopefully, Watford will still be in the premier league when the runway gets closer to them.

James Hollins - *Exane BNP Paribas - Analyst*

Have you spoken to Heathrow in the last few days?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

I bumped into John Holland-Kaye besides the runway when I was doing some press interviews, so I said hello to him. Yes.

James Hollins - *Exane BNP Paribas - Analyst*

Okay. But not a long chat. All right. Thanks a lot.

Operator

Douglas McNeill, Macquarie.

Douglas McNeill - *Macquarie Research - Analyst*

(inaudible) back at the half-year stage in July that you thought the softening of corporate demand would recover but not until next year perhaps. Is that still your view, or are the Q4 trends a little more encouraging than that?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

No. I think it's pretty much as we thought. Now obviously, we'll recycle over that weaker base as we go through into 2017, but given that all we've had so far is a vote to leave and still huge uncertainty as to what that means, I still think there's still quite a few corporates out there struggling to come to terms with that.

So I think it's -- had we seen the boat go the other way, we would have expected trends to return to more normal patterns, but what we're seeing at the moment is very much in line with what we had expected to see, and I think very much in line with what we had said to you previously.

So it's not -- it certainly hasn't got any worse. You might say it's maybe got a little bit, marginally -- it's very marginal. So I wouldn't call it. I'd say the trend is the same that we had previously stated.

Douglas McNeill - *Macquarie Research - Analyst*

Thank you.

Andrew Lobbenberg - *HSBC - Analyst*

Okay. Thanks. And just back on the pension, have you got any sense of the timeline? Is it weeks? Is it months? Is it quarters? Or can you not say?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

If I was to say at this stage, I'd say months, but I don't think it will be weeks, and it's certainly not going to be quarters. Well, I suppose quarters are months as well, aren't they? So let's say it's going to be months, Andrew. It's months.

Andrew Lobbenberg - *HSBC - Analyst*

All right. See you next week.

Operator

Penny Butcher, Morgan Stanley.

Penelope Butcher - *Morgan Stanley - Analyst*

Just two follow-up questions on my side. I just wanted to come back and revisit the comments you made on the 4Q cost development. Obviously, given what you've achieved in the first nine months with still slight increases in unit cost to get to minus 1%, it does imply quite a turnaround in Q4.

And you've mentioned two items, one related to the pilot training costs and some cabin crew costs, and I guess the year-on-year effects of Aer Lingus' dilution. Is it possible that you could maybe scale both of those items as to what they are supposed to contribute mechanically to the Q4 reductions, just so we can understand how that turnaround takes place?

And my second question is, Willie, in relation to I think there's been some comments from easyJet recently just with regard to Brexit and the implications for the aviation market and discussions with Brussels about your -- the views on settlement there perhaps outside the normal Brexit discussions around licensing, etc. Could you provide an update on where your views on Brussels stand about perhaps resolving the uncertainties around the aviation market ahead of any other Brexit discussions?

Thanks.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. Yes, you're right, Penny, to highlight the impact of Aer Lingus, which is clearly significant. So as you add Aer Lingus into the mix in the fourth quarter, that does give us part of the answer which I think you've spotted, and I'm sure everybody else on the call had spotted it that that is a fourth quarter issue.

If you wanted to rank it, we'd say the impacts will be BA first, Aer Lingus second, and then the rest of it is third Iberia and the rest. But in terms of the contribution to Q4, it will be BA, Aer Lingus, Iberia and the rest.

Yes. I've heard some of the comments that Carolyn McCall has made. Clearly, the uncertainty around Brexit is a big issue for them because they've got to put in place measures well in advance of knowing what's going to happen. They can't wait to find the outcome of these negotiations because they'll have to have a structure in place that's robust well before that, and hence the reason they've been talking about getting a European AOC. And I think the comments they've made is trying to identify the best location jurisdiction for that. That will add some complexity and cost to the easyJet model.

We don't have that because we'd already put that structure in place at the time of the creation of IAG. So we're confident that this structure we have in place there works.

Now all of us would like to see aviation being dealt with early in the process, and I think there's good reason to believe that that should be the focus from both a European point of view and a UK point of view given that aviation facilitates trade and, therefore, you'd want to make sure that all of that remains in place prior to putting any trade deals or trade agreement in place, but we'll wait and see.

We're very relaxed from a regulatory point of view. We understand the challenges that easyJet face and Ryanair face. We'll certainly be looking to work with our competitors in Europe to make sure this is smooth. So we're not going to try and seek any competitive advantage as a result of this uncertainty because we don't believe that that's a sensible thing to do in the long term.

But if you look at the model that we put in place at the time of the creation of IAG, it's proven to be a robust model. It's been tested, and we're satisfied that it works today and it will continue to work in a post-Brexit environment.

Penelope Butcher - *Morgan Stanley - Analyst*

That's great. May I ask a quick follow-up with regard to the ownership structure of the business? If it also involves question marks around UK ownership for European licensing requirements and that maybe is looked at as a foreign owner in the future, are you comfortable that the ownership structure still protects your position on the European licenses?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Yes. And if you look at it, we've got the same level of UK ownerships as Ryanair and Lufthansa. So, yes. I don't see an issue there, to be honest with you.

And there's lots of ways that this can be addressed. We're very relaxed about it. So we've had to deal with these issues historically within IAG. We've good experience.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Always find ways to --

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

That there's plenty of different opportunities. They add complexity and in some cases cost, but that's complexity and cost that's already embedded in our business and we've been able to live successfully with that.

And to be honest, I think if I were in Carolyn's position, I'd be focused on this and a little bit concerned, but equally, I'm sure she'll be relaxed knowing that once they get through this it becomes business as usual. So there's a bit of a short-term impact but it will get addressed.

And as we said, we'll all work together as an industry to make sure that this gets done smoothly because it's in our interest, everybody's interest, to make sure that that is the case. But from a regulatory point of view, I think we're in a much better position than the others.

Penelope Butcher - *Morgan Stanley - Analyst*

That's great. Thank you.

Operator

Julie Gasser, Allianz Global Investors.

Julie Gasser - *Allianz Global Investors - Analyst*

I would have two questions regarding your financing side. So where do you expect to raise that; if you have to raise that on the IAG level or on the operational units like BA or Iberia.

And the second one. Do you intend one day to have a rating in order to decrease your financing cost? Would it be foreseeable for you?

Thank you very much.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

So on the rating, we've said we're targeting investment grade, but it's not an issue for us given that most of our debt is asset-backed. So if you look at our Group, it's primarily an airline group. We don't have a lot of non-airline activity. So while investment grade is interesting for us, it actually doesn't make any difference to the cost of our debt, and we've seen that over the years.

BA is investment grade but we don't need to pursue that as a structural issue within the Group, although we have been clear that it's something that we're targeting. And if you look at the metrics we use, they're all metrics that would be used by the rating agencies and you can see we're in a very comfortable position there.

And in terms of financing, we've lots of options and lots of opportunities to do it either on the IAG level or --

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Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Yes. We'll be raising funds both at the operating company level. The funds that are more related to operations to fleet acquisition, etc. We'll be raising also funds at the holding level, so that's going to be the debt that's required for the inorganic expansion of the Group. And we have several ways to upstream and downstream funds from the operating companies into the holding, and the opposite way round as well.

So we're not constrained. We are targeting, as Willie was saying what we call the investment grade ,zone but we don't want to get absolutely tied up by that type of discipline, at least in the short term. In the long term, we will basically be focusing to keep ourselves on that type of ranges.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. Can I thank everybody for joining the call? We look forward to seeing all of you next Friday, and we look forward to giving you more flavor in terms of IAG in 2017 and beyond.

Thank you very much.

Operator

This concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
