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Q3 2018 International Consolidated Airlines Group SA Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Q3 2018 International Consolidated Airlines Group S.A. Earnings Conference Call.

Today's conference is being recorded.

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

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Thank you very much. And good morning, everyone. Thank you for joining us.

We're pleased to report a good set of results for the third quarter. And I think this is particularly the case when you look at the significant foreign exchange and fuel headwinds we faced or EUR 111 million of foreign exchange and EUR 268 million of fuel. Of course, some of that fuel bill increase was a result of increased activity.

Operating profit of EUR 1.46 billion, that's an operating margin of 20.4%. Good results in all of the airlines. And the figures that we released today actually absorbed the costs of the startup operations of LEVEL at Paris and at Vienna. If you look at 9 months, our pre-exceptional net income grew by over 9% versus a year ago. And we see continuing strong return on invested capital, trailing 4 quarters, at 16.1%. And Enrique will take you through the details of that in his presentation in a few moments.

You will have seen yesterday or the day before we reported that we had completed the second EUR 500 million share buyback program. That was 65 million, nearly 66 million ordinary shares, representing 3.2% of share capital. And the board yesterday approved a interim dividend of EUR 0.145 per share.

And looking at the full year, you may have seen our guidance. We're now saying that at current fuel prices and exchange rates IAG expects its operating profit before exceptional items for 2018 to show an increase year-on-year of around EUR 200 million from a 2017 base of EUR 2.95 billion. And both passenger unit revenue and non-fuel unit costs are expected to improve at constant currency for the full year.

Going to hand over to Enrique now, who'll take you through the detailed financial presentation. And I'll come back then after he's done that to finish up and give you an opportunity to ask questions.



Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

Thank you, Willie. Good morning for all of you.

As Willie has just said, our operating profit for Q3 this year has reached EUR 1.46bn, which is EUR 10 million better than last year. And we're proud of our performance basically because this result has been done on significantly challenging circumstances, which you basically all know. So we are talking about higher fuel prices significantly higher than the same period last year; also this headwind that we were mentioning on the ForEx type of impact which is very much related to the volatility of the dollar against both the euro and the sterling, so weaker in the first part of the year and also Q2 and then stronger through Q3 and basically end of the quarter, so generating opposite impacts both in the revenue side and on the cost side. And other challenges have been coming from ATC disruption, which you have been hearing about. We've been very vocal about it; and the way it has been penalizing our company, especially Vueling, as you well know. Also, engine problems have been creating disruptions for us, as for other competitors. So as a whole, the quarter has been challenging, but we have been able to improve our operating profit figures in constant currency terms in EUR 121 million. And this is basically on a strong performance on passenger unit revenues, which has been basically following the trends of Q2 and the guidance that we were giving to you in this last couple of quarters. And as we will insist, Q4 is looking similar in terms of our basic trends.

So it's worth to note that total unit revenues are higher than passenger unit revenues. And this is because of our non-ASK-related businesses as Iberia MRO activities for third parties but also British Airways Holidays. Even the cargo business have been strong for the quarter. And we feel this strength is going to be also flowing into Q4. So 2.4% passenger, total 2.7%, both figures in constant currency terms. Capacity has been high, 6.6%, slightly lower than our plans for more in a range of 7%. And this shows that we are following and monitoring very closely capacity versus demand, load factors and unit revenue contribution. And that's something that we will continue to do in through Q4 and into the next year.

Non-fuel unit costs constant currency figure that we are publishing is 0.7%, but then if we take into consideration the increase in revenues and then costs, of course, on this non-ASK-related activities, so basically we are talking about the other revenue business and activities, the underlying figure will be closer to 2.3% negative, so saving. And that's a very strong saving figure. Of course, we have to be transparent, saying that it includes compensation that we have been receiving, as other companies, on the engine manufacturer issues.

So basically, we can follow the next page trying to understand the bridge that leads us from last year figure into this year figure in operating profit terms. As we have been mentioning, this headwind coming from ForEx, which has impacted negatively our figures by EUR 111 million, and again it has to do with how the dollar has been affecting both revenues that were booked on the early part of the year at lower dollar rates and then costs that have been basically affecting our Q3 performance and our "end of the quarter" working capital position. So that's why there is this big figure that probably will be getting smoothed through the remainder of the year.

Second big message is growth and the contribution coming from our growth which is close to EUR 100 million of additional margin in relation with last year, good figure. And then the 3 other columns have to do with the fuel cost impact and the way we've been recovering this negative cost impact through increased revenues, both passenger revenues and non-passenger revenues. So we have been offsetting practically 100% of the negative fuel cost. And passengers have been taking into account 75% of this offsetting exercise, which is a high figure in absolute terms but also in relative terms against what has been the story, our story, in previous years. Finally, our non-fuel cost performance has been positive, adding another EUR 30 million to the performance of the quarter and allow us to reach this EUR 1.46bn operating profit results for Q3.

So more flavor on -- as usual, on growth and RASK. As you see in here in the chart, basically, in terms of unit revenues all our sectors have been producing improvements against last year, with the exception of Latin America. And this, you need to frame it into a significant growth pattern across-the-board. So basically, starting with North Atlantic and South Atlantic, you have seen there capacity increases in the range of 10% or 8.3%, talking about the North Atlantic and the South Atlantic markets. In respect of the North Atlantic, we have to say, British Airways has a strong participation in this 10%, it's in the range of 6; and also Aer Lingus, which is close to 3. A relevant fact around how we have been producing this capacity growth has to do with the split in terms of new routes, which represent basically half of this growth. New routes will be taking into account half of the 10%. The other half is basically on routes that we have already been operating.



So in terms of unit revenues, North Atlantic has been positive, slightly positive; and better than last quarter. And basically, this performance has to do with the split of tools that we have been using to execute this capacity growth. Of course, it's British Airways. It's British Airways, both Heathrow but significantly Gatwick. It's Dublin. It's also LEVEL network expanding. And so this in some way is showing the relation between capacity and unit revenues, average unit revenues, that we are achieving.

If we talk about the short haul markets. I think good data, good set of data. So strong capacity growth because the demand is there; and then unit revenues been improved very significantly, 4.5% and 4.2%, talking about domestic and Europe. And it's basically across all our companies and basically most of the market that we are operating, some very strong performance in domestic market in Spain but also in Spain to Europe and also in Ireland to Central Europe in the same way.

If we talk now about Asia Pacific. There capacity has been basically left freezed. And there has been an improvement in terms of unit revenues against the previous quarters, and the improvement is coming basically on all the routes. Worth to mention improvements on Tokyo and Hong Kong, which were routes that were a little bit of the laggards, as we saw them in Q2.

Africa, Middle East and Asia. And a little bit of a lower level of growth, of course, has to do with the discontinuation of Tehran. And a significant improvement in unit revenues. And I would be mentioning basically here the African routes. So South Africa, Nairobi, Lagos and others have been taking the lead in terms of unit revenue improvements.

Latin America, high growth and lower unit revenue performance all negative for the first time in this year and in quite a bit of consequent quarters. And it's very much related to recent weakness that we have been noting, of course, in Argentina and also Brazil; and that we have to say are not getting worse, through the data that we have on the fourth quarter of this year. So apparently, there has been, of course, a step-down because of the devaluation, but we don't feel the step-down is heading south in this moment in time.

So as a whole, good improvement with a RASK of 2.4%, which is a strong one, on a capacity growth which is 6.6%, which is also an ambitious one.

If we get into now the non-fuel unit cost performance. We have seen -- and the fuel. We have seen fuel increasing in constant currency basis and unit terms by 15%. We are going to be talking more about fuel on the following slide. And non-fuel costs, good results in terms of labor costs, employee costs with a minus 4.7%, of course very much related to, on one side, productivity improvements, and productivity improvements strong against last year, third quarter, up 4.6% in terms of ASK per employee; but also the underlying improvement that we've been achieving both through Athens project in British Airways, Plan de Futuro II in Iberia and other measures in the rest of the companies. Very significant again, the improvement in pension fund costs that was achieved through the significant deal that was agreed, by the end of the second quarter, in British Airways with pension fund trustees.

Supplier costs, the figure that appears here is negative, but I think we need to filter it down. We need to qualify it. Of course, it's affected by disruption, especially in Vueling again; and other matters, as selling costs, for example. But also, this line of costs is being affected by the increased activity in non-passenger-related revenues. As I've been talking to you before, the improvement and increase in activity in both British Airways Holidays but also Iberia MRO have been dragging this line of costs as well but also creating additional revenues and margins. Ownership cost increases in constant currency terms. And this is, of course, having to do with higher CapEx this year, the pace of the renewal of our fleet, new aircraft, also accelerated depreciation of our old 747 fleet. And again we need to mention disruption. And here it comes with additional wet lease contracts that we've had to deal with having to do with basically ATC and engine manufacturers disruption.

So as a whole, the non-fuel is coming at minus 0.7%. In reality and making this adjustment on costs that are basically related to other activities, the underlying one is minus 2.3%. And again, this minus 2.3% is positively affected by the compensations that we have been receiving on our agreements with engine manufacturers through the summer.

And then let's talk a little bit more about fuel. As you see, the chart, the same chart that we reproduce each quarter, is showing our expectations for future unit fuel cost evolution in the following quarters. It's done at \$770. Today, we are at \$740, so really this has been a



difficult chart to complete because fuel prices in the market have been so volatile that it was difficult to determine a specific reference to be able to produce a reliable one. Again, this is basically in the range -- on the higher end of the range of the prices that we are seeing today. What it's showing is, remember, Q3 '18 has been up 15%, so we are seeing the following quarters at this level of prices having probably a similar range of performance in terms of increases in constant currency basis. We are talking about ranges between 14% and 16% in the following quarters. And my message here again is this is going to be a challenge in the following future, in the next year. It appears at -- this level of prices is not going to be representing an additional challenge, an increased challenge to the one that we are basically managing, I would say, successfully through Q3. The level of hedging that we have for the next quarters is expressed in the chart. As you see, for Q4, basically it's close to 100%, 92%. So it appears as that fuel bill for the quarter is now quite certain.

And then again the message for next year is we see fuel costs and prices coming up at rates that probably are not going to be dissimilar to the ones that we are going to be seeing in this last part of the year.

And then ROIC. So in terms of ROIC, what we are seeing is a very smooth pattern of evolution. So ROIC for the last 4 quarters has been for the group 16.1%. The last figure that we disclosed you end of June was 16.2%, so as you see, it's becoming stable figures. And when we come to the different companies of the group, again, stability. So we are seeing, for example, Aer Lingus at very high 27.9%. And last quarter, the similar figure was 27.8%, so sustaining, as you have been seeing, a very high level of ROIC in Aer Lingus. In Iberia, it has been again slightly improving, so 12.3% against 12.2% the last set of figures that we were showing. The same for Vueling. It was 13.1%, and now it's coming up to 13.4%. The slight reduction is coming in the case of British Airways. It was 16.9%, and now it has been getting down to 16.7%. And this basically has to do with the pace of CapEx and the new deliveries of new-generation aircraft that we are receiving through the group. As you'll remember, 2018 for IAG is a high-CapEx year, and that's basically increasing the size of our asset base. ForEx negative impact has not been helping those numbers either in this specific quarter, but the trends, the underlying trends, really are keeping in the path that we were expecting.

So finally leverage. And I've resumed the picture of our balance sheet. So as you see, gross debt has been increasing, and that has to do basically with the new fleet deliveries through the year. Cash has been kept at figures in the range of EUR 7 billion. Again, there is a reduction in respect of September last year, but this has to do with the investments that we've been doing through the last 4 quarters and the relationship between the investments and the borrowing that we have been raising; also very much related to specific outflows that we've been producing, of course, has to do with the normal dividend payments. It has to do with the completion of our share buyback, EUR 500 million, that we have just completed a couple of days ago. It has to do with an extraordinary repayment, early repayment, of British Airways preferred shares that we have in the marketplace around EUR 200 million. So we've been efficiently allocating our free cash flow generation through these last quarters.

As a whole, we are still very comfortable because our level of leverage adjusted net debt-to-EBITDAR is being kept at 1.4x, which is I would say a very comfortable level; the same with the level of absolute adjusted debt, which is just EUR 7.5 billion with an asset base which is in the range of EUR 20 billion, okay?

So this is my last page of reference, and I'm passing back the floor to Willie.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Okay, thank you, Enrique.

If we just look now at the forecast growth for the year and for the fourth quarter. We're now saying 6.2% ASK growth for the year. And if you remember, back in February, we had expected to grow by about 6.7% in the year. And we said 8.4% in the quarter, but the profile of the growth is actually very different to what we had first set out. And there are a couple of things in the fourth quarter that weren't in the base, and I'll just highlight some of those. We have now reflected in this fourth quarter -- the Aer Lingus wet lease operation of 2 aircraft on London City-Dublin, which was not in the base and not in our original plans, also not in the original plans, with some growth on the transatlantic by Aer Lingus. So they've gone to a daily service on Los Angeles and 5 flights a week to Toronto. And you may have seen that Ethiopian, who were selling Dublin-Los Angeles on their tech-stop at Dublin have now stopped selling Dublin-L.A. Also in the fourth quarter of this year and that wasn't in the plan or the base was the LEVEL operation at Vienna with the 4 A321s that we're operating there.

And just to comment on Iberia in the fourth quarter. The one thing that we do know that may not be obvious or apparent to people is a number of our key competitors on the South Atlantic are facing aircraft issues with the ongoing problems with the Rolls-Royce-powered 787. So we know that a number of our significant competitors will not have their full fleets available to them in the fourth quarter and indeed in the first quarter of next year. And so we're very comfortable with the growth plans that we have in the fourth quarter.

And finally, just to reiterate our guidance and to remind you, we're now saying that we expect an increase year-on-year of around EUR 200 million from the 2017 base of EUR 2.95 billion, with passenger unit revenue and non-fuel unit costs expected to improve at constant currency for the full year.

So on that, I'll now hand back to the operator. And we'll start taking your calls, your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now move to our first question from Savi Syth of Raymond James.

Savanthi Nipunika Syth *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Just 2 questions on the North America and Latin America trends. And I'm just kind of curious what you're seeing in North -- or the North Atlantic. It's -- it seems like there's a lot of capacity growth in there. And just curious what the expectation is. It seems like the kind of U.S. carriers are expecting strong trends there. And then in Latin America, I'm curious given your last comment. Is the sense that things are stable at a low level a result of demand stabilizing? Or is it because the expectation that maybe some of the capacity will not materialize?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Okay, yes, we see the transatlantic continuing to perform well. The profile of our transatlantic business is clearly different to some of our U.S. competitors given the nature of the LEVEL operation and the Aer Lingus operation. Both of those have strong growth plans this year and indeed next year. And clearly, both of those operate at a significantly lower cost base to the rest of the profile of our business. So transatlantic, I will describe transatlantic this year has been good, stronger than maybe we had expected. Capacity has been fine. The outlook that we see is -- remains good. There's good underlying demand, particularly ex U.S. I think that's -- probably benefits our U.S. competitors a little bit more than us given that they'd have a stronger U.S. point of sale than us, but overall there's been very good demand in all cabins. The yield environment has clearly been more attractive in the premium cabins than in the non-premium cabins as we've been able to pass-through price increases, reflecting increased fuel charges, but overall the performance there has been very good. In LATAM, we've actually seen -- the situation in Argentina has probably stabilized. That's -- and the performance in Argentina has actually been stronger than we thought it would be given the significant devaluation of the peso. And the situation in Brazil has also stabilized. So we were seeing a deterioration later than we had expected to see, particularly in Argentina, but our view on Latin America is I think realistic at this stage. And as I said, we do know from our analysis of our competitors' fleets that a number of those will face challenges, based on the information that we have, particularly as I said with Rolls-Royce-powered 787s and the ongoing issues there. So when we sort of analyze the impact of that on our British Airways fleets of 787s and sort of translate our understanding of that onto the competitors' fleets, we believe that their 787 fleet impact will be significant through this period. And that's why Iberia has flexibility. We continue to keep this under review, but we believe the capacity that we've put into the market is justified by the continuing demand profile that we're witnessing.

Operator

The next question will come from Stephen Furlong of Davy Research.

Stephen Furlong *Davy, Research Division - Transport and Logistics Analyst*

Enrique, Willie, so just a couple ones. Are my maths right in terms of fuel next year, that depending on your volume growth, which presumably you'll give next week, price would mean that fuel bill is up by 3-digit million, that type of range? I'd just like to confirm that, but I guess it depends where the oil price is. Secondly, I'm just wondering, Willie. I mean I know you can't talk about Norwegian per se, but just on long-haul low cost or value carriers, just confirm you're happy where the positioning is of LEVEL and Aer Lingus, which I

include in there. And there seems to be finally just an abundant of financing, aircraft financing, and funding in the market. Maybe just comment on that. I know Norwegian was talking about JVs with Chinese lessors.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Yes, thanks, Stephen. And you -- we'll clearly give you more detail on next year at Capital Markets Day next Friday. And as Enrique said, it's moving around quite a lot at the moment, but you've seen the profile in the charts there based on a \$770 per metric ton. It's not \$770 today. It's I think we're \$740 (inaudible). And you're getting some...

Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

Yes. You can expect an increases related to price in dollar terms ranging around 14%, 15% on the full, I will say, yes, 2018 figure. And then we'll talk about growth more in detail on the Capital Market Day.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

And on transatlantic or, as you quite rightly said, the value target model in the long haul low cost, yes, we're very comfortable with the positioning. The Aer Lingus performance continues to be very encouraging. Our plans for next year, clearly dependent on the delivery of 321LRs. And this is an issue, and Enrique mentioned this in his comments, but we continue to see challenges from the manufacturers principally related to engine but not solely related to engine. So we continue to review the plans for Aer Lingus on the transatlantic next year. The aircraft were due to have been delivered to us earlier than we're now expecting to get them. And we're monitoring the situation in relation to any further anticipated delays to delivery, but in terms of positioning of both LEVEL and Aer Lingus, I think we're very comfortable and very pleased. Paris has been a bit more of a challenging start-up than we had expected. And I probably can't comment as to why that is with anybody. The difference -- there's a difference there between Paris is in France and Barcelona is in Spain. And it's been interesting to see some of the reactions to the start of LEVEL in Paris. On financing, yes, you're absolutely right. We've heard the comments. We have very good dialogue with all of the lessors. There's -- it's an attractive market at the moment for airlines, and we've been fortunate to be in a position to take advantage of that. And we've been putting in place arrangements for next year as well. So it is particularly attractive. I suspect it's more attractive for us than it is for some of our competitors. And that's clearly an opportunity that we have in the short term that we want to fully exploit, but the general environment is good at the moment.

Operator

The next question will come from James Hollins of Exane.

James Edward Brazier Hollins *Exane BNP Paribas, Research Division - Senior Transport Analyst*

Yes, three for me, please. Just on the first one, Enrique, I think you implied that Q4 unit revenue trends were the same as Q3, or similar, so I'm wondering if you meant that on load and yield and by region. Secondly, I'm wondering if maybe, Willie, you could confirm you've still not spoken to Norwegian since April and also whether it would change your interest if they were to divert one of these sort of big deals that's been mooted with a cash injection from someone else. And thirdly, I was wondering if you could perhaps quantify those engine compensation costs. And before you show me your red card on that one: Anything super vague would be fine for me.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Okay, I won't give you a red card. I'll give you something super vague. The compensation that we're getting is offsetting the costs that we're incurring. So I can't give you the quantity, obviously. That's subject to confidentiality, but yes, I'm still not happy, because we prefer to have the aircraft. I think we certainly missed some opportunities as a result of the aircraft not being available to us. And we are concerned about next year. We're already, as I said, seeing delays in the anticipated delivery of the 321LR. And that's disappointing for us because we've got a market that we can exploit and we're not getting into that as early as we had wanted. And on the Rolls-Royce situation, it's disappointing to see that these problems are going to continue into 2019 when we had fully expected to have all of the issues resolved by now. So we are getting compensation. The compensation is offsetting the cost associated with the non-availability of the aircraft, but as I said, I'd prefer to have the aircraft than the compensation.

Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

On the revenue trends, I'm going to be vague again. So what we can say is that short and medium haul markets are still strong, and that's what we are seeing for the months ahead. And the trends in the long haul are similar to the ones that we have been mentioning.

So Latin America has been slightly weaker than in previous quarters. It's not spreading or deteriorating further, although we are deploying a significant level of growth there because of reasons that Willie has been mentioning and the opportunities that we have there for the group. And the North Atlantic market is a very stable one. So really we have no, I would say, negative signs there. We are basically deploying the level of capacity that we feel optimizes the contribution that we are getting on that market and the tools that we are using for the different companies of the group.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

And on Norwegian, nothing new to report. We had anticipated that they would do something in relation to the fleets. We know that a number of the lessors have been interested in the Norwegian fleet. So that -- there's no surprise there. I see it as a positive for Norwegian, but it's not a surprise to us. It was something that we had anticipated and expected.

Operator

The next question will come from Jarrod Castle of UBS London.

Jarrod Castle *UBS Investment Bank, Research Division - MD, Head of the Travel and Leisure Sector, and Co-Head of the Global Transport Sector Team*

Just back to Norwegian. I think you said at the half year results that, if there wasn't a deal to be done, you would sell your shareholding into the market. Do you have any kind of cutoff date for when you think, "Okay, enough is enough. Let's get rid of our shareholding?" Secondly, it does seem like there's a number of headwinds growing for the airline industry and including IAG. Directionally, I mean, do you think that next year, when you kind of look at kind of the profit improvement, the EUR 200 million of this year, that we should be expecting directionally earnings pressure on the upside, downside or flat? And then just lastly, any thoughts, or maybe it's something for next week, in terms of the capital returns?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Yes, I think most of your questions will be better answered next week, so both in terms of capital returns and the outlook for next year. We faced headwinds this year, and I have to say I'm pleased that we've dealt with those. The headwinds are probably increasing into next year, the ones that we can anticipate certainly in relation to fuel, but I think we've demonstrated that there is flexibility in our business. And we've also demonstrated that we responded early to the headwinds, particularly with pricing, in anticipation of fuel price increases. So you probably remember I talked about adjusting the pricing from November of 2017 in anticipation of the fuel price continuing to rise through 2018. And it's going to be more challenging, I think, for a number of our competitors. And I think that means we're likely to see opportunities in these headwinds as well. In relation to Norwegian, what I'd said, and it was in relation, in response to a question that was asked in August when we did the half year results, I said that we wouldn't hold onto the shares; and that this time next year, that was the quote that I gave which suggests by August of next year, we won't hold those shares if we haven't concluded a transaction with Norwegian. I'm not going to give you a specific date, but clearly, if we are doing anything, you'll be well aware of it and the market will be advised. So we're -- it's not distracting us. It's not putting any strain or stress. And I think the underlying performance and the results that we're showing today prove that it's not distracting us. We're getting on with our business. And it's not something that's weighing on us at all, but yes, it's not going to continue forever. And it certainly won't be the case that, if we haven't concluded arrangements by -- or certainly by August of next year and probably before, we won't have those shares.

Operator

The next question will come from Neil Glynn of Crédit Suisse.

Neil Glynn *Crédit Suisse AG, Research Division - Head of the European Transport Team and Global Transport Sector Coordinator*

If I could also ask 3 questions. And the first one, on the premium outlook. Clearly, there are a lot of market concerns about capacity growth and on various markets that you operate in, but can you give us your take on premium or flatbed seat capacity, the outlook for the winter and indeed beyond, if you care to opine on it? Because it certainly seems to me those capacity growth rates are a lot more modest and manageable. And the second question, on other revenue, it was up 17% or EUR 66 million year-on-year in the third quarter, which I think was a dramatic improvement in performance. Could you help us understand to what extent BA Holidays, Avios were influential

drivers within that run rate? And then the final question. I know it's difficult to answer but interested in your own thoughts on contingencies. As we look forward into next year, with obviously Brexit looming and Easter being in April, I guess people will start booking Easter trips around year-end. And how do you think about contingency planning if we don't have any clarity at that point?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Okay, in terms of premium capacity, we're very relaxed. I think the premium demand has been good this year, and that's true for pretty much everywhere on the network. And in fact, I can't -- I'm trying to think is there anywhere that, that hasn't been the case, and I can't think of anything. And everybody is nodding here and agreeing with me at the moment. So we're very relaxed about capacity, yes. It's funny -- you talked about concerns around capacity. I can't remember the last time -- and I've been in this job now 13 -- over 13 years. I can't remember the last time somebody didn't express concerns about capacity, so I look forward to the day when somebody says capacity concerns don't exist. So there's always going to be these concerns, and we understand that, but what I would say is that, when we analyze the demand environment that we see and we look at our forward bookings and we analyze the behavior of our competitors, looking at the economic environment, we don't see anything that concerns us at this stage. Having said that, however, we are clear that we're in a position where we can respond quickly if there are any changes. And that's one of the features of our business. And it's one of the highlights that we point out at our Capital Markets Day, the flexibility that we have to adjust capacity in the event of any change in the underlying demand. So I remain comfortable with the capacity in all cabins in all regions that we're seeing at the moment. On other revenue, Enrique...

Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

Yes, other revenues, yes. It has been a quite stunning performance. You know that there we are basically taking to account revenues coming from our British Airways holiday activities in BA; also the Iberia both -- especially MRO third-party business but also handling third-party business; and then very significantly cargo, cargo revenues; and then others, as Avios and a diversified basket of other revenues. So cargo is again, I will say, performing very strongly through this year '19 -- sorry, 2018. And we feel that that's going to be the same for the fourth quarter. This also will be the case for Iberia third-party MRO revenues, which are going to be still growing through the later part of the year. I guess Avios and others will be probably more aligned with the general passenger growth rates that we are seeing in the business. But again, worth to mention both our cargo revenues, Iberia third-party MRO and even the British Airways Holidays are the main drivers of the improvement. There's nothing to indicate those rates of growth are going to be changing dramatically in the following quarters.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

And on contingency planning, we continue to believe, strongly believe that the arrangements post Brexit will facilitate the continuing operation of the airline industry as we know it. And we're fully expecting a comprehensive agreement to be reached between the U.K. and the EU. If there isn't: You've heard the language being used by both parties that they would expect a bare-bones agreement to apply, which I think will be sufficient for most. It may cause a bit of complexity for some carriers. We have close dialogue with the U.K. government, Spanish government, Irish government, as you would expect given our strong profiles in those countries. And we have ongoing dialogue with the relevant people in the Commission as well. So there's a lot of noise out there, and I know a lot of airlines are considering what it is they do, but I don't think we're being unrealistic in our belief that the arrangements that will be in place will be sufficient for everybody to continue to function. And we deal with these sort of, if you like, increased bureaucracy or regulatory hurdles on an almost daily basis. So we're not being complacent, but we are expecting and planning to continue to fly as normal.

Operator

The next question comes from Mark Simpson of Goodbody.

Mark A. Simpson *Goodbody Stockbrokers, Research Division - Analyst*

Three questions. First off, cargo, I just want to go back to that. Clearly, it's being driven by pricing. Volume is still down 1%. I'm just wondering in that pricing environment whether that's the reflection of the mix of high-value products. Can that be sustained as you go into next year? On the handling side, unit costs up a short 5% year-on-year in the quarter. I know it's a volatile series, but I'm wondering if there's anything specific to that performance in this quarter and what may reverse that going forward. And then finally, just on kind of



fuel surcharges or kind of claw-back on pricing. You mentioned you've been able to do that on the long-haul premium. I'm wondering if you can give us a feel for how you see the short-haul economy sort of products next year in terms of being able to maybe claw-back on fuel inflation.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Thank you for your questions. Yes, you're right. Cargo is very much pricing. It's to do with mix. And so we're comfortable with that, and yes, we believe it can be sustained. Our business is very focused on the premium mix, and that's been a successful part of our business. It's not easy for airlines to get into that segment because it does require a lot of investments. The larger cargo operators will do that, and we've certainly done that, but we don't see any concerns in relation to that. So that was a, if you like, strategic decision from our cargo leaders taken probably 4 or 5 years ago now. And I think it's proven to be correct, and we're comfortable with that situation. On handling...

Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

Yes. That's basically including British Airways Holidays, handling costs that are growing with the level of activity. And also, it will be including passenger compensations and other costs related with disruption that we have been going through in Q2 and Q3. So, it's volatile. It's basically bumpy. And hopefully, it will be coming to lower figures in Q4 and Q1.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

And on short haul, I think the Q3 figures tell you everything you need to know. We've seen, we've had growth in Europe and domestic with improving RASK in both domestic and Europe. Short -- the short haul has been good. There's good demand. We don't see the demand environment changing, and certainly the outlook. And we always talk short term here. We're looking 2, 3 months ahead, but that remains good. So we're very pleased with the short haul performance. As I said, the long haul, I highlighted because it's obvious to people there's -- more capacity has gone on -- gone into the transatlantic non-premium segment, but the ability to respond to fuel increases is common. All airlines have to ultimately price it in, or they go out of business. And the ones that haven't tried to price it in have gone out of business, and the ones that don't try to price it in will go out of business. So it's only a question of how long it takes for people to respond, but it hits everybody, hits long-haul carriers more than it hits short-haul carriers, but the general environment gives us confidence that, that can continue. It's just a question of how quickly we can respond to the change in the fuel price. I think -- was there another question you asked? Or I think that was it.

Mark A. Simpson *Goodbody Stockbrokers, Research Division - Analyst*

That was it, yes. I appreciate that.

Operator

The next question comes from Andrew Lobbenberg of HSBC.

Andrew Lobbenberg *HSBC, Research Division - Head of the European Transport Team*

(technical difficulty)

on -- just coming back on the Rolls compensation. You've said that compensation is offsetting the costs, so there's absolutely no impact on the unit costs, but are we meant to understand that there are some changes in line items and how it's allocated? Just so I can understand that. That would be great. And then secondly, just curious about the establishment of the short-haul operation of LEVEL in Vienna. It's obviously gone up and running incredibly quickly, but how is the competitive environment now? And with, in principle, 4 airlines looking to backfill poor old Niki disappearing, how sustainable is that situation? And/or who do you think will blink? And then just finally, Aer Lingus, the operating margin was down in the quarter, and yet commercially it's obviously a great success. And I imagine they might have some benefit from the industrial relations situations with Ryan. What saw their margin down in the quarter?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Thank you, Andrew. Let me deal with the compensation. Yes, it's the compensation is in different forms, so it's not all cash. And I can't go into the details of it, of course.

Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

[We can't tell]...

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

And yes, in general what I can say is that it's -- compensation that we receive is offsetting any additional costs that we're incurring as a result of the lack of aircraft availability. I can't give you a breakdown, I'm afraid, Andrew, but as I said, that's some comfort, but I prefer to have the aircraft. And that's why we keep pushing the manufacturers to address the situation. In Vienna, yes, it's exactly as you said. A lot of capacity has gone in there. I -- the point I made in the presentation earlier was we've reflected the costs associated with that in these figures. It's not an exceptional item. I know Ryanair have identified, I think, EUR 150 million this year as an exceptional cost associated with the acquisition of -- acquisition and operation of Niki; and have indicated, from what I've seen, that they expect that to be breakeven next year. So I think what you're seeing is, because there was a lot of capacity going into the market late, clearly yield was depressed as a result of that. That's not going to continue. So consumers in that market have had a real win for this year, but I expect the pricing environment to normalize in 2019. And we're already seeing signs of that. So the demand environment is good. I think the yield environment could have been better had people been able to yield manage, but you've always got this challenge when you're starting something late and starting something completely new. It takes a bit of time to adjust. So I think we'll know better in relation to that as we go through first and into second quarter of next year, but we're certainly comfortable with what we see and comfortable with what we believe our competitors are going to do in that market. And Aer Lingus was principally foreign exchange.

Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

Yes.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

It was dollar related. As you know, they would sell a lot of their transatlantic early, the exchange rates then change when they incur the costs associated with that transatlantic operation. And you follow Aer Lingus closely. You would have seen this in previous years with them, so it just reflects the pattern of transatlantic bookings, particularly given that -- their strong U.S. point of sale and the timing of those bookings versus the costs associated with operating those. So that was all. It's still a very strong performance from Aer Lingus.

Operator

The next question will come from Damian Brewer of Royal Bank of Canada.

Damian Brewer *RBC Capital Markets, LLC, Research Division - Analyst*

Two questions, please. First one, I remember Enrique alluded to it, but could you perhaps be a little bit more specific about how much the incremental disruption costs were on the business in this quarter versus Q3 last year and particularly understanding how much depression that had on the profitability of the business? And then secondly, now you've had the NPS measurements up and running for over a year now, I'm just interested to understand how that's contributed to margin in Q3 but in particular not just about what you've invested in but areas of investments or OpEx you've been able to avoid because customers don't pay for it or don't value it.

Enrique Dupuy de Lôme Chávarri *International Consolidated Airlines Group, S.A. - CFO & Executive Director*

Yes, on the disruption or costs related to disruption, we aren't going to be very specific. What we can tell you is the major portion of the impact has been affecting Vueling. So when you go through Vueling results Q3, most of the deterioration, if not all, has to do with these disruption costs. The second question...

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Yes. And then on NPS, just to correct you there: We've had NPS up and running for many years. What we've had running for the past 12, 18 months now is a common measurement of NPS across all of the airlines in the group and utilizing that more at the center. So the airlines, individual airlines, have always used it. And it is used to understand where we should invest. It's also used to measure the effectiveness of the investments, and we therefore do make changes to product as a result of the change in NPS. I'm pleased with the way -- so if I take BA, for example. The Q3 performance, BA was the leader in terms of NPS improvements in the third quarter. It was the leader in terms of long haul and short haul improvements in the third quarter and in the premium cabins in the third quarter as well. So in all areas where BA has invested, we've seen a positive response in terms of NPS, which is what we would have expected to see. And

what's encouraging is we've seen the response being more positive in most cases than we had expected. So that reinforces, if you like, the investments that are being made are getting the right results. Now in some cases we'll make changes, where the feedback will tell us that the customer doesn't like it. And we'll quickly change it. That's the beauty of this. We can -- we measure NPS actually on a daily basis, and we measure it on all cabins. We measure it on all routes. And we use that information to ensure that we adjust the product and make the right investment, but it's a very effective tool. And what's particularly useful now is, because we have it measured in a similar way across all of the airlines, that we can trial one thing on one airline, seeing how the customers respond to that and then use that on other airlines as well. And we actually sometimes trial the same thing on 2 airlines to see do we get a common approach. And that's, as I said, the beauty of having a common measurement across all of the airlines. So I think a very effective tool. It's reinforcing the decisions that we have taken, and we're pleased with the response that we're seeing.

Operator

The next question will come from Daniel Roeska of Bernstein Research.

Daniel Roeska *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Two, if I may. And first, on the international joint venture, maybe just any comment on progress with South America and LATAM and also looking into China and Asia and any progress with the partners there. Just it's gotten awfully quiet around this, so how are you thinking and progressing on the international JVs? And second question, on Avios and with the switch in leadership. We've also seen quite a number of job ads out for Avios. Any color where you're trying to move Avios to, kind of how your progressing on your strategy for that bit of the business?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Yes, thank you. And we're still waiting for the competition authorities to give us the results. I -- that's specifically Chile. And we sort of keep hearing it will be in a couple of weeks time, and well, we haven't heard the results. So we're patient, and we'll wait for that to come through. There's no other activity going on. On the North Atlantic, obviously we've got the review of Aer Lingus joining the transatlantic joint business. And on Asia and particularly China, as I mentioned before, we've had very good dialogue and increasing cooperation with China Southern. We're not looking at a joint venture there. We're clearly open to something if that makes sense, but that -- the initial stage of that relationship is looking at code sharing. But actually, we've had a very friendly and positive response. And we're very encouraged by the strengthening of the relationship between -- and it's principally British Airways and China Southern, but the relationship with China Southern also involves talking with IAG about potential strategic developments. But I think it's very early days and I wouldn't get carried away in relation to that, as I said. So the early focus is on strengthening the code share arrangements between BA and China Southern, and they've proven to be good so far. On Avios, yes, Avios is looking to recruit people with expertise in particular areas. And this will be a feature of the business. So we know that data is clearly a valuable resource. And we've got a lot of data in Avios, and therefore we want to recruit the best people to be in a position to analyze that for the benefit of Avios and the benefit of the group. And you should expect to see more of that. We want this to be done in a professional way. We -- you've seen other companies with strong loyalty programs often invested a lot in that area, and we're certainly going to invest the same. We're also investing in IT in relation to Avios. So the profile of the employee mix in Avios will change, and it will change to reflect the exploiting the digital opportunities but also exploiting the data opportunities. And the business is on track. The new leadership there are very clear, and we're very pleased with the strategies that they've articulated for the business.

Daniel Roeska *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Maybe just a short follow-up on that, so on Avios. And what do you think is a reasonable time frame before you can kind of more articulate the process that's going on and share more with the capital markets?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Yes. We will give them -- this is a new team, and we'll give them an opportunity to put -- I'm not sure we'll have time in the program that we're doing next week to go into it in detail, but I think, as we go through the year, I'm sure the IR team here will -- will look to set up a specific briefing, which we have done in the past. So they're not disagreeing with me, so I'll take that as the -- that they're willing to do that. And as soon as we can fit that into the calendar, we'll let you know. But I think, yes, there's good stuff to see there and we'll certainly share that with you. And Andrew will try and identify an appropriate date.



Operator

The next question comes from Jaime Rowbotham of Deutsche Bank.

Jaime Bann Rowbotham Deutsche Bank AG, Research Division - Research Analyst

Willie, Enrique, it's Jaime here. 3 quick ones, hopefully. First, just going back to that demand on short haul intra- Europe. I think it's been almost surprisingly strong given what euro area GDP has been doing. Is there anything you can point to in terms of what's been driving that multiplier to be quite so strong? Secondly, obviously good to hear about the positive progress of cargo revenues. Is there anything you can tell us in terms of what the contribution margins have been like or what you've been managing to do on costs in cargo? And then finally just to come back to these engine issues: Obviously, I hear the point about competitors on LatAm routes potentially suffering. At the same time, though, you're worried about more engine issues next year. Is the point there that you can simply be more flexible with your fleet when it comes to that capacity? Or you're not using the new Dreamliners there. Perhaps you could help me with that one.

William Matthew Walsh International Consolidated Airlines Group, S.A. - CEO & Executive Director

Yes, you've got it on the engine issue. That's exactly, as you know, we've got more flexibility in the fleet than some of our competitors would have. So that's why we're -- as I said, when we look at our capacity and we anticipate what some of our competitors will do, that's why we're comfortable with what we see for Q4 and certainly into Q1 as well. The cargo contribution is improving.

Enrique Dupuy de Lôme Chávarri International Consolidated Airlines Group, S.A. - CFO & Executive Director

Yes.

William Matthew Walsh International Consolidated Airlines Group, S.A. - CEO & Executive Director

We don't break it out, but it -- but this is improving...

Enrique Dupuy de Lôme Chávarri International Consolidated Airlines Group, S.A. - CFO & Executive Director

It's there's been significant investments there.

William Matthew Walsh International Consolidated Airlines Group, S.A. - CEO & Executive Director

Yes. It's been a good performance by cargo. We see that business -- you've heard me talk about this before. There is a disconnect between the cargo capacity available and the cargo volumes, and that's why we focus much more so on the premium end of that, the high-value cargo products that need to be transported by air, rather than trying to compete in the low-, very low-yielding often, cargo volumes, where people have not fully understood the incremental fuel costs of carrying that cargo. We're very clear on that. So, it's a very focused approach by our cargo teams. And on short haul, yes, I think it just reflects that there's, yes, good demand. It is a bit of a surprise, but we've not seen anything unusual there. It's just been a stronger demand environment than we had expected. And...

Enrique Dupuy de Lôme Chávarri International Consolidated Airlines Group, S.A. - CFO & Executive Director

(inaudible) networks?

William Matthew Walsh International Consolidated Airlines Group, S.A. - CEO & Executive Director

Yes, that's...

Enrique Dupuy de Lôme Chávarri International Consolidated Airlines Group, S.A. - CFO & Executive Director

Yes. I think it also has to do with where we are basically operating and the way we are concentrating on our basic hubs and networks; the way Vueling is coming back to their famous triangle, Barcelona, rest of Spain, Paris and Italy; and basically growing in through frequencies and markets that are well known for us, in which we really know how to operate and make money. I think that's basically the case.

William Matthew Walsh International Consolidated Airlines Group, S.A. - CEO & Executive Director

Well, there's been a good environment. And as I said, that continues to be the case as we look at a forward-booking profile.

Operator

The next question will come from Michael Kuhn of Societe Generale.

Michael Kuhn Societe Generale Cross Asset Research - Equity analyst

Mostly follow-ups. Firstly, on fuel hedging you're now on higher hedging rates compared with last year. This is trend that we have seen in recent quarters. Is there a technical component in it? Or do you plan to be generally on higher hedging ratios going forward? Then secondly, as you just spoke about competitive reviews and joint ventures: The CMA recently announced they would review the transatlantic joint venture. And what should we expect? How long will that process take? And is there any reason to assume that they will see things differently compared with the earlier reviews it went through? And then lastly, sticking with transatlantic, there were some contradicting news on the negotiation progress of the British and the U.S. government with regards to future transatlantic flying rights. And can you share any update with us on that topic?

William Matthew Walsh International Consolidated Airlines Group, S.A. - CEO & Executive Director

On the hedging, we've not changed our hedging profile. We are looking at the profile we have in -- as into the third year. As you know, we go out 36 months. We're going to sort of just clarify that a bit in our policy, but we've not changed it. And there is flexibility in the policy, and that's why the team have the flexibility to adjust around a central line. So you will always see minor changes in the profile, but there's been no change in the hedging policy that we've had for some considerable time now. On the CMA, I honestly don't know. I can't -- this is it's a new team, so -- and this is a new process. And obviously, it reflects the Brexit impact, if you like, where a significant number of the transatlantic routes are U.K. routes, and therefore the CMA has said we're -- we will be responsible. So therefore, they want to have a look at that, but I honestly can't tell you. What I can say is that the other competition regulators that have reviewed this have clearly seen the consumer benefits from the transatlantic joint business, and that continues to be the case. So we're very clear that consumers have had significant benefits as a result of the transatlantic joint venture. And on the -- I haven't really seen the -- you said "some contradicting statements" on the U.K., U.S. I haven't seen that, but then I talk to the U.K. and U.S. officials. So they haven't given any contradicting news to me. There's probably been contradicting stories in the press written by people who aren't close to what's going on. So I'm very confident, I've had this for a long time, that there will be an open skies agreement agreed between the U.S. and the U.K. to replace the U.K.'s participation in the EU-U.S. open skies agreement. And I see nothing, absolutely nothing, to suggest that, that won't happen. In fact, everything I've seen just strongly reinforces the view that, that will happen.

Operator

Our next question will come from Penny Butcher of Morgan Stanley.

Penelope Jane Butcher Morgan Stanley, Research Division - MD

Just one question on my side with regards to labor. I think you have pointed out obviously the benefits of the pension deals flowing through the numbers this year. Just could you remind us where we stand in terms of timetable for the next round of wage negotiations on, I guess, both pilots and cabin and ground staff; and how that sort of process might look into next year given, I guess, a very clear pressure point from the market in terms of wage inflation through several industries that have been reported in the last several months and quarters?

William Matthew Walsh International Consolidated Airlines Group, S.A. - CEO & Executive Director

Thanks, Penny. Yes, those negotiations, I take it you're specifically relating to British Airways. Those negotiations have already started. The BA figure for 2018 was actually quite high because it was based, from memory, on the December inflation figure of 2017, which was 4.1%, if I remember it correctly. So I think we've been ahead of the market in terms of wage increases in British Airways for 2018, but the negotiations have already started and they will continue as they normally do into 2019.

Enrique Dupuy de Lôme Chávarri International Consolidated Airlines Group, S.A. - CFO & Executive Director

And the rest of the company.

Penelope Jane Butcher Morgan Stanley, Research Division - MD

Okay, maybe just as a follow-up, just to understand, is are you looking for sort of a longer-duration setup of agreement within BA? I mean a 2-year or a 3-year-type structural deal. Or you're happy to just run the rolling-salary-type agreement.



William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Yes, we're always flexible in this. We've done 1-year deals. We've done 3-year deals. We've done everything in between. So it's a process of negotiation and it's managed by British Airways, and we're -- we don't involve ourselves in those negotiations. That's responsibility of Alex and his team at BA. So they will decide amongst themselves. They will advise us as to what it is they're doing, but I would expect them to follow the similar pattern to what they've done before. And they typically are 18 months to 2-year deals that I think they've done recently.

Operator

The next question will come from Rishika Savjani of Barclays.

Rishika Dipak Savjani *Barclays Bank PLC, Research Division - Assistant VP*

I also just have one follow-up remaining. I wanted to ask about the trajectory on the unit cost base. You've clearly had a strong and a consistent year this year in terms of reducing those unit costs, but once that pension tailwind starts to annualize -- and correct me if I'm wrong, but I think you've got some OpEx investments in the fleet and product planned for next year. How should we think about the trajectory going forwards?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Thank you. What we say and what we've continued to say is that, we have a -- if you like, the target of a 1% reduction in non-fuel unit costs on an annual basis. It won't -- we won't achieve that every year. We'll exceed it in some. It'll be depending on the profile, and that remains the same. So you'll see us next week, capital markets. We're just going to, I mean, tell you now what we're going to tell you next week. We're going to reinforce that, that remains the target for the business. And it's a target. It's a 1% per annum target reduction in non-fuel unit costs, and we see no reason to change that. Some years, as we say, will be better than that. Some years will be shy of that, but overall that's what we aim for and that's what we'll continue to aim for.

Operator

We will now take our final question from Alex Paterson of Investec.

Alex Paterson *Investec Bank plc, Research Division - Analyst*

I have 3 questions, please. Firstly, with respect to your announcement yesterday on the cyber attack or on that -- is there any more that you can say on that? Specifically, can you say what was different between the 2 attacks? And which part of your billing and payment systems are insourced and which are outsourced? Secondly, on the dividend, you've increased the interim by EUR 0.02. Should we expect a similar increase with the final? And lastly, on ATC, is there -- or can you be optimistic that they are -- there won't be a repeat of this year in next summer? i.e. do you think there is progress being made on overflying and resolving some of the staffing issues?

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

On the cyber, it's had nothing to do with the billing and payment systems. So I think what I can say -- and obviously I have to sort of preface my remarks by saying it's an ongoing criminal investigation, so I probably can't disclose everything that I'm aware of, but there's been a very, very detailed forensic review and analysis working with cybersecurity experts. We have had 2 different companies working with us, and these are world leaders in this area. We've been working with the national cybersecurity teams and the National Criminal Agency. So this -- there's been a very detailed analysis. We know when it happened. We know how it happened. We know where it happened. We know what they did, when they got access. We don't know who it was, and that's obviously not for us. That's for the crime agencies to further investigate, but we've got a very detailed understanding of what happened. It was the same -- so this was a -- if you like, a single attacker or a single group, but it was a single attacker doing different things over a period of time. The -- what we disclosed yesterday was, as I think the release said, we've no conclusive evidence to show that the data was exfiltrated, but we do have evidence to show that the data was viewed. So being cautious, we believe it's appropriate that we advise our customers that, that was the case. We've had regular and ongoing contact with the ICO, and obviously we'll continue to do that. And they will produce -- because I think it's clearly their responsibility, but they will produce a public report which will detail all of the issues that have happened. So this is something clearly that we'll try and be as open as possible, bearing in mind, as I said, that it is a criminal investigation. We apologized to our customers. We don't want anybody to face this. And we'll share information with others so that, hopefully, they can avoid the issues that we have seen. On the final dividend, we'll report the final dividend when the board has assessed that. So as you know, this is a board

decision which will be taken at the appropriate time. And on ATC: No. What I would say is no. I'm not confident we'll see any material change next year. And our assumptions are that we'll see continuing ATC disruption through 2019; and that's, if you like, embedded in the plans that we have for 2019. The level of that disruption is unknown, but we are anticipating that there will be ATC disruption. I would hope that we won't see as much disruption as a result of industrial relations strikes; and if we do see strikes, that the authorities will have implemented the contingency plans that have been talked about to minimize the disruption for overflights. And I think that's the one possible bright light on the horizon, but in terms of the underlying manpower issues, we don't see that being resolved in 2019. We think that's more a 2020, 2021 time frame.

Operator

That concludes today's question-and-answer session. Mr. Walsh, at this time, I will turn the conference back to you for any additional or closing remarks.

William Matthew Walsh *International Consolidated Airlines Group, S.A. - CEO & Executive Director*

Okay, thank you.

Well, as I said, we're pleased with the good result for Q3 and the outlook for the rest of the year. And we look forward to seeing all of you and as many of you as possible when we meet next Friday, at Capital Markets Day.

So thank you for joining the call, and we look forwards to talking to you next meeting.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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