International Airlines Group Q3 2026 Results | 6 November, 2026

Moderator:

Good morning, ladies and gentlemen, and welcome to International Airlines Group Q3 2026 results. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session through the phone lines and instruction will follow at that time. I would like to remind all participants that this call is being recorded.

I will now hand it over to Luis Gallego, chief executive officer to open representation. Please go ahead.

Luis Gallego:

Thank you very much.

Good morning, everyone, and welcome to the IAG third quarter update. As usual, I have José Antonio Barrionuevo, our group CFO with me today, as well as the rest of the management committee.

In summary, we have performed well this quarter despite the headwinds that we and the industry face. This has been a record quarter in terms of revenue, increasing by 4.5% with positive yields in all of our markets. The North Atlantic and South Atlantic have been particularly strong, and I am also pleased with our shareholder performance. Jose Antonio will cover this in more detail in a minute.

We are pleased to have delivered resilient third quarter profit of 1,726 million euros at an operating margin of 17.7%, which highlights the quality of the IAG portfolio. We have strong world-class airlines, and we do add the contribution of the non-airline loyalty business. This has also underpinned operating margin for the first nine months of the year of 13.5%. This is a very strong performance in the context of the sector and what is going on in the world. Our non-fuel unit costs increased by 3.4% in part due to the impact of a number of one-off disruption events such as the air traffic control failures in September, and obviously the fuel price has had also a big impact. We have taken action to mitigate this. As we head into the winter season, we are taking out capacity in a disciplined way to support revenue and profitability. This is supporting expected full year fuel recovery of over 80% across the group and over 100% of British service.

As I mentioned earlier, our loyalty business continues to grow its profit, which increased by 8% in the quarter, highlighting the increasing contribution of its earning and cash flow in the portfolio. And finally, our strong financial foundations mean that we are continuing to reward our shareholder. We have now announced an increase in the interim dividend per share of 10%, which compliments the ongoing 1.5 billion euros year buy back program. And now I hand over to Jose Antonio to take you through the numbers.

José Antonio Barrionuevo:

Thank you, Luis. Good morning, everyone. I will now take you through the details of our third quarter results.

Looking at the left-hand side of the slide, we have shown you the key drivers of a change in operating profit in the quarter. Operating profit was 1.7 billion euros, down 327 million on the record Q3 of last year at a sector leading operating margin of 17.7%. As expected, high fuel costs were a significant headwind this quarter, but strong revenue performance helped to offset part of the impact. Passenger revenue increased by 334 million euros driven by strong yields across all of our markets, particularly in OHO. Cargo revenue increased by 60 million euros as a strong pricing more than offset lower volumes as

we actively targeted high yielding products. Other revenue increased by 81 million euros, reflecting another good quarter from IAG loyalty and higher activity at our MRO engine business in Iberia.

Non-fuel costs rose by 163 million euros, which I'll come back to later. It is worth noting that capacity was flat this quarter compared with our previous guidance of around 1% growth, reflecting the ongoing disruption in the Middle East as well as flight cancellations caused by disruption, including the UK air traffic control issues involving NATS. I guess that backdrop will remain firmly focused on cost discipline as our transformation programs continue to deliver strong cost savings.

Fuel was the quarter's biggest headwind with fuel costs rising by 565 million euros as the Middle East conflict drove yet fuel prices higher, partly offset by our hedging. FX was a 30 million net headwind driven by the adverse transaction impact as the weakness in the US dollar is still weighing on our revenues. And then on the right-hand side of the slide, you can see that despite the higher fuel prices, every IAG airline delivered double-digit margin this quarter, and also that IAG Loyalty continue to grow profit quarter on quarter.

Now we will examine our operating company performances in a bit more of detail. Aer Lingus delivered operating profit of 142 million euros at a 17.4% operating margin in the seasonally strongest quarter. Unit revenue rose 2.1% reflecting improved demand, particularly across the North Atlantic and in transfer traffic despite high capacity growth in Dublin. British Airways delivered an operating profit of 600 million pounds at a 14.4% operating margin. Unit revenue grew by 5.8% with a very strong performance in the North Atlantic and in business traffic supported by the transformation benefits from our investment in commercial revenue systems. As a result, British Airways is on target to recover over 100% of its fuel cost increase this year and is seeing very strong bookings for the first quarter of next year. BA's non-fuel unit costs increased by 5.1%, reflecting lower than plant capacity as the plans to return to the Middle East were postponed several times, which also created inefficiencies across its operations. Costs were also affected by one of disruption during the quarter, including the NATS air traffic control outages and Heathrow baggage system failures.

Iberia reported an operating profit of 452 million euros at an operating margin of 19.6%. Capacity increased by 4.4% supported by the addition of its eighth A321 XLR and the redeployment of capacity from the Middle East into long-haul markets. Non-fuel unit costs increased by 2%, mainly reflecting higher third party MRO activity, which also contributed to the increase in Iberia in other revenue that I mentioned earlier. At the airline level, however, non-fuel unit costs improved slightly, down 0.3% despite higher than expected engine maintenance challenges.

Vueling delivered an operating profit of 257 million euros at a margin of 23.8%, the highest in the group, with capacity down 1.1% as higher fuel prices led us to focus our operation on our core markets. They show demand was relatively soft for most of the summer, but performance strengthened from September.

And finally, IAG Loyalty deliver an operating profit of 152 million pounds at an 18.9% operating margin. On the underlying pre-HMRC basis, profit was 171 million pounds of 20 million pounds, an increase of over 13% with the core loyalty business up 20% partly offset by lower holidays profit, which was affected by the conflict in the Middle East.

Turning to unit revenue, demand for travel remains robust. Capacity was down 0.2% in the quarter and passenger unit revenue increased 4.1% or 4.3% at a cost and currency basis. So currency had very little impact this quarter compared to earlier quarters this year.

The North Atlantic was the standout performer. Unit revenue increased 11% on broadly flat capacity with every airline reporting positive unit revenue growth. British Airways was particularly strong, up 12.6% at cost and currency, benefiting from healthy demand across all cabins and point of sale, including

business customers traveling from North America to Asia via London, reflecting reduced market capacity in the Gulf. Iberia also saw a strong improvement quarter to quarter, particularly when taking into account its capacity growth of over 11% with unit revenue up 4.2%. Latin America continued to perform very well with unit revenue up 2.3% or 3.4% at cost and currency on a capacity increase of 5.4%.

All cabins performed well, and in particular premium cabins. We were very pleased with the new Fortaleza and Recife routes on the XLR, which demonstrate the organic growth opportunities the aircraft unlocks. Europe was more competitive with high levels of competitor growth in our markets. We reduced capacity by 1.2% mainly at Iberia and Vueling to protect profitability and unit revenue increased by 2.3%.

In domestic, unit revenue was flat, a resilient performance considering we increased capacity by 9.7%. Growth was concentrated in the Spanish islands driven by Vueling redeploying to core routes and Iberia relocating aircraft from [inaudible 00:10:45] Tel-Aviv service. Africa, Middle East and South Asia unit revenue increased 13.2% with capacity down 90% as we have reduced flying significantly to Gulf destinations. South Asia continues to perform strongly, partly benefiting from customers avoiding one-stop alternatives via the Middle East.

Asia Pacific finally also had a strong performance. Unit revenue increased 3.8% and capacity increased by 9.3% as we redeployed some capacity from the Middle East to Asia Pacific. Growth was driven by business volume with the region also benefiting from a shift towards direct services as Middle East connectivity was reduced.

Non-fuel unit costs increased by 3.4% in the quarter. This was driven by, A, lower than plant capacity due to the continued disruption in the Middle East, representing around 1.1 percentage point of increase. B, higher non-airline costs such as increased third party MRO activity at Iberia, another one percentage point of increase. C, a number of significant one-off disruption events including their traffic control outages, Heathrow system failures, and unusually high engine-related cost headwinds at Iberia together representing another 0.5 percentage points of increase. And finally D, an FX headwind of around 0.2 points, altogether resulting in underlying non-fuel cost increase for the quarter of only around 0.5%.

In the context of general inflation of around 3.5% in our markets, this strongly demonstrates the benefits of the cost optimization initiatives that are already ongoing in our transmission plants as well as the targeted in-year cost mitigation actions that we overtook, including tighter control of recruitment and resources, optimization of non-essential supplier spend, increased use of technology and AI and reductions in discretionary areas such as marketing, consultancy and internal projects.

Looking at the different components of our CASC, employee unit costs increased 3% reflecting pay deals including the recent pilot agreements at British Airways as well as inefficiencies driven by resources that could not be operated to the Middle East. Supply unit costs increased 2.9% with the disruption cost partially mitigated by our transformation programs and the tactical actions that I described. Ownership unit costs increased 6.8% as we remain committed to discipline investing in the business, reflecting new more efficient aircraft and customer focus and digital investments. Fuel unit costs increased 30.7%, bringing total unit costs up 10.5% in the quarter. Once again, we reiterate our strong commitment to tight control discipline across all our airlines to preserve our competitive cost base, one of the key success factors of IAG's performance.

This slide takes us down to statutory net profit for the nine months. Operating profit before exceptional items was 3.5 billion euros, down 11% at an industry-leading margin of 13.5%. Profit after tax before exceptional items was 2.4 billion euros, down 12%, and adjusted EPS decreased 9.2% to 15.4 euro cents with the falling profit partially offset by our lower share count resulting from the share buyback program.

Our balance sheet remains very strong, which is a core component of our capital allocation framework. Net debt reduced to 4.2 billion euros from 4.7 billion euros at the half year and 5.9 billion euros at the end of last year. Net leverage was down 0.6 times and gross leverage was 1.9 times. We expect leverage to increase by year-end in line with seasonal booking patterns as well as the CapEx impact from the expected deliveries of seven aircraft in this coming quarter.

Going into more detail on fleet developments, we took delivery of two aircraft in the third quarter, high so far this year, and now expect 12 for the full year compared to the 16 I guided at the half year as three Boeing 737s of Vueling and one A321 NIO British Airways will move into 2027. We continue to proactively manage our fleet and non-fleet CapEx to drive higher rates of return, carefully prioritizing investment across the group. As a result, we now expect CapEx of around 3.1 billion

... euros for the full year, down from the 3.1 billion euros I guided at a half year. Before passing over to Luis, I want to highlight that our performance in the quarter demonstrates the core qualities of the IAG Group. Our revenue performance has been strong, delivering both record revenues and strong unit revenue growth, reflecting our market leadership and our unique brands. And we have been able to recover more of the fuel price increase than what we initially expected. We remain extremely focused on keeping a highly competitive cost base and have proof that we're able to react quickly when affected by external factors and one-offs beyond our control.

Our margin performance in the third quarter remains sector-leading and our performance in the year to date highlights our resilience and structural advantages. We remain committed to achieving a full year operating margin of at least 12% and expect to generate significant free cash flow this year, whilst still investing in the business and maintaining a very strong balance sheet, which is supporting strong dividend growth and our ongoing 1.5 billion euros share buyback program.

And now I hand over back to Luis. Thank you very much.

Luis Gallego:

Thank you, José Antonio. Looking at the outlook for the rest of the year, we are well positioned to deliver resilient operating profit and [inaudible 00:17:32] leading profitability despite the macroeconomic and geopolitical challenges that we face. This is a strong proof point of the resilience that we are confident to deliver both in the short term and the long term.

Firstly, the demand for our services continues to be very strong. Our customers across each of our markets continue to choose our airlines for the schedules, travels and services that they offer. This is what is driving our revenue growth. We are well booked for the fourth quarter and the bookings for the first quarter next year are also looking very strong, although it's still early in the booking cycle.

As a result of the actions that we are taking, we expect to deliver at least a 12% operating margin this year, which is again a world-class performance from the group. Our balance sheet strength and significant free cash flow means that we are continuing to return cash to shareholders through both dividends and a major share buyback program. And we continue to focus on the long term where we are confident that our strategy will consistently create value for our shareholders.

So in summary, I will come back to our investment case, our fundamentals drive best in class value creation. We have a very strong portfolio of businesses from airlines with great positions in attractive markets and high quality customers to a loyalty business that delivers cash and earnings growth every quarter. Our execution underpins our world-class financial performance.

Our transformation program is what makes the difference, delivered every day through by our talented people. And for our shareholders, we continue to deliver sector leading value creation. Through our discipline focused on ROIC, we are creating long-term earnings growth, significant free cash generation

and continuing rewards through increasing dividends and substantial additional cash returns. We fully expect this to continue. And on that note, I will open the session to questions.

Moderator:

Ladies and gentlemen, we will now begin the question and answer session. To ask a question on the phone lines, please signal by pressing star one on your telephone keypad. We ask that you please limit your questions to a maximum of two. We'll pause for a moment to assemble the queue.

We'll take our first question from Stephen Furlong with Davy. Stephen, please go ahead.

Stephen Furlong:

Yeah, good morning gentlemen. Two questions. I was just wondering, the leverage position is very strong and healthy and as you look out into next year, I know it's early, but my question is, would you continue a buyback program if cash flow is negative, if free cash flow is negative because you have the room in the balance sheet, but I wanted to ask that question because I'm not clear on that.

Second question, it's for Luis on TAP. If you knew that there was a potential to look at a majority stake in the company, would that have changed your thought process? And just a wider thing on hubs, which are competitors that having multi, multi-hubs, are you happy with the platform you have today, a more concentrated hub network perhaps than some of the competitors that where they have six or seven hubs? Thank you.

Luis Gallego:

Thank you.

José Antonio Barrionuevo:

Yes. So on the first question, as you correctly pointed out, we have a very healthy balance sheet. We also have a very healthy cash generation performance in 2026. We guided at the beginning of the year that we generating free cash of around three billion. We're not going to be too far from that, so we're not contemplating a negative free cash flow scenario in '26 or in '27. And we will come back in the results presentation in February '27 with our approach for buybacks in the future. What we can confirm now is that we are completing the buyback program in place for 2026.

Luis Gallego:

Okay. And about your second question, TAP. So it's true that for us it was a must to have a path to control. And the main reason is that to have the margins that we have in this group between 12 and 15%, you need to do the right thing in the different places and the different airlines. So we need to have the freedom to define the strategy for the company.

So at that time, I think it was the right decision because we didn't see a way to improve the performance of TAP with that restriction. I still think that the development of TAP within the group IAG would be the best for the airline and an opportunity for us. But in any case, we are developing our opportunities with organic growth in the Brazilian market and also developing the partnerships that we have in the region. So we continue with the focus in the right place.

Stephen Furlong:

Thank you.

Moderator:

Your next question comes from the line of James Hollins with BNP Paribas. James, please go ahead.

James Hollins:

Yeah, thanks very much. Good morning to you all. Very obvious question, but annoyingly short term, sorry Stuart, but if we look at Q4 unit revenue, I was wondering if you could maybe give a little bit more of a quantification of how you see that given you're 85% booked. And if you're feeling very generous, you've talked about very strong bookings in Q1, maybe any sort of modeling expectations or guidance would be lovely.

And then perhaps a little bit niche, but if Carolina is on, I'd love to hear about the Vueling cost performance. I think [inaudible 00:23:55] is down 1% on capacity, down 1% in Q3. That's against a comp of down 2% last year. I might be missing something very obvious, but that seems ludicrously strong. So maybe just let me know what's going on there. And if Carolina is feeling generous also, maybe just give an indication of how they see or how you see Spanish market performance, particularly with Wizz coming in and Ryanair making a few moves.

Thank you.

Luis Gallego:

Okay, so good morning. So about the first question, as you said, now we have 85% of expected Q4 bookings, and what we see for the Q1 is also very strong. We see an improvement in passenger RASK that is above what we had in the Q3. All of our op costs, to be honest, are above what we expected in our last forecast, and we see that North Atlantic continues solid, being very resilient.

Iberia also growing. Latin America continues strong. Europe, you see that in the Q3 was an area where we saw some weaknesses improving in the Q4. And also the domestic traffic is very resilient, although we are adding a lot of capacity. So in general, the view is very positive. Carolina, please.

Carolina Martinoli:

Yes. Hi, good morning, James. So on cost, as you know, as other operating companies in the group, we have a very strong transformation program that started back in '21. I would say no stone is unturned. And I also want to highlight that NPS is going up. So this cost performance comes with a four point NPS performance in the quarter. But basically it's about there's no silver bullet. It's about everything, absolutely every cost line, looking at suppliers, specifications, using technology to be more efficient. So it's a lot of different small things that come up with that development.

And sorry, Spanish domestic. Sorry, James. Spanish domestic, we grew 7.3% in Spanish domestic. It's a strong market for us. We have one third of this market. It's also, as all markets for Vueling, extremely competitive, but we are happy with the performance and our strong position. We offer in domestic, it's very important to offer a deep network so we have lots of frequencies, a very good value proposition for customers. We are on the top tier in punctuality and operating performance, and we have a very good service. So I think that combination makes a strong position for domestic.

Moderator:

Your next question comes from the line of Savi Syth with Raymond James. Savi, please go ahead.

Savi Syth:

Morning. So first question, I was wondering if you could please share what you're seeing on the corporate demand front and as you're looking to the fourth quarter, if that trend is continuing. And then secondly on the fleet, I was wondering if you could give an update on fleet expectations into 2027 given that you've seen quite a bit of slippage here in 2026. Thanks.

Luis Gallego:

Okay. So corporate travel performance is strong, we continue the same trend throughout the year. So it's something that it was before the Iran conflict and it continues. The growth is mainly driven by yield and demand is very strong across all the sectors. And as we said before, technology and banking are particularly the sectors that are doing better. And British Airways, they are doing very well in North Atlantic and South Asia and Asia Pacific, but maybe Sean you want to comment something else.

Sean Doyle:

Yeah. If you look at what we saw in quarter three, our RASK was up 5.8% vLY. Within that business was up about 14% vLY and North Atlantic in particular it was even stronger. And we see that trend actually building more positively than Q3 as we head into Q4, so as Luis said, driven by strong corporate demand, finance and tech being very strong, but also really strong demand from smaller businesses as well, trading in and out of the UK, but also we see good business traffic in terms of our connecting network.

I think we've done very well as well to pick up a lot of traffic between the US and markets like India or [inaudible 00:29:05] is a really strong alternative to corporates who have been bypassing the Gulf Gateways. So we see that being very strong in Q4 and actually continuing into Q1 as well when we look at forward bookings.

Luis Gallego:

Okay. And about the fleet, we said before that now we expect 12 new aircraft this year, eight short haul and four long haul. We said previously 16, because of these delays we are reducing the number. We are delaying the 737s in Vueling, but I think that the schedule continues as it was.

We are having also some delays in the 777-9 that now is expected for 2028. But we also had good news because we received the first 787 [inaudible 00:30:04] with the GE engines and increased MTO in mid-October. So in general, we are confident that we are going to deliver the program that we have in place, but with some minor delays that we are adjusting.

Savi Syth:

Thank you.

Luis Gallego:

You're welcome.

Moderator:

Your next question comes from the line of Jaime Rowbothom with Deutsche Bank. Jaime, please go ahead.

Jaime Rowbothom:

Morning, Luis. Morning, José Antonio. So two from me. The first one on cost. So on slide nine, José Antonio, it was very helpful to hear the breakout of some of those one-off headwinds. I think you said 1.1% Middle East, 1% Iberia MRO, 50 bips for ATC on that disruption and 20 bips for FX leaving about 50 bips underlying ex-fuel CASK inflation. I hope I've got that right. In Q4, is it reasonable to think that the only one of those that's likely to go away hopefully is the disruption bit? I'd love to hear you talk a bit about Q4 in terms of ex-fuel CASK inflation.

And then the second one, given the very strong pricing that you're seeing, particularly across the Atlantic, but taking into account high fuel and delayed aircraft deliveries, how are you thinking about capacity growth in 2027, please? I presume the priority is still to maximize unit revenue and returns rather than try and push capacity into that strength, but I'd love to hear some thoughts on that as well.

Thank you.

José Antonio Barrionuevo:

Thank you, Jaime. So on the cost side, you did get the numbers right. When we look into Q4, we're certainly expecting and hoping that disruption is at a lower level, so we're able to get

... get rid of some of those components. We still have a little bit of less capacity than we originally planned because of the redeployment of the Middle East capacity in BA. But certainly, as you say, we would be expecting the disruption to be lower in Q4 and having a positive impact on our non-fuel cost. There's also a component there that I mentioned before, which is the highest third party non-airline activity in [inaudible 00:32:27], which is a negative effect on our non-fuel cost, but it's actually positive for the EBIT of the company because you get the other revenues on the other side of the P&L. So we're expecting that to continue also in Q4 of this year.

Luis Gallego:

Yes. And about the capacity for 2027 is to have, as you say, because for example, we are resuming part of our operation to the Middle East, but we need to see how the situation is going to evolve. But in principle, we expect to have an increase of capacity of less than mid single digit.

José Antonio Barrionuevo:

Jamie, coming back to your question, one additional factor is FX, which was kind of neutral in Q3 and is going to be a headwind in Q4. So we will expect on a pre-FX basis to be what I said before, but FX will be a negative factor in Q3 on the cost side, it will be a positive one on the revenue side.

Jamie:

Understood. Thank you, gentlemen.

José Antonio Barrionuevo:

Thank you.

Moderator:

Your next question comes from the line of Harry Gowers with JP Morgan. Harry, please go ahead.

Harry Gowers:

Yeah, thank you. Morning, everyone. Two questions, just thinking more about 2027 at this stage. The first one, obviously the ex-fuel costs will be up a little bit this year. It's impacted by capacity and some of that disruption, but wondering where you expect the trajectory of ex-fuel unit costs to be or to be heading for 2027, if you can give any directional kind of guidance at this stage. And then second question, with fuel at this level, you clearly need to try and raise ticket prices again next year to offset that. So I mean, do you think the pricing power is there in your markets to be able to offset fuel next year and can the elasticity of your passenger base soak up prices going up another leg next year? Any thoughts will be welcome. Thank you.

José Antonio Barrionuevo:

So the first one, a non-fuel cost is a little bit the same as the question before on Q4. We would expect disruption to be at a lower level next year. We also expect the capacity from BA that was not able to be flown this year, they're not able to be redeployed from the Middle East capacity to being flown in 2027. So we expect to have improvement from that. Also, we will continue with our transformational cost programs and expected to yield high strong savings on the cost side with introduction of more technology and AI. So yes, the outlook for non-fuel costs next year, we should be more positive than the one we are experiencing the second half of this year.

Luis Gallego:

The second question, we continue seeing a strong pricing power, but I think it's differing in different markets and also with different airlines. So when you look at what we call the pass through in this year, the performance of the different airlines has been different. And in the case of British Airways, for example, for the full year, the pass through has been always going to be around 100%, but you cannot expect the same when you are operating, for example, in the intra-European. But what we see now for the last quarter of the year and the first quarter of 2027 is that there's this situation of very strong demand increase in yields continues. So we are optimistic about the yield.

Harry Gowers:

Right. Thank you both.

Luis Gallego:

Welcome.

Moderator:

Your next question comes from the line of Ruairi Cullinane with RBC Capital Markets. Ruairi, please go ahead.

Ruairi Cullinane:

Yes, good morning. Firstly, perhaps I could ask about the capacity drop on IAG routes. You've previously given some interesting detail on these calls. And then secondly, are you expecting any consolidation, any M&A opportunities in the current crisis? Thank you.

Luis Gallego:

Okay. I think about capacity, I think the most important part this year with the adjustment of the Middle East. For us, Middle East region is more important than for others in terms of capacity. And the main

delegation this year from that region is true that now in the fourth quarter we are adjusting capacity in zone operators and for example, in the intra-European, that I said before, that is a very competitive market, but we expect to resume the capacity to Middle East, so to come back to the path that we had previously.

And about consolidation, all these situations where you can see weakness in Zone Airlines is an opportunity for consolidation. We have seen that some companies are having difficulties starting capacity and even having conversations with us to see if we can do something together. So usually when you have a strong balance with good results in situation like this, you have a benefit, but we will explore any possible option.

Ruairi Cullinane:

Great, thank you. Actually, on the first question, I was more asking about competitor capacity on IAG routes. Is there anything particularly to note there? Thank you.

Luis Gallego:

No, I think maybe, Sean, you can comment [inaudible 00:38:21] maybe.

Sean Doyle:

Yeah, I think on North Atlantic, we see pretty moderate capacity growth in and out of the Heathrow Hub. I think it's marginally negative and it's looking kind of flat in terms of the published schedules that we see for the winter. I think summer we'll know more about, when we get into December, when the schedule snapshots are being published. But I think there is a rationality in the way people are publishing their schedules at the minute, which is reflecting the higher fuel cost.

Marco:

And if you look at this, Marco, if you look at Latin America, we did see capacity increase in these last two quarters and at the same time it's still very, very strong demand that you saw in our RASK results that despite the increase in capacity, we do see still positive evolution of RASK. And it's true that in particular that was focused on the south part of Europe and Spain as well, where we saw double-digit capacity increase for Q2 and Q3. But once again, combined with a very strong and resilient demand that made possible that RASK would increase despite that.

Ruairi Cullinane:

Thank you.

Moderator:

Your next question comes from the line of Axel Stasse with MS. Axel, please go ahead.

Axel Stasse:

Yeah, morning everyone. Thanks for taking my questions. Sorry to come back on this, but on group PRASK, is it fair that we can assume a couple of months in Q4 or even in Q1 next year to be double digits on the yields, especially considering what your peers have been saying recently? And is it fair to have the load factors in line to the levels you delivered in Q3? And maybe on FX as well, can you just give us what we should expect for revenues in Q4 and Q1? And then on APAC, I was slightly surprised it was low

single digits. Is there a specific reason for that? What are the trends going to Q4? I was expecting it to be slightly stronger than low single digit PRASK. Thank you.

Luis Gallego:

Okay. So yes, I think what we see is similar to what others, they are saying. The behavior of Q4 and Q1 is, as we said, strong. It's not the same in every market, but as we have seen in the Q3, North Atlantic is very strong. And when you see the evolution of our PRASK, it's better than the evolution of our main competitors, we continue seeing the same trend. So we are positive about this. And about Asia Pacific, it's true that it looks like that the increase in RASK is a little lower, but also you need to consider increase in capacity that we had that was very high. I don't know if some of you want to comment.

Sean Doyle:

Yeah, I think there's a couple of things going on in Asia Pac. One, we extended routes like our Bangkok surface into the summer. We also expanded into Haneda and Hong Kong. Business demand is robust there. It was a double-digit plus 11% in the quarter. We see that strengthening as we head into the winter. There was another kind of interesting effect in that South Pacific business had alliance toured at the baseline last year, didn't have this year. So there is that kind of normalization effect, but we see Asia Pac strengthening as we head into the winter and we're very encouraged by some of the capacity we've added. Melbourne starts in the new year. And again, we're very encouraged by the forward bookings that we see.

Moderator:

Your next question comes from the line of Jack Rayburn with BofA. Jack, please go ahead.

Jack Rayburn:

Hi, good morning. Thank you very much for taking my question. Just coming back on the fuel recovery, so the 80% and the 100% at BA, what was the recovery in 3Q and what does that imply for 4Q? I believe it was 60% at 2Q. And maybe building on Harry's question earlier on pass through into 2027, I mean is 100% at BA and 80% overall a fair base to think about? If not, why? And secondly on hedging, 2027 is about 45% hedged at the moment with 61% at 1Q, falling down to 34% at 4Q. Is that below the level where you'd normally be at this point during the year? And what is the current state of your hedging policy? Are you kind of topping up opportunistically or is it still quite programmatic? Thank you.

Luis Gallego:

I think about the pass through is, it's difficult to measure to explain because when we said in the past that we're going to be above 60%, this is a blended number, but the performance is different in the different airlines and the different markets. Even when you compare with competitors, the weight that we have in the different markets is different. So the final output can be in some way misleading. So we didn't give numbers for the different airlines and the different quarters, but in the Q3 for VA, the pass through was around 75%.

José Antonio Barrionuevo:

So on the hedging, as you say, we're around 45% hedge into next year. And the numbers that you quoted by quarter is normally what we do in a normal year. We have a very strong and stable hedging policy and obviously has a certain degree of flexibility. So we take advantage of opportunistic situations when they appear and always within the hedging program that we have. The other important point that

we have is that out of that 45% hedging of next year, the majority of that percentage is made of gas oil and jet fuel hedging as opposed to brand, which is a very positive outcome of our program.

Jack Rayburn:

Cool. Thank you very much.

Moderator:

Your next question comes from the line of Andrew Laudenberg with Barclays. Andrew, please go ahead.

Andrew Laudenberg:

Oh, hi there. Can you talk a little bit about what happens with the transformation program at Aer Lingus? The margin was pretty good, but it was down and obviously it's a very seasonal business. And I think Ryanair are talking about putting a whole ton of capacity into Dublin next year. So yeah, how's the transformation going and how are you thinking about coping with that deluge of Ryanair capacity next year potentially? And then can we just have a little update on product? We've seen some beautiful pictures of the new BAA 380, but what are the plans on the product? How far have we got with product embodiment across the total group? Yeah, thanks.

Luis Gallego:

Okay. So good morning-

Speaker 2:

Hi, Andrew. Morning.

Luis Gallego:

[inaudible 00:45:30].

Speaker 2:

On your Aer Lingus question, yes, Ryanair have announced around 15% capacity increase for next summer, and that just keeps up the need for Aer Lingus to adapt to this new market reality. As you know, we've had a lot of capacity come in across the Atlantic over the last couple of years and shortfall as well. The transformation program's going really well. We're a long way through the head office cost reductions. We've been in consultation for the last few months. We've already seen a third of our senior managers leave the business, so the cost transformation is going well.

We're engaging with our unions and on voluntary severance for the flight reductions that we're doing. And overall our transformation program, the revenue component, we've delivered new digital capability, which is helping on the revenue side. And we've got new products. Starlink were ahead of the pack in terms of rollout and we'll be launching our refreshed A330s next year as well. So there's a comprehensive program. Our supply costs have been down in the last quarter. Our ownership costs are up, but we're confident if we deliver on all aspects of the transformation and the change required, we can absolutely get to the group margins.

Luis Gallego:

And about the transformation in the product and the current, we'll start with the Starlink. That, I think, is a very positive news because the installations are speeding up and the target that we have is at least

50% of the long haul fleet with Starlink by the end of this year. And about the carving retrofits, BA's new carving is around 80% complete and the new first on 3879 will be from 2028. So I really also will start the retrofit in 2027. And Aer Lingus, also they are planning to start the new business class and premium economy retrofit next year. So I think everything is ongoing. We are not stopping any investment because we think it's the right thing to do.

Andrew Laudenberg:

Andrew:

Can I just double check that 80% for BA? Is that just the Heathrow fleet or is that across the board taking into account the gateway old ones?

Sean Doyle:

That's a Heathrow, Andrew. It's 82% and we expect it to be up to 94% by the middle of next year.

Andrew:

Thanks.

Moderator:

Your next question comes from the line of Jared Castle with UBS. Jared, please go ahead.

Jared Castle:

Thank you. Good morning everyone. Two for me. Any comments on compensations for delays in delivery and basically what is the monetary amounts we should now be factoring in for CapEx in '27, '28 has been obviously some form of increase, I guess. And then as a second one, kind of a follow-on, can you just give a bit of an overview how you're seeing the funding markets for that fleet at the moment?

José Antonio Barrionuevo:

So the question on the fleet for '27 and '28, we gave guidance at the beginning of the year, an average number for both years. We are not changing that guidance for the time being. We'll do that. We'll refresh it in the results presentation of February next year. We obviously seen some delays and some slippage from '26 into '27. All slippage is likely to happen also in the following years, but we'll give you a more updated view on the results presentation. Apart from the fleet, we are taking a very strict view to our non-fleet CapEx, which is also an important component of the number, which is showing a high level of flexibility to adapt to the changing market situation. So as I said, we'll give you a more updated view on the results in February of next year.

Jared Castle:

Question about funding.

José Antonio Barrionuevo:

There's a question of funding. I guess you mean about the fleet funding? We are not seeing any specific changes there that are worrying us at all. We are following a strategy over the last years to absorb a lot of our fleet improvements without funding attached to them. So we're increasing the unencumbered

proportion of our claims and we'll continue to do that at least for this year and the following one. And on the ones that we fund, we are not seeing any specific changes that we should be worried about.

Jared Castle:

And sorry, anything on compensation for delivery delays?

Luis Gallego:

Yes, I think we have in every contract with the manufacturers. We have some compensations but are not public and we cannot give numbers, but for sure when we have delays, we are compensated.

Jared Castle:

Okay. Thanks very much.

Luis Gallego:

Welcome.

Moderator:

Your next question comes from the line of Gerald Hu with [inaudible 00:51:04]. Gerald, please go ahead.

Gerald Hu:

[inaudible 00:51:09] for me. On recovering fuel costs, obviously doing very well at British Airways, when and how should we expect IAG to be seeing full recovery of fuel costs on average? How much of it's going to be through theirs? How much of it will be through capacity and costs? And secondly, I think I saw that there was a deal to receive some external investments in the idea of the MRO business or part of the business. I was wondering whether you could talk to that please.

Luis Gallego:

Okay. So about the first question, as I said before, I think it's totally different in the behavior of the different airlines and the different markets and the different cabins. So we cannot compare London or the premium markets that we have from London, for example, with dwelling that they are in the intra-European region where there is a huge competition. So you can expect that in the premium market where you have a rational behavior in capacity, you are going to have a pass through close to 100%.

And when we say pass through, it's not only revenues, it's all the actions that you can do also in parallel in our transformation to mitigate this increase in cost, that we are going to have some places where for sure we are going to reach that level of 100%. So that's the reason in the past we talk about a number that is a blended number, but I think what we need is to maximize the value for every region and every operator, and that's what we are trying to do. And I think the second question, maybe Marco, you can answer.

Marco:

Indeed, you have spotted Gerald. We have announced the investment of ITOCHU in IAG engine business, and that relates to the fact that as we announced during the year, Iberia Maintenance that as you know has a long-lasting engine business, was awarded the premier license of LEAP, which in the maintenance of the engines, short and medium engines is a very valuable one. There are only eight of

them in the world, and the LEAP engine will be covering more or less 70% of the short and medium haul engines in the next decade.

So it's a major milestone in developing this business that has the potential to be in the frame of the double-digit 12 to 15% profitability target of the group. Therefore, the group decided to invest significantly there. We created IAG engine tech that also can rely upon the capabilities of Iberia Maintenance. So we will do it in the facilities of La Munoza here in Madrid and to develop the business and do the significant investment that implies, because that implies to come from managing 200 engines a year to at least 350 engines per year.

Then we have the investment of a Japanese conglomerate in ITOCHU that will contribute. We disclosed when we announced the license that the investment will be of 400 million in the expansion of the business and hiring around 400 mechanics and engineer to develop all the capabilities to basically serve the Premier League license.

Gerald Hu:

Just also follow up on that last one. Given the strength of the balance sheet, given the attractive returns, why wouldn't you want to own 100% of it?

Marco:

Well, in fact, the capability of having a partner there is not only purely the financial know-how. We move into a totally global business and having a partner in particular, a global partner in Asia is a key strength also in terms of know-how and commercial penetration. So you need to look at that as a possibility, as an opportunity that we have to make really our footprint as global as the license requires.

Gerald Hu:

Okay, thank you very much.

Moderator:

Your next question comes from the line of Marc Zeck with Kepler Cheuvreux. Mark, please go ahead.

Marc Zeck:

Good morning. Thank you for taking my questions. First one is on essentially fuel recovery and yield. I would assume that you still had a certain share of tickets in Q3 that were sold before the crisis began earlier this year. Could you tell us what that share is and what fuel recovery would've looked like if let's say we assume you were able to only have tickets post-crisis in your yields in Q3?

And the second question would be on TAP obviously now goes to Lufthansa. I would be interested in hearing your thoughts on how you would react to that one if your reaction to counter Lufthansa here would differ materially to a scenario where Air France had been successful or is there really no difference from your point of view whether TAP is owned by Lufthansa or Air France? Thank you.

Luis Gallego:

To be honest, as I said before, I think the best place for TAP would be IAG because we have shown that we develop all the airlines that they joined the group and they reach levels of profitability that are in the top of the market. This has not been possible, so we continue our plans to develop organically the region and with the partners that we have there. And to be honest, if the company is with Lufthansa or

Air France is the same for us, we are going to compete with them in the same way we are doing in other markets.

Marc Zeck:

Thank you.

Moderator:

Your next question comes from the line of Dudley Shanley with Goodbody. Dudley, please go ahead.

Dudley Shanley:

Good morning everyone. I just wanted to follow up on Aer Lingus. Andrew asked earlier about Ryan Air's capacity increase. I think the problem has been the North Atlantic recently. So can you just tell us how the competitive backup is there and how you expect it to fare into 2027? Thanks.

Speaker 3:

Can you just repeat that last bit again?

Gerald Hu:

Atlantic next year.

Speaker 3:

The North Atlantic. Yeah. So Q3 is our strongest quarter, so this is the time when we're more likely to get traction on fares. The seasonality of our business has increased over the last few years, and you saw that in our Q1 results. So we expect next year in aggregate to continue to be a challenging competitive environment, which is why we do need to adapt the business accordingly. We're not seeing significant transatlantic competitor increases next year, but as you're aware, we've got 50% of increase in the last few years that we still need the market to absorb.

Dudley Shanley:

Thank you.

Moderator:

Your next question comes from the line of Alex Irby with Bernstein. Alex, please go ahead.

Alex Irby:

Good morning. Two for me, please. The first one, coming back to your business class and premium class products on the British Airways fleet, see those very high aircraft come in with the retrofit at the A380. To what extent do you risk eventually diluting your premium yields with a lot more premium capacity in the market, competitive capacity in the market? Where is that going to value at risk of seeing a diluted business class rasp? Second question, I want to touch on the tragic rail accident in Spain earlier on this month or last month. To what extent do you expect to see a structural change and modal shift from rail to air in domestic Spain and how large would that be? Thank you.

Sean Doyle:

Yeah, maybe if I take the first one, I think we have had a strategy for the last 10 years to increase our exposure to premium cabins. It's not just about Club World, it's also about World Traveler Plus. So you will see more premium economy seats come on new aircraft that are being delivered. However, against that backdrop actually, we still are broadly similar in terms of size of premium seats we have in the market today to what we were in 2018, '19, because we retired a lot of 747s that were very dense in terms of premium and things like the A380 reconfiguration and our new deliveries kind of get us back to that footprint.

So if you look at the footprint we have today and next year and how that progresses over the next four to five years, I think over the long run, it's pretty much in line with the kind of demand that we're seeing. And I think it does give us two advantages. One, I think it keeps us with a very competitive product. And number two, I think it does actually protect our corporate proposition and our pricing part.

Marco:

And with regard to Alex, the situation, the tragic accident in train in Spain and the fact that indeed is the second one in the last nine months of course is a huge tragedy and our first concern in the first weeks and days has been to help and support. In fact, we have introduced even a capping in our fair on the same routes to allow people to be able to rebook on our fairs just in the first days and we expand the capacity.

Now what we have seen, but this is a trend that started long ago, is that the evolution of demand in our domestic has been very strong. Consider that in general, the weight of the high speed train demand in Spain and the capacity there, we talk about a market of 50 million seats and the transport, the air transport is just providing in domestic, excluding the islands, around seven million.

So the magnitude of an impact of a train accident on air transportation is potentially massive. And of course we will never be able to compensate. In fact, our view is that these two means of transportation are rather complimentary than substituting one to the other. But eventually, of course, what we will see is a very, very strong demand naturally in all our domestic routes.

Alex Irby:

All right, thank you.

Luis Gallego:

Okay. So I think this was the last question. So thank you very much everybody. Q3, as we said, was a strong quarter. The small deviation, as you know, came from the cost of not flying to the Middle East and also from disruption that this is a one-off. But I think this year is an opportunity to demonstrate that what we have been telling to you is right. Investing in aviation is the right decision as long as you invest in the right vehicle and we are the right one. So thank you very much. See you next quarter.