

SPEECH BY WILLIE WALSH,

CHIEF EXECUTIVE, INTERNATIONAL AIRLINES GROUP

Annual General Meeting,

Thursday June 20, 2013

Good afternoon, ladies and gentleman

After establishing IAG in 2011, our second year has been one of transformation. We finalised our purchase of bmi and integrated it into British Airways, launched a cash tender offer for Vueling and made the first step towards restructuring Iberia.

FINANCIAL PERFORMANCE

In 2012, we made an operating loss of €23 million before exceptional items based on revenues of €18 billion, up 10.9 per cent. This was a solid performance considering not only the economic challenges facing our airlines and the industry but also the group's transformation as it absorbed loss-making bmi and began to make necessary changes at Iberia. There were a considerable amount of exceptional items in the year, mainly Iberia restructuring and impairment costs, which resulted in an operating loss of €613 million.

Yet again, there was a divergent performance from our airlines.

British Airways made an operating profit of €347 million, before exceptional items, which included €98 million of trading losses from bmi. London remains a strong market and British Airways has benefitted from the location of its hub with sustained growth in premium traffic.

Iberia saw its losses deepen, reporting operating losses pre-exceptional items of €351 million. These results highlight the continued weakness in the Spanish economy and structural weakness within the airline and emphasised even further that Iberia has to adapt to survive.

SYNERGIES

One of the many benefits of the merger is our ability to extract cost and revenue synergies between IAG and our airlines. In 2012 we, yet again, comfortably outperformed our target achieving a total of €313 million in synergies. We even raised our target from €225 million to €270 million in the middle of the year but a strong performance in the last quarter saw us beat this target comfortably, which is an extraordinary achievement.

We have performed well on both cost and revenue synergies but I particularly want to highlight our revenue synergy achievements. It is much harder to achieve revenue synergies on this scale compared to taking out costs, and these synergies result in real tangible benefits for our customers which is very pleasing.

CONSOLIDATION - BMI

Last year saw us finalise one airline acquisition and start another one.

In April 2012, our purchase of bmi from Lufthansa was finalised and we began the process of integrating the airline into British Airways which was completed later in the year. The integration was carried out successfully by British Airways' management team who managed to do it quickly and smoothly while remaining

focused on the airline's own financial targets. Their next challenge is to turn former bmi losses into profit while maximising value from the 42 daily Heathrow slots that we acquired as part of the deal.

The additional slots enable British Airways to manage its Heathrow slot portfolio more effectively and tailor its route network to destinations that have emerged as economic powerhouses. Flights to Seoul started last December and services to Chengdu in China will commence this September. About one third of the additional slots will be used to launch new longhaul routes, mainly to Asia, while the remainder will enable British Airways to re-enforce its shorthaul network.

CONSOLIDATION – VUELING

In November last year, we announced our plans to launch a cash tender offer for the Barcelona-based low cost airline Vueling.

Iberia owned 45.85 per cent of the airline already and its board agreed not to tender their shares so the offer was for the remaining shares. In April we announced that 82.48 per cent of the remaining shareholders had accepted our offer of €9.25 per share. This meant that 90.51 per cent of Vueling was owned by IAG group and the airline joined our business. Since then, the Vueling board has called a general shareholders' meeting, which will be held next week, to approve the delisting of the remaining Vueling shares from the Spanish stock markets. In parallel, IAG launched a delisting tender offer for the remaining shares at a price of €9.25 per share.

Vueling is a key asset to IAG. It is an extremely successful airline which has managed to expand its network profitably despite the challenges of the current economic crisis in Spain. For Vueling there are benefits to being part of IAG as it will gain from the group's financial strength.

Vueling will be a standalone business within IAG with its chief executive Alex Cruz reporting into me. We plan to retain the airline's current business model and management structure, as well as its strong base in Barcelona.

IBERIA RESTRUCTURING

Turning now to Iberia, last year we moved forward with our plans to stem the significant cash losses at Iberia, reduce its cost base and introduce permanent structural change across the airline.

Iberia is facing huge challenges and must restructure if it is to survive. It reported operating losses of €351 million in 2012 - almost €1 million losses per day. The airline has become unprofitable in all its markets – including longhaul – and its high cost base means it is unable to compete effectively with other airlines, both European and Latin American.

There are many good people at Iberia and we know that change is hard, especially in the current economic environment, but I cannot stress strongly enough that the situation is critical and none of us want to see Iberia disappear. However, that still remains a risk unless all parts of the airline work together to transform Iberia. Once the airline has successfully restructured its cost base it will then be in a position to

grow profitably in the future benefitting its customers, employees and shareholders – and giving Spain a thriving, profitable network airline.

Last November, Iberia introduced a comprehensive restructuring plan across the airline. After failure to reach agreement with the unions on these proposals by the end of January, it pressed ahead with a previously announced 15 per cent cut in capacity. This involved suspending loss making routes and frequencies and standing down 25 aircraft.

Following the appointment of a mediator, Gregorio Tudela, both the IAG board and unions representing 93 per cent of Iberia employees signed an agreement which he had proposed. We would like to thank Senor Tudela for his efforts in bring the parties to an agreement. Under the agreement, 3300 people will leave Iberia, 80 per cent of them this year. In addition, a salary reduction of, on average, 11 per cent was introduced. This was followed by an additional four per cent salary reduction in April as productivity talks between Iberia and the unions failed to reach agreement.

This is an important first step towards restructuring Iberia – but it is only a first step and Iberia needs to do more. It is vital that everyone within the company understands that they have to make sacrifices to help save Iberia, their jobs and the benefits that the airline can bring to Spain, its economy and tourism industry.

Iberia's subsidiary Iberia Express, which was launched in 2012, shows what can be achieved with an airline that has a lower cost base. The airline was profitable within three months, is flying to the highest industry standards and achieving excellent

customer feedback. It has also created 500 new Spanish jobs. As you are probably aware, this successful Spanish airline that is creating jobs is currently restricted from growing further following the laudo ruling.

I am delighted that Luis Gallego who, as chief executive, was responsible for establishing Iberia Express so successfully has moved to become Iberia's chief executive. Luis has worked in the aviation industry throughout his career and is an airline man through and through. I have every confidence that he will do all that he can to restructure Iberia and lead the airline forward towards profitable growth.

BRITISH AIRWAYS PENSION DEFICIT

Finally, we are pleased that British Airways has reached an agreement in principle with the trustees of its two main pension schemes about the schemes' regular triennial valuations. The agreement confirms that the existing contribution plans remain on track to repay the pension liabilities and that there is no change to the contribution arrangements which were agreed in 2010. It also paves the way for British Airways to move to normal dividend payments over time.

CONCLUSION

In conclusion, while there are financial challenges facing the group in the year ahead, we are laying strong foundations for future growth. British Airways will gain full value from the bmi integration and its enhanced Heathrow slot portfolio, Iberia's restructuring will continue and establish a framework for future profitable growth and we will begin to reap the benefits from Vueling joining the group.

We remain confident that we can achieve our financial targets of €0.52 cents per share and operating profits of €1.6 billion by 2015.

Finally, I would like to pay tribute to the hard work and efforts of our people across the group which has enabled us to achieve so much in such a short period of time.

Thank you