

SPEECH BY WILLIE WALSH,

CHIEF EXECUTIVE, INTERNATIONAL AIRLINES GROUP

Annual General Meeting,

Thursday June 18, 2015

Good afternoon Ladies and Gentleman

Last year we made excellent progress as a Group with a record financial performance which gave us the confidence to set challenging new targets.

It was particularly pleasing that our good progress was due to positive performances from all our companies ranging from the turnaround in Iberia's financial fortunes to the setting up of a new subsidiary to handle routine financial transactions.

We also embarked on new consolidation activity with our quest to purchase Aer Lingus.

FINANCIAL PERFORMANCE

Our strong financial performance saw us record an operating profit before exceptional items in 2014 of €1.39 billion. This was an increase of 80.5 per cent compared to the previous year. Our total revenue was up 8 per cent while non-fuel costs were up 7 per cent and fuel costs up 0.6 per cent. This was based on an increase in capacity of 9.3 per cent.

Our unit cost performance was particularly strong. This was mainly due to increased productivity levels, cost savings from suppliers and lower unit fuel costs.

Looking forward, we have increased our financial target for 2015. At current fuel prices and exchange rates, we expect to make an operating profit in excess of €2.2 billion.

In addition to this target, we also set some longer term financial targets. These include our goal to achieve an operating margin of between 10 and 14 per cent and a return on invested capital of not less than 12 per cent between 2016 and 2020. We are confident that we can achieve these targets which are designed to ensure that we can pay a dividend to shareholders and sustain those payments in the long term.

OIL PRICES/CAPACITY

While oil prices dropped below \$60 in the latter part of 2014, we did not feel the immediate benefits. This was due to two main reasons. Firstly, the hedging that we already had in place and, secondly, the impact of currency

as both the Euro and Sterling weakened against the US dollar, the currency used to buy fuel.

What is clear is that, despite lower oil prices, IAG will continue to be disciplined about capacity and capital expenditure. Oil prices have risen slightly since late 2014 but it is a volatile market and we must remain focused on profitability and recovering some of the historic cost of higher prices.

We will continue to offer our customers competitive pricing and value for money but it does not mean that we will automatically pass on all of the benefits. It is important that you, our shareholders, receive some return for your investment and support during tough times and a period of significant investment in new aircraft.

SYNERGIES

Yet again, we exceeded our annual synergy target last year having achieved gross savings of €633 million compared to our €600 million target.

As we have mentioned previously, IAG is moving beyond initial synergy savings from economies of scale and is now focused on obtaining additional synergy savings.

One way that we have achieved this is through our common specification and procurement programme for all our airlines. We've already started a programme on our A320 fleet to not only select common airframes but also harmonise some of the detailed on-board specifications. Having common galleys, flooring and toilet fittings, for example, gives us the ability to reduce cost and weight benefitting both our financial and environmental performance. It means also that we can move aircraft among our airlines more easily. These common specification aircraft are already in operation with Vueling having received five deliveries so far.

IBERIA

We are extremely proud of all that Iberia achieved last year and everyone at the airline must take enormous credit for this. To return to profit for the first time in six years reflects the enormous changes that have taken place within the airline. All this has been done by the people within Iberia, led by Luis

Gallego, who realised the urgent need for change and took the initiative to do something about it. Today, Iberia is a new, re-energised company with a lower cost base, revitalised brand and a new sense of purpose. As a result, Iberia has been able to re-start routes such as Havana and Montevideo and move forward in its plans to replace both longhaul and shorthaul aircraft.

Work on the restructuring continues and, as the airline implements its Plan de Futuro, we have every confidence that it will contribute significantly to our long term goals and targets.

BRITISH AIRWAYS

British Airways made significant progress in 2014 towards its long term targets with increased revenue and a strong cost performance.

Its new longhaul aircraft, the A380s and Boeing 787s, made a valuable contribution to this progress. As well as being popular with customers, their improved technology means significant fuel cost savings and better environmental performance.

On shorthaul, the airline is focused on improving performance across its operations at Heathrow, Gatwick and London City. New seating has increased aircraft capacity with refreshed interiors winning customer approval.

VUELING

Vueling continued to expand both profitably and with flexibility. As well as maintain a low cost base, one of the lowest in its sector, it is now focused on expanding its premium service.

The airline continues to expand at its home base in Barcelona where it operates more than 150 routes and looks to further develop its domestic and international operations from Rome-Fiumicino.

Critically, Vueling ensures that it has the flexibility to react to changing market conditions. Key to this is managing seasonality by adjusting its fleet, maintenance programme and route schedule accordingly.

As well as its constant individual focus on cost, Vueling is reaping further cost reductions as part of IAG by savings in partnership with the rest of the Group in areas such as purchasing.

CARGO/AVIOS/GBS LTD

IAG Cargo continues to improve its competitiveness and develop its single business for both British Airways and Iberia's cargo operations. Commercial activities are combined and the business operates a unified route network.

One critical factor last year was the decision to end its dedicated Boeing 747-8 freighter service on global trunk routes and take up capacity on Qatar Airways' cargo services. This has turned a loss making service into a profitable one and we are confident that the benefits from this tie-up will continue.

Our single reward currency Avios gathered momentum in 2014 as it welcomed the first two non-IAG airlines to the scheme. This means that customers can now collect and redeem Avios on UK-based airline Flybe and Italian airline Meridiana. The addition of these two airlines provide Avios with additional, complementary routes and increased market presence.

One significant change in 2014 was the setting up of a new IAG subsidiary to handle centralised back-office processing. The subsidiary GBS Ltd has established an operations centre in Krakow, Poland where routine transactional finance and procurement activity, which previously took place within our operating companies, is being carried out. This centralised approach makes us more efficient and cost effective and proves our truly international approach to business.

AER LINGUS

When it comes to consolidation, we have always said that we would only add new airlines to IAG that would benefit the Group's profitability and strategy and bring real returns for our shareholders. Aer Lingus is such an airline.

Having made initial approaches in late 2014, in January this year the board of Aer Lingus indicated that it would be prepared to accept the financial terms of our cash offer proposal for the airline. This valued each Aer Lingus share at €2.55 including an agreed cash dividend of €0.05 per share. After several

months of negotiation, the Irish Government agreed in late May to sell its 25 per cent share in Aer Lingus. Following its decision, we announced our firm commitment to make an offer for the airline and offer documents will be sent to Aer Lingus' shareholders shortly.

Aer Lingus would bring many benefits to IAG. It is a well-run, cost effective airline with a strong brand especially in North America and a focus on transatlantic traffic.

Dublin would become an additional hub for the Group and we would develop its potential for transatlantic flights, taking advantage of its geographical position and US immigration pre-clearance.

IAG would gain new traffic feed from Ireland to support our hub airports and underpin our longhaul routes into Asia Pacific, Africa and Latin America.

As an island nation, air connections are critical to Ireland. This is why we agreed to make firm commitments to the Irish government not to sell Aer Lingus' Heathrow slots and to maintain the airline's current frequencies from Heathrow to Dublin, Cork and Shannon for seven years.

CONCLUSION

In 2014, we built even stronger foundations for our business, continued to exceed our targets and laid the platform for future growth.

We are confident that we can build on last year's good financial performance and achieve the challenging long term goals that we've set for the Group. It will require unwavering discipline to achieve this but we are absolutely confident that we can deliver on these targets.

I would like to thank everyone across the Group - from the board of directors to all members of staff - for all their hard work and commitment to achieve last year's performance. Their continued support gives me the confidence that we can achieve our long term objectives and further strengthen IAG.

Thank you

