

SPEECH BY WILLIE WALSH,

CHIEF EXECUTIVE, INTERNATIONAL AIRLINES GROUP

Annual General Meeting,

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Good afternoon Ladies and Gentleman.

As we look back over IAG's first five years, we do so with considerable pride. We have established and expanded the Group by ensuring that only the right airlines join us, exceeded the ambitious financial targets set in 2011 and made record profits, announced new, tougher, targets and introduced our first ever dividend payment.

Our unique business model has proved to be the envy of many of our competitors. Within the overarching Group structure, we have four main independent airline brands all of whom have been able to improve their financial performance despite facing different market conditions, challenges and opportunities.

FINANCIAL PERFORMANCE

In 2015, we made a record operating profit of 2.3 billion euros which far outstripped our initial 2015 target of 1.5 billion euros. We efficiently managed our passenger unit revenue, while expanding capacity, and accelerated unit cost reductions through significant productivity improvements and lower supplier costs.

It was a year of extreme volatility in both the oil and currency markets. While the oil price declined, sharp increases in the value of the US dollar – the currency we use to buy fuel – meant some of the cost benefit was offset. We behaved in a rational way by ensuring that we kept our capacity and fleet plans under control. No one believes that the oil price will remain at low levels long term and, with volatility likely to remain, we continue to hedge fuel to give us time to manage any uncertainty.

We always believed that as a Group we could generate more revenue and save more costs by working together rather than in isolation. And that has very much proved to be the case. Our net annual cost and revenue synergies after the first five years were 856 million euros which is more than double our initial 400 million euro annual target.

NEW FINANCIAL TARGETS

However, it is vitally important that we do not become complacent. We must build on our excellent financial performance so far and ensure that we can sustain it in the long term. We already have some of the building bricks in place with a more efficient business based on sustainably lower costs. But to retain your confidence we need to demonstrate that we can continue to grow, while exceeding our cost of capital.

To achieve that, we unveiled more ambitious targets covering the five years to 2020 at our Capital Markets Day last November.

These include a 15 per cent target for return on invested capital, an operating profit target of between 12 and 15 percent and average growth in earnings per share of more than 12 per cent each year.

We will continue our capital spending programme to improve our business whether it is by replacing aircraft, expanding our network or providing better products for our customers. However, critically, we will remain completely disciplined about when and where we spend our money. We will only do so when it's clear we can make a return on the investment.

AER LINGUS

One of the highlights of last year was the completion of the Aer Lingus acquisition in August. The airline is profitable with a strong brand, resilient business model and low cost base. It is a fantastic addition to IAG and its integration into the Group has gone very smoothly.

Leadership in the transatlantic market has always been a key goal for IAG and Aer Lingus will help bolster our ambition. It is blessed with geographic advantage, a strong brand with an excellent sales network in the US as well as Ireland and US pre-clearance for immigration and customs at both Dublin and Shannon airports.

For these reasons, Aer Lingus is in a really strong position to grow from its Dublin hub and, since it joined IAG, the airline has announced three new US routes to Los Angeles, Newark and Hartford, Connecticut. In total, Aer Lingus offers direct services to 10 North American gateways.

In addition, the airline has a very good shorthaul network, including many flights from British destinations, feeding its Dublin hub.

BRITISH AIRWAYS

British Airways continues to make good financial progress and while it has developed a more efficient cost base, this is an area that needs to remain a priority. The airline's focus continues to be on maintaining its leading position on the North Atlantic while building a sustainable shorthaul model. Where it invests in new products, it does so wisely. This year it has been voted the number one UK Superbrand for the third year running and has seen its customer satisfaction scores increase.

IBERIA

Iberia's transformational turnaround under Luis Gallego has given us renewed confidence about investing in the business. The airline scaled back its network and grounded aircraft while it fixed its finances but now it's profitable, Iberia can grow. This growth is taking place not only in the airline's traditional Latin American market but also new markets as Iberia is launching flights to Shanghai and Tokyo this year.

It's not only the airline's finances that have improved. Iberia's operational performance, brand strength, customer satisfaction and culture have all been transformed. The airline is still only halfway through its Plan de Futuro but the changes so far have been exceptional.

VUELING

Vueling is firmly established as a premium brand in the low cost sector. It remains focused on controlling costs and continues to expand profitably. The airline is nimble and flexible and is not afraid to test new markets such as France and Italy while enhancing older ones such as its strong presence at its Barcelona hub.

CARGO/AVIOS/GBS

IAG Cargo has successfully restructured its operation and continues to perform well. This is despite structural changes in the sector and a growing imbalance between capacity and demand. IAG Cargo's business's model is

well established and the integration of Aer Lingus cargo with a unified sales team, revenue management system and network will bring further benefits.

Avios - our loyalty business - is going from strength to strength and continues to grow both its customer and supplier base. Active customer numbers were up 18 per cent in 2015. Early last year, Avios became an independent entity within IAG. Greater independence means a new commercial model and legal structure that enables it to formalise relationships with partners both within IAG and outside the Group and produce even better results.

Progress continues apace to centralise parts of the business where we can achieve real efficiencies. Our centre in Krakow, Poland, where we handle routine finance and procurement transactions, is now well established and we are looking at other areas such as IT, maintenance and digital solutions, where we can combine resources.

CEO SUCCESSION PLANNING

As a company we have placed a great deal of emphasis on succession planning and we are now reaping the benefits.

Earlier this year Keith Williams, British Airways executive chairman, retired. I would like to thank Keith for his contribution not only to British Airways but to IAG as well. Keith was instrumental in the creation of the Group and a major contributor to its success so far.

I was delighted that we could replace Keith from within the Group by appointing Alex Cruz, Vueling's executive chairman. He is joined at BA by Steve Gunning, formerly chief executive of IAG Cargo, as chief financial officer.

At Vueling Javier Sanchez-Prieto, Iberia's chief financial officer, has become executive chairman while Drew Crawley, British Airways chief commercial officer, has become chief executive of IAG Cargo.

We are not adverse to recruiting external candidates but I am delighted that we have the wealth of talent within IAG to move highly experienced and very capable senior managers into new roles within the Group. This is testimony

not only to their talent but also to the robust succession planning structure we have created.

EU REFERENDUM

In one week's time, the United Kingdom will vote on whether or not it will remain part of the European Union.

IAG believes that the aviation industry and consumers in Europe, including the UK, have benefited from free trade within a common aviation area.

As a responsible business, we've undertaken a risk assessment and, at this stage, have concluded that should Britain vote to leave the EU, this will not have a long term material impact on our business.

IAG has taken a business not a political view on the referendum. We believe it is a decision for the British electorate and we're not going to advise people about how they should vote.

CONCLUSION

In conclusion, I am delighted with the progress that IAG has made so far. But this is only the start. We have a clear vision of our objectives plus strong leadership and determination to beat our new targets. The people within IAG have every reason to be proud of their achievements and I would like to conclude today by thanking them all for their hard work, commitment and ingenuity.

Thank you