

SPEECH BY WILLIE WALSH,

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Annual General Meeting,

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Good afternoon Ladies and Gentleman.

In 2016, IAG continued to strengthen and build upon its achievements of the first six years. It was a positive year despite several external factors that affected our performance with political, economic and operational challenges.

These challenges included pre and post Brexit uncertainties, the impact of currency exchange, terrorist attacks in Europe and higher than normal disruption from air traffic control strikes.

FINANCIAL PERFORMANCE

Last year we reported a full year operating profit of just over €2.5 billion before exceptional items compared with €2.3 billion the previous year. This was a strong result. We performed well as a business during the year and made good financial progress

However, it was below our expectations due to the €460 million adverse currency impact caused by the significant fall in the value of the pound following the UK's vote to leave the European Union.

The weak pound had two main consequences. Firstly, as you know, we report our financial performance in euros but our largest subsidiary, British Airways, reports in sterling. So when the sterling profit is translated into euros, it is done at a much lower rate due to the drop in the pound's value.

Secondly, we pay for major expenses such as aircraft and fuel in US dollars. The weakened pound and euro against the dollar made these costs more expensive.

Having set an operating profit target for the full year, it was clear as soon as we knew the UK referendum result that it would be impossible for IAG to reach that target. The next morning we updated the market to provide new guidance. The Brexit vote had a big impact on our share price however it has now recovered to the levels seen before the referendum.

NEW FINANCIAL TARGETS

At our Capital Markets Day last November, we restated our financial targets using metrics that have evolved since IAG's formation.

While there were adjustments to capacity growth, EBITDAR and capital expenditure targets, we retained our other targets at the same level despite the challenges of 2016. This is an indication of our firm belief that IAG can deliver long term sustainable financial results.

AER LINGUS

In its full year in the Group, Aer Lingus performed extremely well. We've prioritised the expansion of its strategic North Atlantic market with three new US routes. This enabled the airline to exploit Ireland's geographic position and ability to grow its Dublin hub. Aer Lingus' productivity and non-fuel unit cost improvements have led it to become an even more competitive value carrier and to significantly improve its operating margin this year.

BRITISH AIRWAYS

Last year, British Airways achieved a good financial performance despite challenging market conditions and economic uncertainty created by the EU referendum. The airline launched several new longhaul routes from both Heathrow and Gatwick. At Gatwick it has faced up to competition from longhaul low cost carriers and adapted its business model.

The airline continues its investment programme including £400 million earmarked for Club World, new First Class facilities at Heathrow Terminal 5 and significant lounge improvements in key markets. Short haul economy flights have seen the introduction of buy on board with a partnership with Marks and Spencer that has improved the quality and choice of the catering on offer. Buy on board has been a feature of our economy product on Iberia, Aer Lingus and Vueling for many years.

On May 27, British Airways suffered a power failure to its primary data centre, which led to severe disruption to its flights at the beginning of the UK half term school holiday. Firstly, I would like to extend my full apologies to everyone whose travel plans were disrupted that weekend. I know that it was a dreadful experience for many of our customers and we are truly sorry. We

have launched an independent investigation into what happened and will provide an update when that investigation is completed. What we do know at this stage however, is that this failure had absolutely nothing to do with changes to the way we resource our IT systems and services. An independent review of the actions, taken to restore the failed systems, indicates that it was an outstanding achievement by the teams involved, given the nature and extent of the damage suffered.

British Airways is working hard to ensure that affected passengers are compensated as soon as possible.

The airline cancelled 726 flights, that's approximately 28 per cent of its flights, over three days. Despite major operational problems, by May 29 it was able to fly the vast majority of its planned schedule.

Our initial assessment of the gross cost of the disruption is in the order of £80 million. We will update the market at the appropriate time with more details.

IBERIA

Iberia's fantastic business turnaround via its Plan de Futuro continued and the airline launched the follow-up Plan de Futuro II last year. This will continue its focus on cost-cutting but future change is now done in a much more consensual way across the airline.

There was some softness in some of Iberia's key Latin American markets, especially Brazil, but this was countered by the airline's move into Asia with new routes to Shanghai and Tokyo. It is testimony to the airline's deep transformation that it is able to launch flights outside its traditional markets so quickly and great credit must go to the whole team.

VUELING

Vueling had a challenging year operationally and this had a knock-on effect on its profitability. The biggest disruption came from a series of French air traffic control strikes which particularly affects Vueling as 70 per cent of its flights to and from its Barcelona hub use French airspace.

Under its new management team, Vueling is entering the next phase of its development. The team has faced up to the issues last summer, strengthened

the organisation and reinforced the airline's foundations. The airline's operational performance has become more robust and is outstripping its competitors and the network is more resilient.

CARGO/AVIOS/GBS

Our loyalty business Avios continues to go from strength to strength as an independent operating company within IAG. It has diversified its business and is no longer UK-centric but has a much more international focus, collecting revenue in euros and US dollars as well as sterling.

IAG Cargo continues to make an important contribution to the Group. There is a market imbalance between supply and demand but the cargo team has adapted its business to face this new reality. In practical terms, IAG Cargo is focusing on specialised premium freight such as pharmaceutical products, while reducing its exposure to the freighter market.

Our Global Business Services team continues to develop an effective support network for our airlines, while centralising our back-office functions, and contributes significantly to the Group's competitive cost base.

LEVEL

In March this year, we announced the launch of LEVEL, our new longhaul low cost airline brand. Based in Barcelona, and boosted by shorthaul feed from Vueling, LEVEL launched flights to Los Angeles, Oakland and Punta Cana earlier this month and Buenos Aires flights start this Saturday. Services operate on new A330 aircraft with passengers able to customise their flights by choosing from a menu of options including checked baggage, onboard food and drink and wifi options.

LEVEL is IAG's response to changes in the airline market. The shorthaul low cost model is expanding to longhaul and we want to be part of this growing sector.

The response to LEVEL has been fantastic both internally and externally. I must pay tribute to the internal teams that got LEVEL off the ground so quickly especially the great operational and commercial support from Iberia.

The customer response was incredible with 52,000 tickets sold in the first 24 hours of sale. It was such an amazing figure that our competitors questioned whether or not it was true. I can assure you that it was – and ticket sales have gone from strength to strength since then.

LEVEL is definitely breaking the mould. We're creating a new customer base with many people flying longhaul for the first time. With additional aircraft and a new European base next year, we're convinced that the operation will go from strength to strength.

HANGAR 51

Last year, IAG launched its first ever digital start-up accelerator Hangar 51. This has been a fascinating journey for us. More than 450 start-ups applied to join the programme. This was whittled down to five firms who spent 10 weeks working alongside us in our corporate head office. It was a great experience combining our industry expertise with the start-ups' speed and agility. Of those five firms, IAG has invested in two of them who we believe can enrich our customers' experience and improve operational efficiencies. Plans are already afoot to launch our next accelerator.

HEATHROW

Last October, the UK Government decided to support the expansion of Heathrow airport with a third runway.

This is a great opportunity for IAG but – and it's a big “but” – the cost of new infrastructure must not result in higher prices for consumers as they will ultimately pay for its development.

Fortunately both the UK Government and Civil Aviation Authority has recognised this and said that expansion must not lead to increases in airport charges. This is not only very welcome but also absolutely critical. The airport's proposed £17.6 billion cost of the new infrastructure is unacceptable and this price tag would definitely mean hiked prices for customers.

We will continue to challenge the airport authority to ensure they focus keenly on costs throughout this process. There are also significant environmental challenges that need to be tackled before expansion goes ahead. If these challenges are overcome, and costs are kept in check, then a third runway

would significantly benefit not only IAG but the British economy post-Brexit when the UK's global links will become even more important.

CONCLUSION

2016 was a good year for IAG but it is important that we are not complacent. We need to adapt where appropriate and have the flexibility to react to external factors like those we saw last year. That's the way we will become even more resilient and secure the long term viability of the Group.

IAG is much stronger than it was five years ago, and compared to the airline's previous status as stand-alone carriers.

I am very confident in our future and firmly believe that the best is yet to come.

I would like to take this opportunity to thank everyone who has contributed to our success and thank you, our shareholders for your commitment and support.

Thank you