

**SPEECH BY ANTONIO VAZQUEZ,**

**CHAIRMAN, INTERNATIONAL AIRLINES GROUP**

**Annual General Meeting,**

**Thursday June 15, 2017**

Ladies and gentlemen,

I would like to begin by, once again, extending to you all a warm welcome to our annual general meeting. On this occasion, I would like to express my sincere condolences to our colleagues in the UK due to the fire that took place in a west London tower block yesterday and the recent terrorist attacks.

The airline industry is particularly sensitive to macroeconomic and geopolitical factors, which was once again evident in 2016. Nevertheless, the challenges faced this year have enabled us to demonstrate that IAG's business model is robust and effective.

Six years after IAG was created, it gives me great pleasure to report that the Group's airlines carried 100 million passengers last year, doubling the number of passengers carried by British Airways and Iberia before they merged in 2011.

Although our results in 2016 were affected in particular by the British referendum on membership of the European Union, and the subsequent devaluation of the pound, we were able to post pre-tax profits of €2.535 million, with revenue hitting €22.567 million.

Despite the initial impact of the Brexit referendum on our share price, we also reported at our Capital Markets Day that our long-term financial goals remain practically unchanged and the market's reaction was positive.

Indeed, in spite of the initial uncertainty sparked by the referendum result, ticket bookings for flights originating in the UK have gradually stabilised proving the need to fly for business or personal matters has outweighed the doubts raised by political affairs.

This rebound in demand did not surprise us in the slightest, as prosperity depends to a large extent on air transport as a key driver of economic growth and the welfare of societies. It is precisely for this reason that air transport must continue to benefit from the advantages of a deregulated market. We, therefore, firmly believe that it is in the utmost interests of all European citizens for the current deregulation in the aviation sector to continue, which benefits 900 million passengers every year.

The airline industry is global and deregulation is crucial to boosting trade and connectivity between countries.

There are undoubtedly regulatory issues that must be tackled, many of which will not be clarified until an agreement on the specific terms of the United Kingdom's withdrawal from the European Union is reached and the new treaties take effect. Whatever happens, we will continue to comply with all the relevant rules on ownership and control, as we have done until now.

With regard to agreements between the United Kingdom and the United States, we consider it is in everybody's interests on both sides of the Atlantic to protect the Open Skies environment. This will ensure consumers and businesses can continue to reap the benefits that the Open Skies agreement has offered over the last nine years, leading to greater competition, lower prices, greater consumer choice, and an extensive network of destinations.

## BRITISH AIRWAYS

At this point, I must touch on the incident in London on 27 May caused by a failure in the power supply, which led to major disruption to British Airways' operations.

Although the Group CEO will cover this matter in more detail, I would first like to offer on behalf of the Board, our sincere apologies to all the customers whose plans were affected by this unwelcome incident.

I must tell you as shareholders of the company that the Board was constantly kept up to date with the situation, providing support to the management teams to resolve the crisis. I think it is only fair to recognise the efforts of the British Airways team, and the efficiency with which they re-established operations, especially with regard to returning delayed baggage to its owners. You can be reassured that we will do everything in our powers to avoid similar problems in the future and to boost our customers' faith in BA as their airline of choice.

## OUR COMMITMENT TO OUR SHAREHOLDERS

Our commitment to adequately remunerating our shareholders is unwavering. Although this year has been especially challenging, we are pleased to have once again achieved this aim with a dividend pay-out totalling €496 million.

As you will be aware, we are carrying out a share buyback of up to €500 million this year, increasing cash returns for our shareholders. As a result of this two-pronged approach, our shareholders will receive a cash return on their investment in IAG of around €1 billion.

Our industry is cyclical and exposed to significant volatility. We should therefore be particularly proud that IAG has performed exceptionally well in overcoming the challenges it has faced, enabling it to maintain a sustainable pay-out policy in line with those of companies in other sectors that are less exposed to external factors.

## A GROWTH INDUSTRY

According to International Air Transport Association (IATA) estimates, over 4 billion people will travel by aircraft this year. It is forecast that passenger demand will rise 7.4 per cent in 2017: the same rate of growth as in 2016.

Events around the world do, however, pose a major challenge for our industry. According to IATA figures, although airlines have continued to post profits and positive returns on investment, profitability could fall versus 2016. In 2017, net profit per passenger is expected to be US\$ 7.69, down on the figures of US\$ 9.13 in 2016 and US\$ 10.08 in 2015.

We must therefore continue working, as we have done until now, to identify and generate efficiencies and promote innovation to ensure a sustainable and profitable future for our airlines and for IAG as a whole.

I would once again like to point out that consolidation is in our Group's DNA. Regulations on ownership and control over foreign investment mean that acquisition opportunities are relatively scarce. However, we have the means and a unique and flexible merger model at our disposal to bring new airlines under our wing, joining our existing brands and unlocking enormous cost synergies.

Alliances and joint ventures are also very important. We are extremely pleased that British Airways and Qatar Airways have established a joint venture, which includes revenue sharing on flights between London and Doha, and allows both airlines to work together to plan routes and pricing. British Airways and Iberia have also announced a similar agreement with LATAM, which has been given the green light by the authorities in Brazil, Uruguay and Colombia and is being reviewed in Chile. Both partnerships open up huge opportunities in the Middle East and South America.

## CORPORATE GOVERNANCE

I would now like to briefly touch on the main corporate governance matters in 2016. Please also refer to the detailed information on this subject in our annual report, which aims to inform all our shareholders of the Board's work.

2016 was a difficult year during which our Board endeavoured to be more engaged than ever in the company's operations and supporting its management team.

I would like to highlight the work performed during last year's two-day strategic review of the Group in Dublin, where we welcomed our colleagues from Aer Lingus. This was an important meeting where we discussed the Group's strategic priorities at the start of the next five-year cycle for our business.

Turning to the Board itself, I would like to comment on the appraisal of our performance which we carried out this year with the help of an independent expert. I must point out that this year has been extremely demanding but also fruitful, helping us to enhance our own performance and that of the team. This in-depth external and internal review, which we undertake every three years, ensures that we remain committed to improving our supervisory work and contributing to generating a profitable business that provides sustainable returns for all our shareholders.

In line with our commitment to you all in 2014, our entire Board submits itself annually to your assessment by seeking re-election. This is a corporate governance measure that, although common among UK listed companies, is completely unique among Spanish ones.

Following a review, our Board, and in particular its Nomination Committee, has met its obligations with regard to Board succession planning

In this regard, today we say goodbye to Baroness Kingsmill and we thank her for the dedication she has shown and the great contribution she has made over the last few years.

Equally, we welcome Nicola Shaw, who takes up her post on our Board in January. I believe that her personal and professional characteristics make her an excellent addition to our team, and her knowledge and experience of the transport sector is particularly valuable.

Just as in 2015, last year IAG was compliant with just about all the recommendations of the Spanish Good Governance Code for listed companies, apart from two, which we partially met:

- The first of these is because the Board's Safety Committee is chaired by an executive director (our CEO) and not by an independent director. As we explained last year, the Board has taken into account that IAG is a parent company and not an airline. As legal responsibility in safety matters lies with the airlines, and also because of the technical nature of these matters - which this Committee is required to analyse - it is advisable that its management is assumed by the Board member closest to the companies' operations.
- The second area involves the inclusion of a non-financial target in IAG's variable remuneration system. As we have already announced, as of this year, a customer satisfaction metric (NPS) will be introduced as part of the appraisal of our senior managers' individual performance, meaning that from this year on, we can consider this recommendation of the Spanish Good Governance Code has been met.

## SUSTAINABILITY

In 2016, we were witnesses to a very important milestone for our industry. We are proud to have been part of the historic agreement reached at the headquarters of the International Civil Aviation Organization (ICAO), an agency of the United Nations, to create the first worldwide carbon emissions offset mechanism.

This is a momentous agreement, which we have been advocating for many years. The airline industry generates around 2 per cent of the world's CO<sub>2</sub> emissions and, conscious of that fact, has

set its own targets. These commit to halving emissions by 2050 and introducing a limit for them from 2020 onwards. And this is despite the major increase forecast in passenger traffic. This is without doubt an enormous challenge, but one which we at IAG are not only accepting, but are also determined to lead.

The first phase, which takes place between 2021 and 2026, is voluntary and has had a strong response from the international community, with 66 countries signing up to take part. It is forecast that the scheme will cover over 85 per cent of the growth in airline industry emissions over its entire period up to 2035.

We have taken an active part in the development of this global mechanism over the last eight years and continue to do so. We envisage that this efficient system for reducing climate change effects will replace airlines' involvement in the European Union's emission trading system and avoid dual regulation. The airline industry is global and therefore a global solution is required for the sector's sustainable development.

Additionally, last year we were pleased to learn that the UK government has recognised the importance of alternative aviation fuels and that, for the first time, they were included in its public policy considerations.

For many years now, road transport has been receiving financial incentives to develop alternative fuels, while the airlines, which rely on carbon-based fuels, have received nothing. This will clearly help the UK airline industry to meet its emission reduction targets and attract investment to build a biofuels production plant which would create jobs and contribute to the country's economic growth.

The use of these types of fuel is not without its challenges, but we are convinced that they will play a major role in improving our sector's eco-efficiency. We are determined to invest in sustainable fuel technologies and to work with a wide variety of partners to ensure that these investments bear fruit. We have invested time and money in the last few years to ensure change happens and are genuinely very satisfied with the progress made.

From an operations viewpoint, we continue to make advances in the reduction of carbon emissions and noise pollution. A critical part of this has been investment in new fleet. In 2016, 37 new aircraft

were added, which on average produce some 20 per cent less CO2 emissions and are 50 per cent quieter than the planes they replaced.

At the same time, our airlines have continued to innovate to make their operations more efficient. An example of this is Continuous Descent Approach (CDA) procedures which reduce noise levels by keeping aircraft at higher altitudes for a longer period of time, and also saves fuel.

CDA procedures are monitored permanently in the UK and both British Airways and Aer Lingus are among the airlines with the best records in these kinds of operations, regularly achieving compliance rates of over 90 per cent. In 2016, flight crew training in CDA procedures led to a 22 per cent reduction in noise levels for Iberia and 15 per cent for Vueling. Throughout 2017, we have continued to focus on this and our aim is for all our airlines to show improvements and further reduce the noise levels of their operations.

Sustainability is an essential element of IAG's business model, which seeks sustainable value creation and always takes into account our environmental, social and corporate responsibility.

## SOCIAL RESPONSIBILITY

Finally, regarding our social responsibility projects, as you know all our airlines undertake their own corporate social responsibility (CSR) initiatives in the destinations where they operate and are adapted to the particular profile and circumstances of each of the companies.

Notable among these initiatives are the Flying Start programme run by British Airways in partnership with Comic Relief, which last year raised £3 million for charitable causes around the world; Aer Lingus' sponsorship of the Special Olympics, which has enabled many sportsmen and women to attend a major international events; Iberia's work with a number of different charity projects, including its long-term collaboration with Unicef, the transportation of humanitarian aid to Africa and Latin America, and providing help for Save the Children's child protection activities in Guatemala; and finally, €250,000 collected by Vueling from its passengers which have been donated to various charity organisations.

## CONCLUSION

Ladies and gentlemen, I would like to conclude my speech by highlighting that, although last year we faced very difficult circumstances, I believe that we have taken important steps forward that will enable us to look to the future with confidence.

Without doubt 2016 provided us with a test, but we have come out of it stronger. The strength of our brands, our centralised management and IAG's unique structure are key assets in overcoming adversity.

We look to the future with enthusiasm and confidence, as we have made major progress in achieving our long-term objectives and, at the same time, we have been able to effectively strengthen our brands in various market segments. Innovation has been a core element in the transformation of our business.

Finally, I would like to express my gratitude to everyone who forms part of IAG. To the management team and Board of Directors for their tireless work in making IAG a model of success, to our customers for putting their trust in us, and to you, our shareholders, to whom I offer my particular recognition and gratitude for your constant support.

Thank you.