

SPEECH BY ANTONIO VAZQUEZ

CHAIRMAN, INTERNATIONAL AIRLINES GROUP

Annual General Meeting,

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Check against delivery

Good morning, Ladies and Gentleman,

I would like to begin by once again extending to you all a warm welcome to our Annual General Meeting.

2017 was an excellent year for IAG. We made an operating profit of over €3,000 million from a total revenue of €23,000 million which was an extraordinary achievement.

The contribution of the Group's airlines to this result was unprecedented. Last year, they carried approximately 105 million passengers, which is up 4.1 per cent compared with the previous year, and had excellent performances with their best-ever individual financial results.

This is, undoubtedly, one of the aspects that most stands out this financial year, together with the launch of LEVEL, our new, long-haul low cost airline brand, as the Group's chief executive will explain in detail later.

Once again, IAG has confirmed the strength of its business model while continuing to build a solid platform for profitable growth in the long term. The professionalism of our management team, combined with the firm support of the Board and a rigorous system of corporate governance, were essential to the Group's success.

At our Capital Markets Day in November, we explained our five-year financial targets for the business to investors and our message was well received. The targets we have set are a clear expression of our confidence in the future.

At our General Meeting last year, I referred to the possible impact of Brexit. I should like to take this opportunity to reiterate what we said in February, when we reported our full year 2017 financial results; we are confident that a liberalised comprehensive air transport agreement will be reached between the EU and the UK.

900 million travellers each year have benefitted from open skies in Europe. That not only benefits customers but creates and helps to sustain wealth as well as create and maintain jobs in European countries.

We comply with the EU and UK ownership and control rules and we are confident that we will continue to do so post-Brexit. In this regard, we have had extensive engagement with all relevant regulators and governments. I would like to highlight and remind everyone that IAG is a Spanish company. Its airlines have long-established Air Operator's Certificates and substantive businesses in Spain, Ireland, France and the UK which employ around 63,000 people and operate 546 aircraft. Also, IAG has structures and protections in its by-laws to preserve our airlines' flying rights.

OUR COMMITMENT TO OUR SHAREHOLDERS

We were delighted, once again, to honour our commitment to reward our shareholders. In 2017 we continued to create sustainable value for our investors, paying back approximately €1 billion through dividend payments and a share buyback programme conducted throughout the year. I am

pleased to report that since 2015, IAG will have returned approximately €2 billion to its shareholders.

In addition, as you may recall, in May we launched a new share buyback programme of €500 million that will increase cash returns for our shareholders.

I would like to take this opportunity to thank you for the constant support you have given us since the creation of IAG more than seven years ago.

AN INDUSTRY WITH SOLID FOUNDATIONS

According to recent estimates from the International Air Transport Association (IATA), airlines will achieve a collective net profit of US \$33.8 billion in profits in 2018. This figure represents a 12 per cent decrease compared to the previous IATA forecast of US\$ 38.4 billion in December 2017.

Over the past decade, the industry has built solid foundations which have borne fruit, with profitability for nine years since 2010. In addition, the return on invested capital will exceed the cost of capital for the fourth consecutive year. In 2018, the return on invested capital is expected to be 8.5 per cent which still exceeds the average cost of capital of 7.7. per cent.

Lastly, IATA has emphasised that stable profits are becoming the new norm in the aviation industry. This enables airlines to fund growth, create more jobs, invest in the products they offer to their customers, strengthen their balance sheets and reward their shareholders. The industry is, however, facing challenges, including the rise in the oil price. IATA forecasts an average increase in the jet fuel price of 27.5 per cent in 2018 compared with the previous year.

IAG has a hedging policy in place that it consistently applies to manage variations in the price of jet fuel. As reported in our first quarter 2018 financial results, the Group has hedged more than 70 per cent of its fuel requirements for the rest of 2018. This is clearly an issue that we will continue to closely monitor in the coming months.

Consolidation is a fundamental part of our DNA and we will continue to look at opportunities that could make strategic and financial sense for the Group. We firmly believe that the industry will continue to advance along this path and that consolidation will continue to take place, through both business combinations and the acquisition of other airlines' assets.

Alliances and joint ventures have also been key projects for us. In 2016, we announced a joint business agreement between British Airways, Iberia and LATAM and we are delighted that it has been approved by the authorities in Brazil, Uruguay and Colombia. This agreement, which is currently under review by the regulators in Chile, will provide significant benefits to consumers on routes between Europe and South America.

CORPORATE GOVERNANCE

Turning to corporate governance, 2017 was a year of continuity and intense work on the governance practices of our Board. Although IAG is still a young company, our corporate governance framework has already entered a phase of relative maturity and greater stability.

Following the assessment carried out in 2016, with the help of an independent expert, the Board approved an action plan that encompassed a range of diverse initiatives. I would like to take this opportunity to acknowledge the efforts made, and the progress achieved, in fulfilling that plan, as set out in detail in our annual Corporate Governance report.

In addition, both the Nominations Committee and the Board have continued their work on the succession plan, reviewing the composition of our Board and properly planning its renewal. In this regard, Mr James Lawrence is leaving the Board and I would like to thank him for his dedication and valuable contribution to this Board and the Group.

Also, based on a thorough and rigorous selection process, we are pleased to propose the appointment of Ms Deborah Kerr as a new independent director. Her appointment will strengthen the composition of our Board bringing more experience in IT which is of crucial importance to all companies. With 33 per cent of our Board members being women, we have now met the objective we had set for 2020 in our directors' selection and diversity policy.

In 2017, IAG complied with all the recommendations of the Spanish Corporate Governance Code for listed companies, with the sole exception of the rules on the composition and operation of supervisory and control committees that are not mandatory. As I have explained on previous occasions, this is because our Safety Committee is chaired by an executive director (our CEO) and not by an independent director.

The Board has taken into consideration that IAG is the Group's parent company not an airline. Safety is the airlines' responsibility from a legal point of view and the issues assessed by this commission require the expertise from the Board member who is closest to the airlines' operations.

For detailed information on all these issues, please consult our annual report and the annual corporate governance report, as well as all the documentation available on IAG's website.

SUSTAINABILITY

In IAG, we are determined to lead our industry in tackling climate change. We have set this ambitious goal because we believe that a fundamental part of our work is to build a truly sustainable long-term business.

It gives me great satisfaction to highlight that we were the first airline group in the world to set its own carbon emission targets. We made significant progress last year in achieving these objectives through the implementation of various operational initiatives that enabled us to improve fuel and carbon efficiency by 2.6 per cent. This figure exceeds IATA's annual efficiency target of 1.5 per cent average improvement. We are also proud to have played an important role in securing the first global carbon offsetting scheme, allowing the industry to cut emissions by half in 2050 and grow in a carbon-neutral way from 2020.

At the same time, in 2017, IAG was recognised as a global leader for its initiatives to combat environmental risks worldwide. This recognition for its corporate response to climate change came

from CDP (Carbon Disclosure Project), the most prestigious provider of information about companies' environmental performance.

We became the only commercial airline group to be included in CDP's Climate "A" list of the top five per cent of global companies. IAG was also awarded "most improved" organisation in the UK. These awards are a great recognition of IAG's initiatives to cut emissions, mitigate climate risks and develop a low carbon-economy. In 2017, we also rolled out the *Honeywell GoDirect* software to achieve additional carbon emissions reductions through the collection and management of data on fuel consumption and aircraft performance. This technology will allow us to further enhance our airlines' efficiency and share best practice across the Group.

As indicated on previous occasions, we continue to invest in a modern fleet and develop innovative operational techniques to reduce CO2 emissions. As part of this, the production of renewable aviation fuel is critical and we are therefore continuing our projects to convert domestic waste into biofuel.

Last year, we announced our partnership with Velocys, a world leader in sustainable fuel technology, to build in the UK the first recycling plant in Europe for converting waste into biofuels. We believe that there is great potential for producing alternative aviation fuels from waste that would otherwise be destined for landfill.

In addition, we welcomed the British Government's announcement in September last year to include aviation biofuels within the framework of the UK's incentive policy which already existed for road transport. For many years, road vehicles have been receiving financial incentives to develop alternative fuels, whereas airlines – who currently depend on carbon based fuels - have received nothing. The decision by the British Government will undoubtedly help the UK airline industry to meet its carbon emissions reduction targets.

It is truly gratifying to note the progress we have achieved with sustainability which will pave the way towards achieving our long-term goals to address climate change. This year, we will be continuing along the same path as we are convinced that environmental feasibility is critical for the industry to achieve sustainable growth. I would like to emphasise that this matter is a priority for us and that we will be relentless in our efforts to make IAG the leading global airline group in terms of sustainability.

CORPORATE SOCIAL RESPONSIBILITY

As far as corporate social responsibility is concerned, our airlines are, as you know, developing their own programmes in the markets in which they operate.

Flying Start, a charity set up by British Airways, last year raised £7.2 million to support Comic Relief and the airline also donated £50,000 to support the victims of the Grenfell Tower fire in London.

In 2017, Iberia transported 25 tonnes of humanitarian aid to various destinations in Africa, Europe and Latin America and raised €320,000 for child vaccination programmes and several charitable projects in collaboration with UNICEF. Aer Lingus conducted several fund-raising campaigns in

support of Breast Cancer Awareness and numerous other charities. Finally, Vueling raised more than €300,000 donated by their customers and employees in support of the work of Save the Children and Make a Wish.

CONCLUSION

Since its creation in 2011, IAG's business model has grown and matured. It provides us with a unique structure in which innovation plays a key role in the creation of sustainable value and continuous improvement in the service that our airlines provide for their customers.

Our airlines provide a unique, comprehensive and competitive offering. Innovation is an essential part of our management and we firmly believe that digital transformation is the way to compete in a globalised world.

Finally, I would like to thank everyone who is part of IAG, its management team and Board members, for their efforts and their enormous contribution towards making IAG the Group that it is today.

2017 has undoubtedly been an eventful and highly successful year. It gives me great satisfaction to highlight that, thanks to all the achievements of the past seven years, the Group has developed a unique platform which enables it to face the coming years with great confidence.

Thank you.