

**SPEECH BY WILLIE WALSH,**

**CHIEF EXECUTIVE, INTERNATIONAL AIRLINES GROUP**

**Annual General Meeting,**

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*Check against delivery*

## **FINANCIAL PERFORMANCE**

Good afternoon Ladies and Gentleman.

I am delighted to report that 2017 followed the trend of recent years with another excellent performance from IAG and all our operating companies.

Our operating profit before exceptional items was €3 billion, up from €2.5 billion in 2016, and each of our airlines produced their best-ever financial performance. This shows just how far we have come as a Group.

Critically, however, they have all also made an equally strong improvement in their operational performance, while expanding their networks, and are showing an increased commitment to improving customer experience as part of a Group-wide focus.

## **FINANCIAL TARGETS**

We presented our revised financial targets for the five years up to 2022 at our Capital Markets Day last November. These challenging targets are vital to ensuring that we generate real and sustainable rewards for our shareholders while providing excellent customer service, cost efficiency, outstanding operational performance and strong financial results.

While we increased our targets for EBITDAR, capital spending, equity free cash flow and capacity, the other targets are unchanged. Return on invested capital remains at 15 per cent as we want to ensure that we're not restricted in our ability to make long term investments that will bring huge benefits to our business in several years' time.

## **AER LINGUS**

Turning to our individual brands, Aer Lingus' strong performance continued with growth in all markets especially transatlantic routes. Being part of IAG has enabled the airline to develop even more quickly than we envisaged when we bought it three years ago. Aer Lingus operates in a highly competitive market and its ambition is to be the leading value carrier across the North Atlantic supported by a profitable and sustainable shorthaul network. It is well on the way to achieving this. Not only is it expanding its network profitability, it has maintained an industry leading customer satisfaction score.

## **BRITISH AIRWAYS**

British Airways achieved a strong financial performance last year despite several challenges including industrial action, the power outage last May and extreme weather conditions in December. The airline appreciates that these incidents were very frustrating for passengers and it is intent on becoming a truly customer-focused company, both in the air and on the ground.

British Airways has a robust and strong brand and it has launched a £4.5 billion investment programme which will enable it to provide an excellent travel experience in all cabins.

The airline is also making big strides to improve its operational efficiency and last year had its best performance in recent years. Its punctuality figures are particularly pleasing with punctuality within 15 minutes of departure time – a key industry standard - the best for six years.

## **IBERIA**

In 2017, Iberia celebrated its 90<sup>th</sup> anniversary with another excellent financial, operational and customer focused performance. Underpinning this success is the airline's Plan de Futuro transformation which started five years ago and has enabled Iberia to adapt and face new market challenges.

Having returned to profitability under the first Plan de Futuro programme, the second phase is going even further. It is focused on change that will enable Iberia to continue to grow profitably while achieving an excellent performance in all areas. This is already bearing fruit. Yet again, Iberia was the world's most punctual network carrier and Iberia Express was the world's most punctual low-cost airline – a tremendous achievement for both companies. Also, Iberia's customer satisfaction score increased significantly and it was awarded a fourth Skytrax star, putting it on a par with the best airlines in the world for product and customer service.

## **VUELING**

The turnaround in Vueling following the operational challenges of 2016 has been particularly outstanding. Its management team has consolidated the airline's position in Europe and made it more robust, leading to its best-ever financial performance. The airline has worked hard to improve its operational resilience and better handle external disruption. It is also winning back customers' trust and improving overall customer experience while focusing on the needs of price sensitive consumers.

One frustrating cause of disruption that affects all our airlines but particularly Vueling, due to the location of its Barcelona hub, is French air traffic control strikes. If the strike disrupts the airspace around Marseille, 50 per cent of Vueling's flights are affected. The knock-on effect on the airline and its customers is huge but there is also a significant negative impact on the Spanish economy and tourism.

## **LEVEL**

The launch of LEVEL was one of the highlights of 2017 and the brand is going from strength to strength. Our Barcelona operation continues its strong operational performance. It has achieved load factors above 90 per cent and generated a positive underlying profit which was ahead of our expectations.

LEVEL's success shows that targeting an under-served market with a great customer proposition and a low cost base is a winning formula. This has given us the confidence to expand the brand. We will add a third aircraft to its Barcelona fleet later this year and launch flights from Paris Orly airport next month to four destinations in North America and the Caribbean.

### **NET PROMOTOR SCORE**

This year we have introduced a consistent and comparable customer satisfaction measure across our airlines as one of our Key Performance Indicators. We are using Net Promotor Score as a tool which is based on direct customer feedback. It enables us to track our airlines' performance efficiently on an ongoing basis so that we can understand what our customers like and dislike. This enables us to have a more informed debate about customer service across the Group and ensures that we target our investment in the areas that bring most benefits to our customers.

### **CONSOLIDATION (MONARCH, NIKI AND NORWEGIAN)**

Our flexibility as a Group enables us to move quickly and take advantage of consolidation when opportunities arise. The demise of British carrier Monarch last autumn meant that the airline's slot portfolio at London Gatwick airport became available. IAG bought the slots to benefit all the Group's airlines especially British Airways which has been able to launch new routes and increase frequencies at the airport.

After the failure of Air Berlin, we were interested in acquiring its Austrian subsidiary NIKI as we felt we could bring real value to the airline and the market. We were disappointed that we were unsuccessful in our bid but still believe that IAG can make a significant contribution to the market and bring more competition and benefits to consumers.

In April, we announced that we have acquired a 4.61 per cent ownership position in Norwegian Air Shuttle. This minority investment was intended to establish a position from which to initiate discussions with Norwegian including the possibility of a full offer for the airline. We confirmed in early May that we'd had contact with the Norwegian Board regarding a possible offer without reaching agreement. We remain open-minded about Norwegian – this is not a deal that we have to do and we will certainly not get involved in a bidding war.

### **DIGITAL/HANGAR 51**

We continue to exploit new technology to make travel easier for our customers. Our small centrally-based digital team has been instrumental in introducing new ways of working across the Group. These include facial recognition biometric boarding at Heathrow Terminal 5 and some US airports. At Los Angeles, 400 passengers on a British Airways A380 were boarded in 22 minutes, half the usual time.

Other initiatives include fully automated push-back vehicles at Heathrow which boost efficiency and cut costs, plus a 3D scanner which measures the size and shape of freight more accurately so that it fits more effectively into our aircraft.

Following the success of our first Hangar 51 start-up accelerator in 2016, last year the second programme was launched in Spain. It was also hugely successful with applications from 350 start-ups in 46 countries. Our accelerator programme is unique as the successful start-ups work right in the heart of our business. This makes the exchange of ideas so much easier and more effective in generating meaningful results.

## **HEATHROW EXPANSION**

The UK Department for Transport published its National Policy Statement (NPS) on Heathrow expansion last week. It will be voted on by British Members of Parliament next month.

While we support building a third runway, we are extremely disappointed that the NPS includes minimal detail about the need to ensure that expansion costs are kept low so that airport charges for customers don't rise.

Heathrow has a history of gold-plating its facilities and ramping up charges and the Government has missed an opportunity to provide the UK with the airport it needs at a price it can afford. Cost-effective expansion is even more critical post Brexit when Britain needs to develop its global trading links.

Responsibility for curbing Heathrow's excesses will fall on the Civil Aviation Authority. We will be putting pressure on the regulator to protect customers and keep charges flat in real terms. The alternative is long term damage to the UK economy.

## **CONCLUSION**

Finally, I would like to conclude by stressing that IAG's unique structure in the airline industry gives us a huge advantage.

It enables our operating companies to focus on their operations, brand and customer service. They are then backed up by our central platform which provides Group-wide support more efficiently than the individual companies could do on their own.

This makes us stronger and enables us to provide benefits that others cannot match whether for our customers, our shareholders or our individual operating companies.

None of our achievements would have been possible without the fantastic people who work across the Group in a vast range of roles. Each of them has contributed to our success and I would like to thank them for their hard work and efforts during 2017.

Thank you