

## **RELEVANT FACT**

### **ANNUAL GENERAL MEETING 2012: CHAIRMAN'S STATEMENT**

Ladies and gentlemen,

We would first like to thank the shareholders of Iberia and British Airways for the trust they have placed in IAG. In January 2011 we completed the merger of both companies to create the third largest airline group in Europe and the sixth largest in the world by revenue. IAG was listed on the London, Madrid, Barcelona, Bilbao and Valencia stock exchanges.

It is with great pride that we can say today that this first year has been navigated successfully despite the tough economic situation facing us. As the chief executive, Willie Walsh, will explain in greater detail, IAG recorded an operating profit of 485 million euros in 2011, doubling the previous year's result.

The evidence shows that there were solid strategic foundations and a clear financial justification for the merger, the culmination of 12 years of shared history between Iberia and British Airways. The airlines now generate combined revenues of 16.3 billion euros, operate a fleet of 349 aircraft, fly to more than 200 destinations, and, last year, transported 52 million passengers.

The merger means we have a greater size and presence in international markets and it will generate synergies in excess of 500 million euros annually from 2015. It has also allowed us to take on a leading role in the process of consolidation and transformation that the global airline business is undergoing.

### **COMPLEX ENVIRONMENT**

The claim that the airline industry faces one of the most challenging periods in its history, it is almost a truism.

In 2007, our sector had barely begun to recover from the impact of the 9/11 attacks and the high price of fuel oil when the financial crisis struck.

We are now in the fifth year of a significant economic slowdown and forecasts for the short term remain pessimistic.

The International Air Transport Association (IATA) has lowered its 2012 profit forecasts for airlines by 14 per cent, from 3.5 billion dollars to 3 billion dollars.

Expectations of a deterioration in the economic situation in Europe have resulted in subdued demand for air travel. As the crisis in the euro zone deepens, IATA forecasts that European airlines will post losses this year of 1.1 billion dollars, almost double the amount predicted in March.

Of course, whether these forecasts do actually materialise will depend a great deal on the trend in the price of fuel. Over the past 14 months its value has remained persistently above 100 dollars a barrel and it accounts for more than one third of our operating costs.

According to the IATA's estimates, a decade ago, fuel oil accounted for no more than 14 per cent of costs, so the impact of its size on the industry is clear to gauge.

In spite of hedging policies, the effectiveness of which is limited to smoothing the impact of price rises over time, the economic environment is not strong enough for the industry to be in a position to compensate for the severe impact on its costs.

## **OTHER CHALLENGES**

Unfortunately the airline industry is not just confronted with the problem of high fuel oil prices and a slowdown in the global economy. There are more serious challenges in the medium and long term. I turn to the environmental aspect.

Our industry has been criticised relentlessly by environmental activists. Time and time again they have accused us of being one of the largest single contributors to

global warming, if not the largest. But the facts tell a different story. In 2010, global aviation generated 649 million tonnes of carbon dioxide. This is equivalent to two per cent of the total emissions produced by mankind.

This does not mean that the industry shies away from playing its full role in the fight against its impact on climate change.

In fact, IAG has led the way in advocating a system which limits and reduces carbon emissions. We firmly believe that emissions trading is the most effective mechanism for lowering carbon levels generated by the industry.

Nevertheless, there is a real risk that the scheme established by the European Union could unleash a trade war. Our concerns relate to the countries not in the European Union which are threatening to take retaliatory action in protest against this scheme.

With Europe's economy under severe strain, such measures would surely put thousands of jobs and hundreds of thousands of euros in vital earnings in jeopardy.

The aviation industry is a global industry. A global solution is therefore required. And that means creating a scheme that can count on the support of all the regions of the world. The most effective way of achieving this is through the International Civil Aviation Organisation (ICAO), an agency of the United Nations.

Governments now have the opportunity of forging a multilateral agreement that will be effective at controlling the emissions generated by the aviation industry.

## **CORPORATE GOVERNANCE**

Let me now turn to the solid structure of corporate governance which we have created in order to comply with our numerous regulatory duties, while at the same time preserving the flexibility needed to meet the challenges of our industry.

The way in which the IAG Board of Directors was established and consolidated in its first year of existence is a great source of satisfaction for me. We stressed the key strategic issues for the Group, including the synergies produced by the merger, while the boards of Iberia and British Airways remained focused on operational management.

As chairman of IAG, I have undertaken to ensure that the Board of Directors complies with the most stringent corporate governance regulations of the UK and Spain. And I believe that we have achieved this over the course of the year, save for a few exceptions, which are, for the most part, an outcome of the merger agreements.

In summary, we have created an excellent combination of executive and non-executive talent, drawing on the strengths of both airlines and incorporating valuable experience from outside.

I would like to take this opportunity to thank all my colleagues for their support and it has been a particular pleasure for me to have worked closely with the deputy chairman, Sir Martin Broughton, who, as I speak, is hosting many of our shareholders at the Queen Elizabeth Conference Centre in London.

## **OUR BUSINESS MODEL**

As we anticipated a year and a half ago with the creation of IAG, the fragility of the global economic environment has driven forward the process of consolidation in the industry. Though still limited by a strict regulatory framework, this trend has been accelerating. And, as we have seen, consolidation is occurring on both sides of the Atlantic, despite being a complex process, and it is IAG's wish to be at the forefront. To put it very simply but bluntly our strategy is this: we want to be the world's leading airline group.

By creating a shareholder structure that makes it possible to efficiently manage distinctive airline brands, we have designed a unique and exceptionally flexible model offering a common platform of services.

It means that new companies will be able to integrate easily with the Group. They will be able to conserve their identities, culture and brand, while benefitting from the efficiency gains that come with being a member of a Group with a first-class executive team and solid system of corporate governance.

Our goals are ambitious but realistic. It is clear to us that the process of consolidation is not just about acquisitions and mergers. It is also about having partners that add value to the Group, enabling us to confront the new realities facing the industry from a position of leadership in our strategic markets.

The merger between Iberia and British Airways was the first step, followed up recently by our first acquisition when we incorporated bmi. This will allow us to expand at Heathrow and open up new long-haul routes to the key trading markets.

We have stood out from the crowd by anticipating the changes that have taken place in the industry and by having a clear vision as to how to improve IAG's positioning to compete more effectively with other global airline groups. Our priority therefore is the profitability of our business rather than organic growth at any cost.

## **SOLID PROFITABILITY**

As I indicated earlier, British Airways and Iberia were faced, just like their competitors, with a complex and difficult scenario in 2011

Obtaining an operating profit of 485 million euros and combined revenues of 16.3 billion euros is therefore a result of which we can certainly be very proud.

As the chief executive will explain later on, we have made considerable progress in obtaining synergies from the merger, so much so, that we have increased our target for annual revenue and cost synergies by 100 million euros to 500 million euros from 2015.

This creates real benefits for our customers, and we are determined to continually improve the services we provide to them.

Our focus is to build on our leading position at the Madrid and London hubs, as well as in our strategic markets, while we continue to restructure short and medium-haul operations. The creation of Iberia Express represents one more step in our determination to develop an efficient business in these routes in order to feed the growth of the long-haul operations.

Our firm commitment to you, our shareholders, is to grow IAG in a profitable and sustainable manner. We will therefore remain on the lookout for opportunities for consolidation that will enable us to improve our competitive position. At the same time we will continue to focus on expanding our margins, not just through synergies, but also by transforming business models.

We are determined to deliver consistent and attractive returns to our shareholders where circumstances permit. As we indicated in our Registration Document for the merger, it is our intention in the medium term to distribute dividends that reflect the results obtained and the expectations of our shareholders.

## **IBERIA**

We have examined the details of the arbitrator's decision in relation with the pilot's union Sepia. Iberia will be lodging an appeal tomorrow because of concerns that, among other reasons, the arbitrator went beyond his mandate and made a decision that will adversely affect management's ability to maintain an appropriate cost base for the business and that the decision will impede the future growth prospects of the business.

## **SOCIAL RESPONSIBILITY**

I could not close my speech without mentioning a subject I believe to be of paramount importance. I am referring to the role we play in the society.

We are very proud to announce that this year IAG has once again been chosen for inclusion in the FTSE4Good Index, one of the most prestigious corporate responsibility indices in the world.

The index recognises companies that exhibit the best and strictest practices of corporate governance, socially responsible management and environmental sustainability. It is seen as a benchmark for socially responsible investing at global level.

A major group like IAG should devote a substantial proportion of its energies to socially responsible causes. In fact our companies have been running charitable projects and helping social causes for many years.

I would therefore like to highlight the role played by the association of Iberia employee parents with disabled children. It was founded in 1977 and is the second largest charity in Spain dedicated to provide career opportunities for those with learning challenges. It currently provides care to 3,300 people in five specialised centres across Spain.

And Flying Start is the main focus of the community programme run by British Airways in collaboration with Comic Relief. Flying Start raises money for children around the world and last year collected more than £19 million for its charitable programmes in which British Airways staff play an active role.

## **CONCLUSION/CLOSING REMARKS**

Ladies and gentlemen, I am in no doubt that globalisation is here to stay and will grow in importance.

Customers will increasingly ask for more and better services in the main global markets.

If airlines want to satisfy this demand, they will need to work with the best companies and have effective support from their governments, so that this industry can prosper and grow.

What defines us, in short, is innovation, entrepreneurial spirit and determination.

You can rest assured that IAG has the strategy, focus, direction and capacity to be much more competitive as we have a first-rate team who are prepared to confront and overcome the great challenges facing the industry.

We have shown that we can do it and we will continue to do so in the years to come.

Thank you

*June 21, 2012*

Enrique Dupuy de Lome  
Chief Financial Officer

Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of the Company's Business Plan, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company's forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the group is given in the Annual Report and Accounts 2011; this document is available on [www.iagshares.com](http://www.iagshares.com).