

# Iberia Investor Seminar

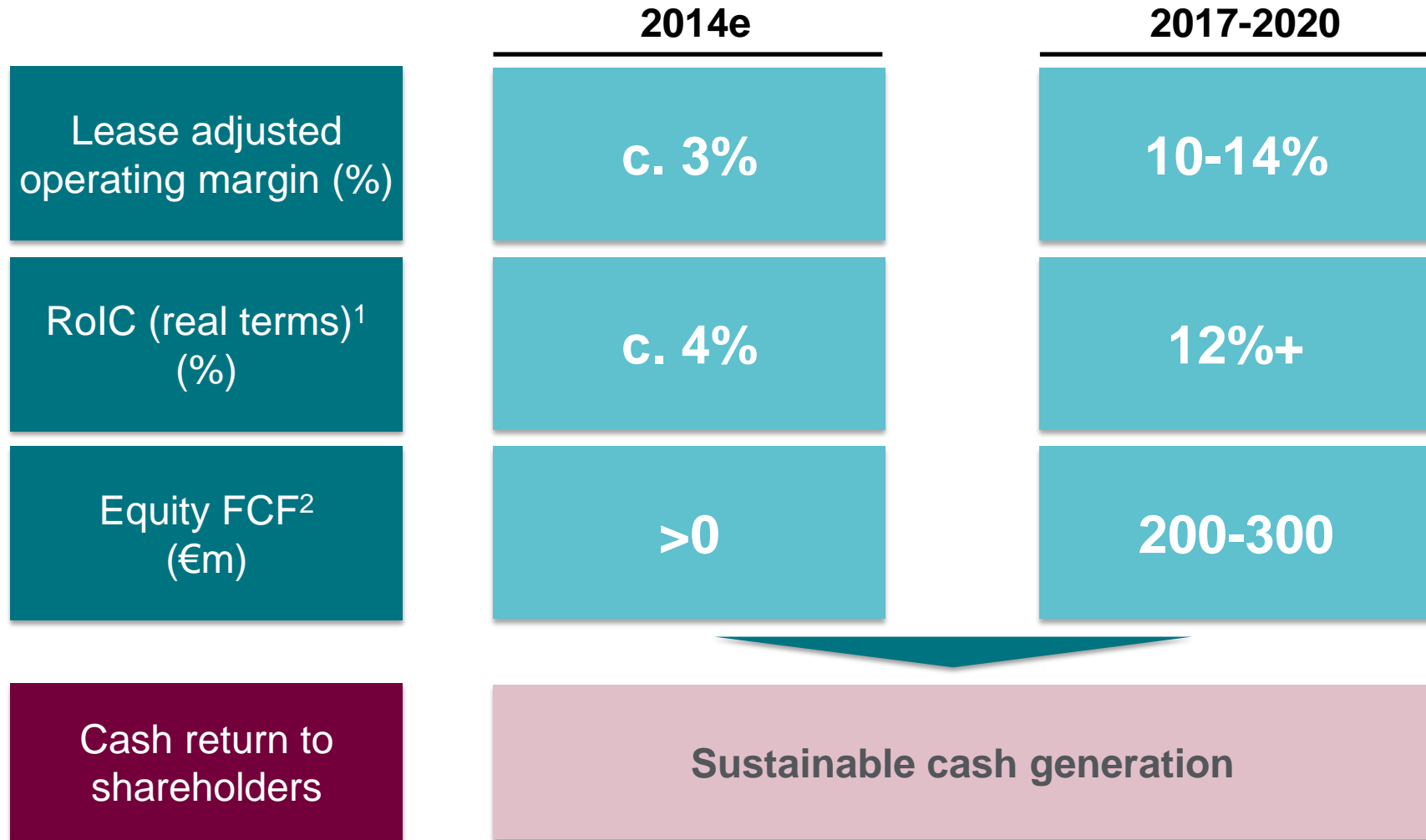
12<sup>th</sup> December 2014

**IAG** INTERNATIONAL  
AIRLINES  
GROUP

# Iberia Investor Seminar - Agenda

Time	Topic	Speaker
08:30	Registration and welcome coffee	
09:00	Opening speech	A. Vázquez
09:20	Iberia's Plan de Futuro	L. Gallego
09:50	Transformation vignettes I <ul style="list-style-type: none"><li>- Commercial Plan overview</li><li>- Boosting our RASK</li><li>- Focusing on the customer</li><li>- Enhancing the way we sell</li></ul>	M. Sansavini J. Harrison, B. Guillén C. Martinoli, D. Bountolos M. Henales, F. Martínez
11:00	Coffee break	
11:20	Transformation vignettes II <ul style="list-style-type: none"><li>- Reducing our cost base</li><li>- Achieving lean processes</li><li>- Transforming SH business</li><li>- Ensuring the right LH strategy</li></ul>	J.A. Barrionuevo, A. García Torres R. J. Hoyos, J. Elices N. Chernoff, F. Candela N. Chernoff, A. Pimentel
12:40	The Iberia of the future	L. Gallego, J. Sánchez-Prieto
13:00	Q&A	
14:15	Tapas lunch	
15:00	Airport transfer	

# Iberia has an ambitious medium term target, in line with the objectives set by IAG



<sup>1</sup> Real returns applicable to all airlines:  $(\text{operating profit} + \text{leases} * 33\%) / (\text{adjusted depreciation} * 10)$

<sup>2</sup> Equity FCF:  $\text{EBITDAR} - \text{Rentals} - \text{Interests} - \text{Taxes} - \text{Capex}$

# At CMD we showed you we had delivered on what we said two years ago; today we will give you more insight

## 2012 CMD objectives achieved

- ✓ **To stop Iberia's operating cash burn** by mid-2013
- ✓ **To give Iberia a competitive cost base** for long-term growth (15% capacity and 4,500 workforce reduction)
- ✓ **To fund the transformation entirely through Iberia's own resources**

## Plan de Futuro...

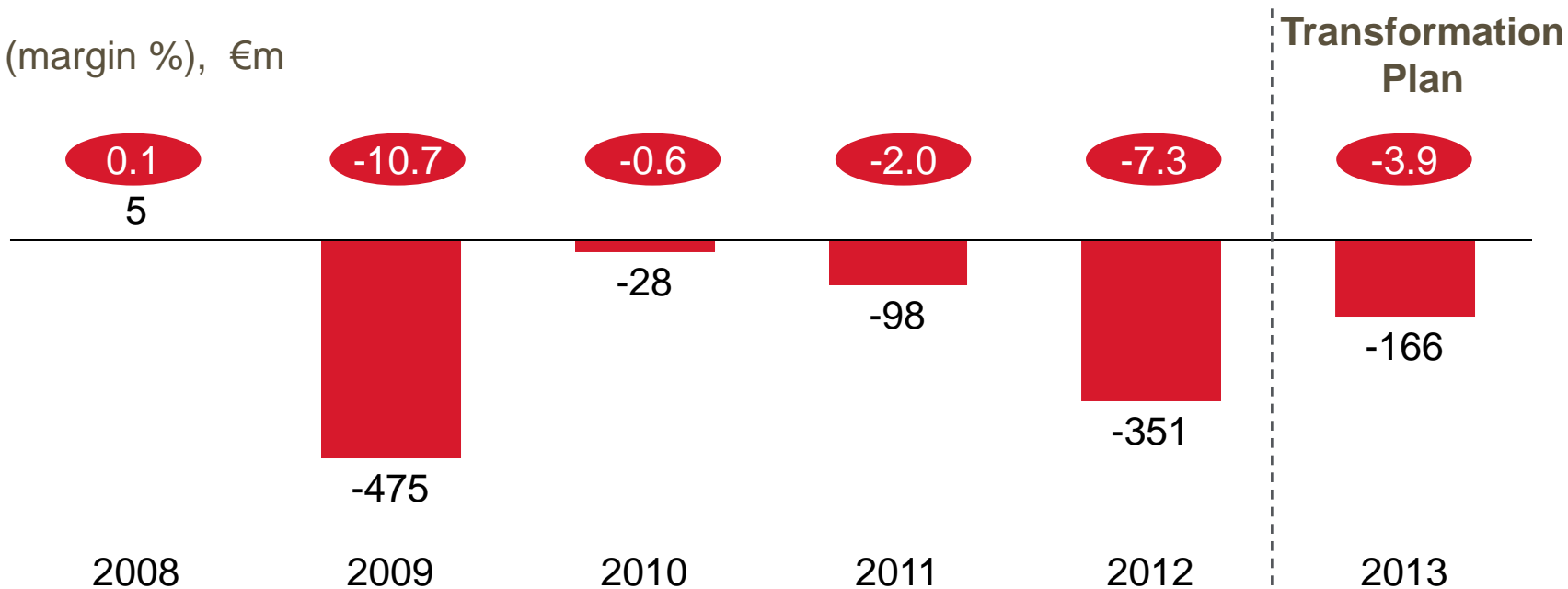
- Comprehensive plan aimed to **radically change** the company
- **30 initiatives** across all key areas of the company
- Continuous monitoring by **top management**
- Full **commitment to delivery**

## ... is shaping the Iberia of the future

- Plan de Futuro will allow Iberia to reach **positive results in 2014** after 6 years of losses...
- ... provides Iberia with an **attractive strategic positioning** in core markets (specially Europe-LatAm)
- ...sets the basis for **profitability and long-term growth**
  - Margins in IAG target range from 2017 onwards
  - Strong growth prospects
  - Free cash generation from 2014

# Iberia comes from a very critical situation...

Operating profit (margin %), €m



	2008	2009	2010	2011	2012	2013
<b>ASKs</b> (bn)	66.1	62.2	62.3	63.0	60.1	52.4
<b>Revenues</b> (€m)	5,516	4,458	4,800	4,863	4,841	4,235
<b>Costs</b> (€m)	5,511	4,933	4,828	4,961	5,192	4,401

# ... due to a combination of external and internal factors

## External factors

Change in industry structure



Unfavourable macro context



Legal restrictions in restructuring



## Internal factors

Corporate complexity



Inefficient cost structure



Outdated network and commercial positioning



# Iberia's turnaround started with the restructuring in the Nov 2012 Transformation Plan...

- 1** Focus on core network
  - Suspend non-strategic, loss-making routes / frequencies, close the gap in cost, fleet and product and keep effective feed for the long haul network
- 2** Renewal of commercial plan
  - Narrow the RASK gap to competition with a commercial action plan providing a customer proposition that will ensure competitiveness
- 3** S&MH transformation
  - Transform the short and medium haul operation, reducing the CASK gap to low cost competition, delivering an efficient short and medium haul operation
- 4** Comprehensive labour restructuring
  - Negotiate salary adjustments and productivity improvements to close the gap in labour cost and achieve a competitive and flexible cost structure
- 5** Restructure non-core businesses
  - Secure competitive maintenance and handling costs for the airline
  - Discontinue non-profitable 3<sup>rd</sup> party activities

...followed by the on-going Plan de Futuro



IAG

Plan de Futuro

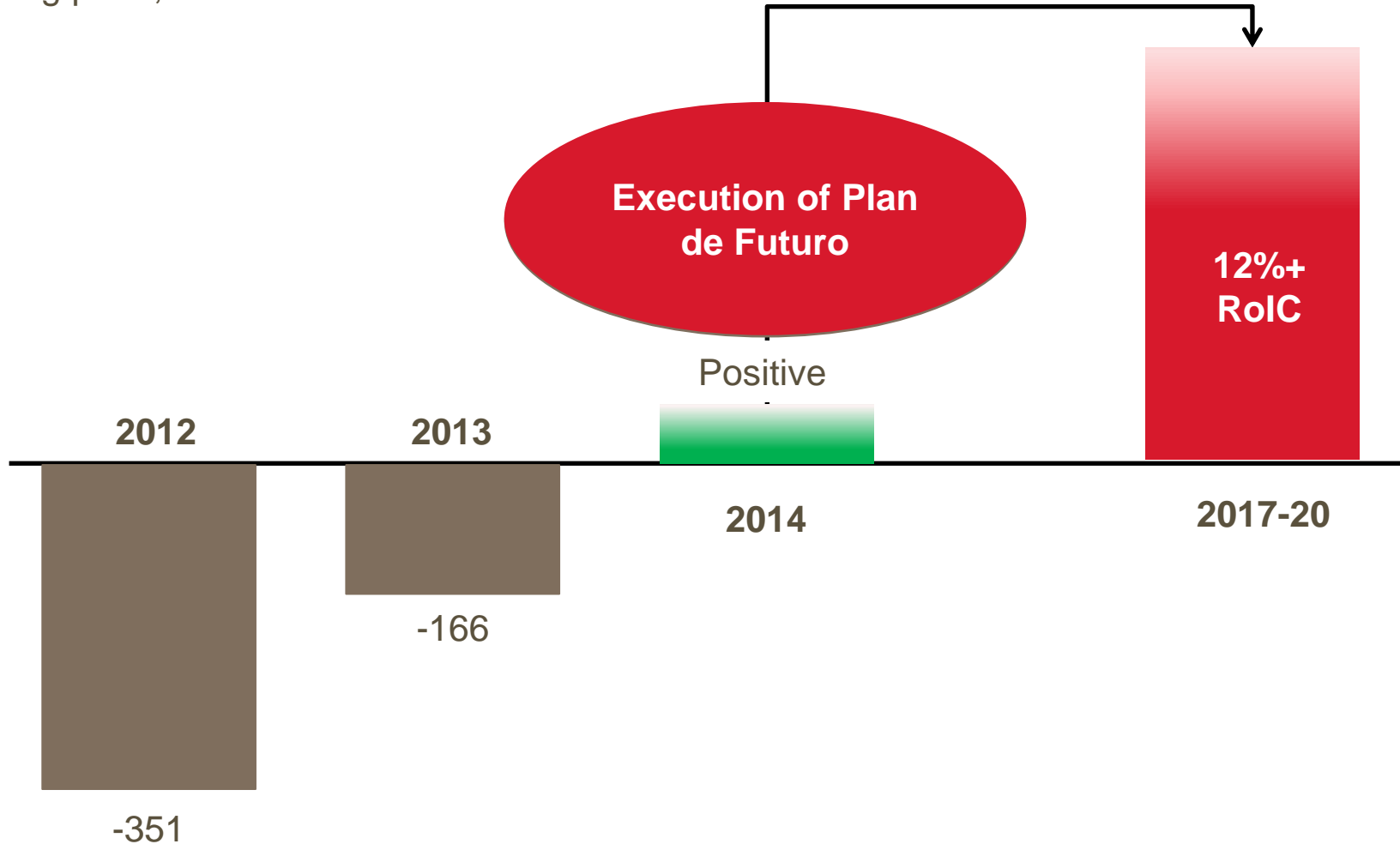
Restructuring

IBERIA 



# Plan de Futuro will allow Iberia to reach a positive EBIT in 2014 after 6 years of losses, as well as the long term objectives set by IAG

Operating profit, €m



IAG

Plan de Futuro

Objectives

IBERIA

# Plan de Futuro is built around 5 principles comprised of 30 initiatives

**Solid  
revenue  
base**



**Simplicity  
and  
flexibility**



**Sound  
competitive  
stance**



**Profitable  
comple-  
mentary  
businesses**



**With a new “style”**



# Plan de Futuro is built around 5 principles comprised of 30 initiatives

 Today's focus

**Solid  
revenue  
base**



- Revenue management
- Marketing
- New generation selling
- Digital experience
- Product
- Customer experience
- Ancillaries

# Plan de Futuro is built around 5 principles comprised of 30 initiatives

Today's focus

## Simplicity and flexibility



- Labour agreements
- Fuel savings
- Crews
- Flight ops. optimisation
- Ground ops. optimisation
- Redeliveries
- Contract leakage
- Overhead cost reduction

# Plan de Futuro is built around 5 principles comprised of 30 initiatives

 Today's focus

**Sound  
competitive  
stance**



- Network optimisation
- JBAs
- Fleet
- Airline MRO relationship
- Madrid Barajas hub

# Plan de Futuro is built around 5 principles comprised of 30 initiatives

## Profitable complementary businesses



- Components
- Engines
- Line maintenance
- Heavy maintenance
- Opt. MRO processes
- HDL productivity

# Plan de Futuro is built around 5 principles comprised of 30 initiatives

 Today's focus

With a new “style”



- Cultural transformation
- Communication strategy
- Single data and MIS
- Future organisation

# Before the detail, we want to give you an overview of Iberia





# Iberia at a glance



- Revenues 2013: €4.8bn
- ASKs 2013: 52.4bn
- Employees 2013: 18,103



- #1 airline in Europe – LatAm and Spain through the MAD T4 Hub
- Fleet of 32 LH & 41 SH aircraft
- World-leading punctuality with >600 daily flights and 100 destinations
- Iberia Express: LCC feeding and P2P from MAD T4 (17 aircraft)
- Air Nostrum feeding franchise (16 aircraft)



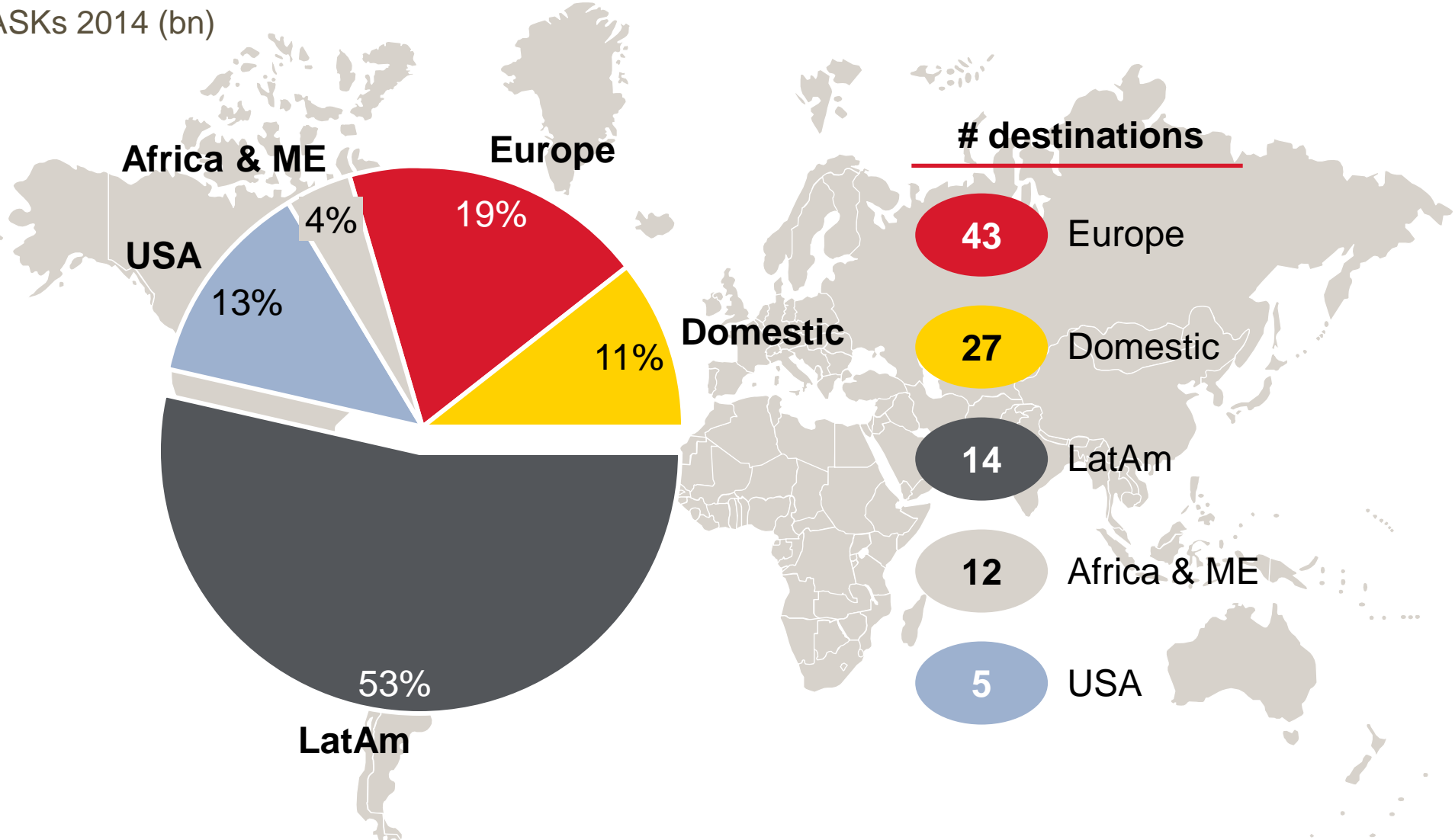
- #1 HDL operator in Spain: 41 airports (incl. MAD & BCN), with 7,000 employees
- Passenger, Ramp, Operation and Cargo to fit all needs for our 200 clients
- Services include 310,000 aircraft movements and 73m pax



- Top 10 MRO global operator
- Maintenance and repair services for Line, Aircraft, Engines and Components
- Top-notch Industrial premises at MAD and BCN with 7 hangars (~200K sqm)
- ~100 international 3<sup>rd</sup>-party customers

# Iberia flies to 101 destinations globally with a major LatAm footprint

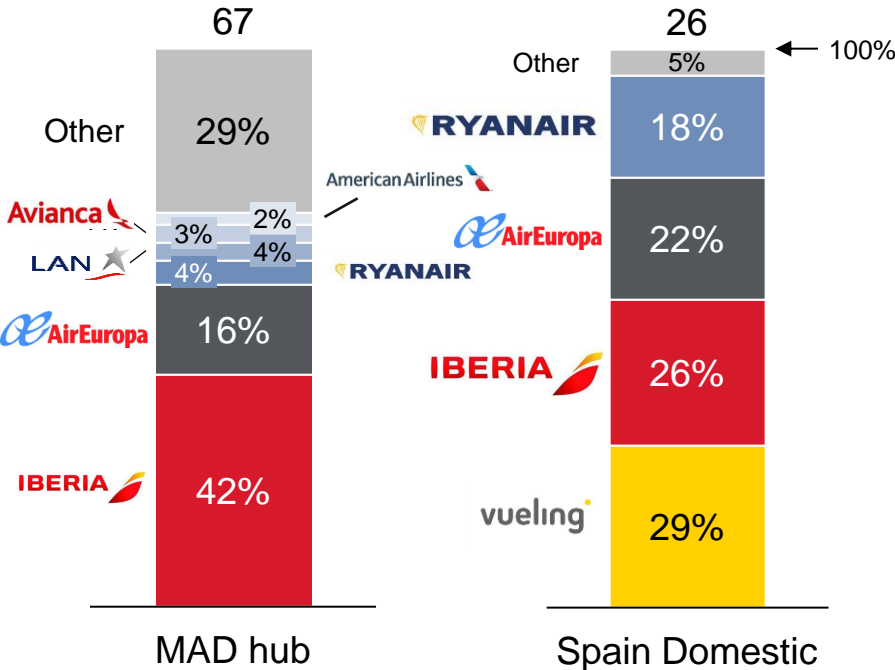
ASKs 2014 (bn)



# Iberia is the reference airline in Spain and the gateway between Europe and LatAm

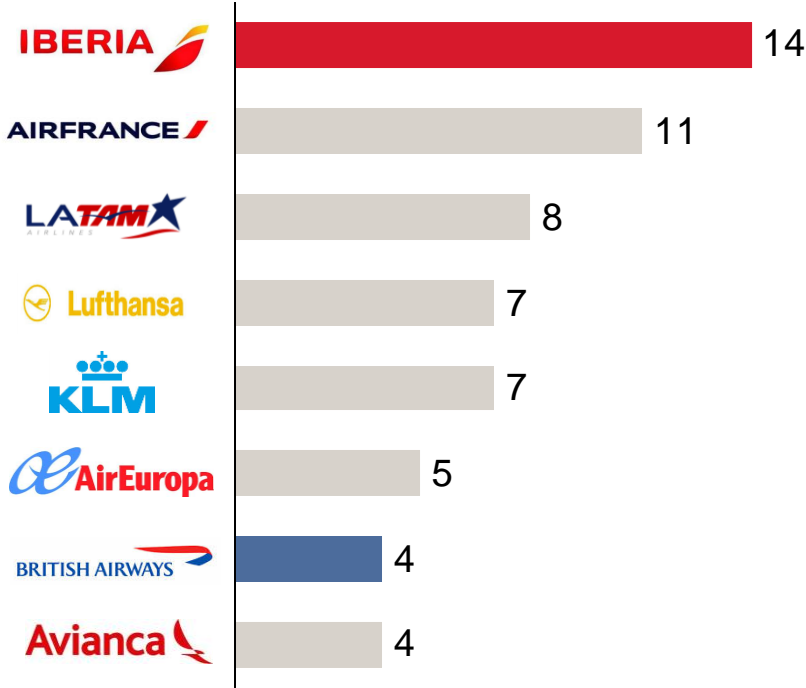
Largest airline in MAD with a high presence in the Spanish domestic market...

Capacity from MAD & Spain Domestic ASK 2014 (bn)



... offering the highest daily flights to LatAm

Flights per day to LatAm<sup>1</sup>, (#)



<sup>1</sup> Excludes Caribbean

Source: OAG

# Our customers have a high degree of loyalty and affinity to Iberia

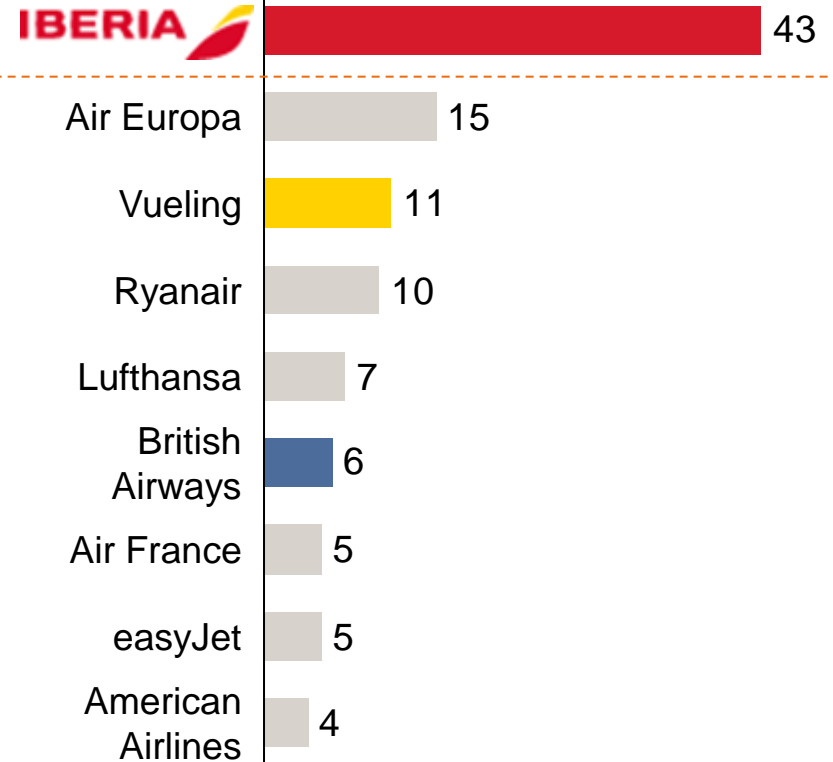
## Iberia Plus FFP

5.8 million members

Aprox. 30% revenue



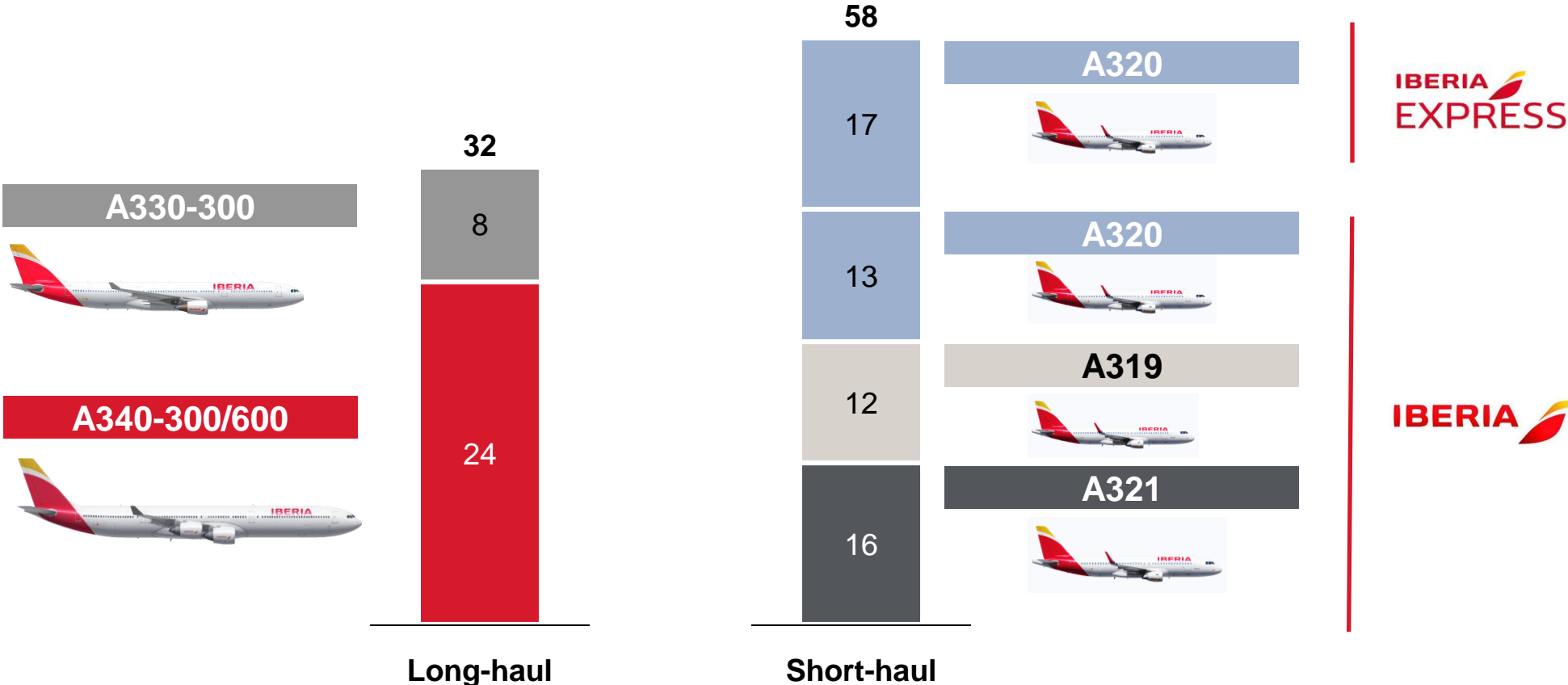
## Consideration, 1<sup>st</sup> choice (%)



Source: Brand Tracker Spain (Jan 2014)

# Iberia has a fleet of 90 aircraft with full commonality

Iberia fleet as of December 2014



# Iberia is taking advantage of the significant opportunities being part of IAG brings

## What does IAG add to Iberia?

## What does Iberia add to IAG?



**Financial strength: world's largest airline groups (€18.7bn revenues)**



**Fleet renewal opportunities (459 aircraft)**



**Enhanced strategic relevance**



**Revenue and cost synergy benefits (€700m gross EBIT impact)**




**Solid leadership in the South Atlantic**



**Unique upside potential**



**Strong cash contributor to IAG**



**Sharing of cost optimisation best-practices**



# But above all, the best asset of Iberia is the committed team that is making Plan de Futuro a reality (1/2)

## Management Committee



### **CFO** – J. Sánchez-Prieto

- CFO at Iberia Express
- Head of Strategic Planning & Controlling at Uralita
- Director of Strategic Planning at AirNostrum



### **CCO** – M. Sansavini

- Chief Strategy Officer at Alitalia
- Commercial Director Europe at AF-KLM
- Executive MBA IMD



### **Network Planning Director** – N. Chernoff

- Senior Manager at IAG
- Strategy and Operations Director at AAR Corp.
- Consultant at Bain & Co.
- Kellogg MBA



### **COO** – R. Jiménez Hoyos

- Pilot, previously at Iberia Express, Air Nostrum, Clickair, Spanish Air Force and Vueling both in Crew Training and Operations Quality department



## Directors



### **RevMan Director** – J. Harrison

- GM Market Planning at Air New Zealand
- Director Planning at TACA
- Manager North Atlantic RevMan at KLM/NWA
- Cornell MBA



### **Marketing Director** – C. Martinoli

- Product Director at Yell
- Marketing Director Latin America – TPI, Telefónica Group
- LatAm Marketing Manager ICI



### **Head of long-haul RevMan**– B. Guillén

- RevMan Director at Avianca
- Manchester Business School MBA



### **Customer Experience Director** – D. Bountolos

- Former Madrid Deputy Director at Iberia
- Transport & Operations consultant at INDRA-Europraxis
- PDD IESE Business School





# But above all, the best asset of Iberia is the committed team that is making Plan de Futuro a reality (2/2)

## Directors (continued)



### LatAm Sales Director – F. Martinez

- Managing Director France, Royal Caribbean
- Vice-President Large Market Europe, AMEX
- Global Corporate Accounts Director & GM Venezuela at Air France
- ESSEC MBA – Sciences Po - Ph.D



### Digital Business Director – M.A. Henales

- CEO of Online Division at Orizonia Corporación
- UIB MBA
- INSEAD Strategic Leadership Programme



### Strategy Director – J.A. Barrionuevo

- Associate Principal at McKinsey & Company
- Senior Associate at JPMorgan
- INSEAD MBA



### Fleet Planning Director – A. García-Torres

- Control & Planning Director at Air Nostrum
- Industry Affairs Director at Air Nostrum
- IE MBA



### Head of Standards & Procedures – J. Elices

- Pilot & Instructor pilot at Iberia and, previously at Air Europa and Spanish Air Force
- Weaponry Permanent Board member SAF



### CEO of Iberia Express – F. Candela

- Planning and Management Control Director at AirNostrum
- Internal consultant at Nefinsa – Uralita
- Consultant at Andersen Consulting



### Alliances Director – A. Pimentel

- President of ACETA (Spanish Airlines Association)
- Former Sub-Director of Aeropolitical Affairs at IB





# Agenda

## Iberia's Plan de Futuro

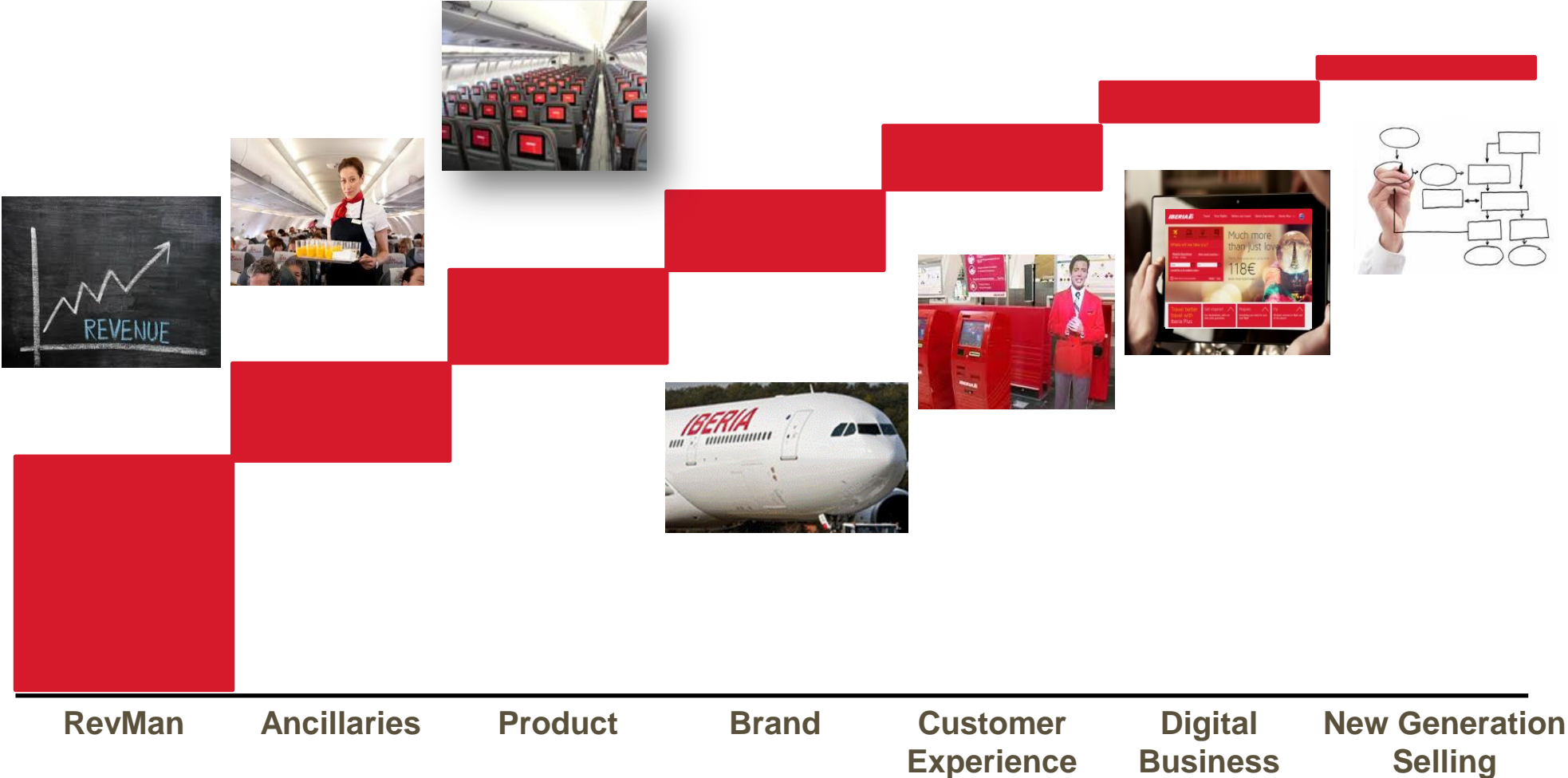


Marco Sansavini – Chief Commercial Officer

IAG

IBERIA

# Commercial initiatives included in the Plan de Futuro aim to generate significant incremental revenues



# Agenda

# Iberia's Plan de Futuro



**John Harrison** – Revenue Management Director  
**Beatriz Guillén** – Head of Longhaul Rev. Management



# Revenue Management had several issues...(1/3)

## Main issues

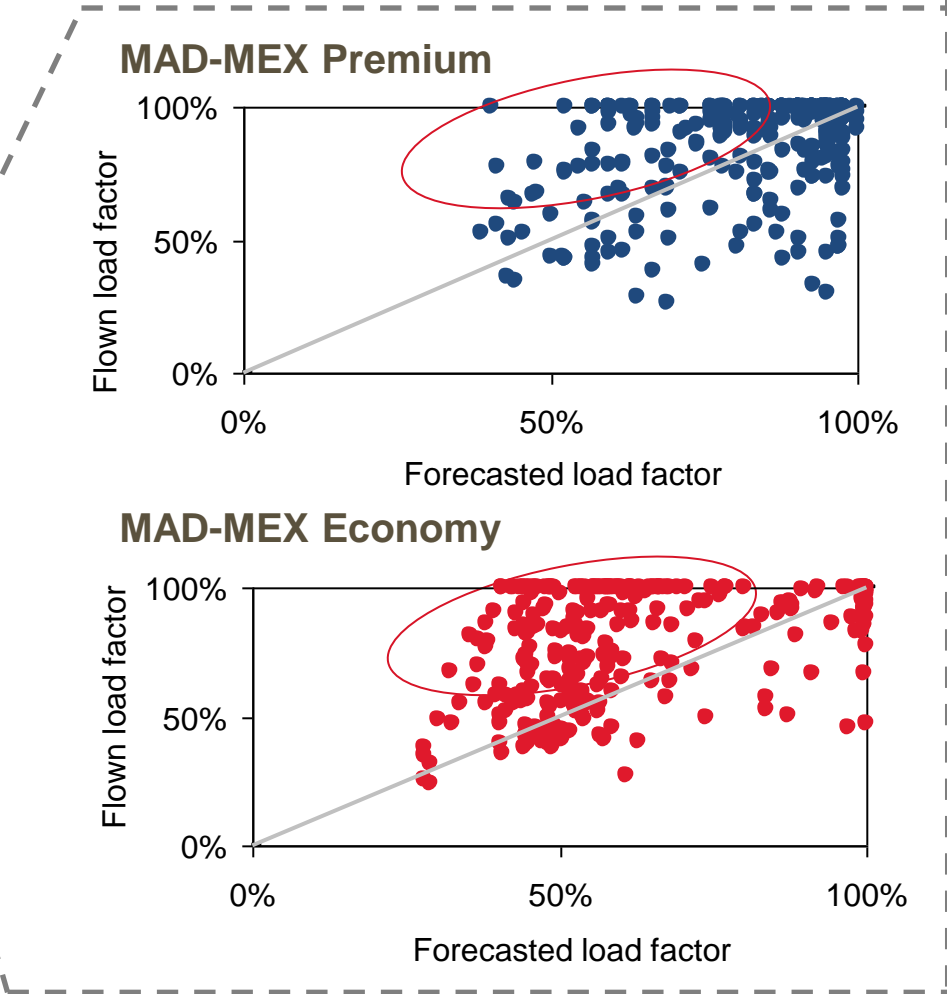
Resources and organisation

Inadequate and inconsistent RevMan processes

**RevMan forecast accuracy**

Simplistic pricing strategies

Out of data system inputs and parameters



# Revenue Management had several issues...(2/3)

## Main issues

Resources and organisation

Inadequate and inconsistent RevMan processes

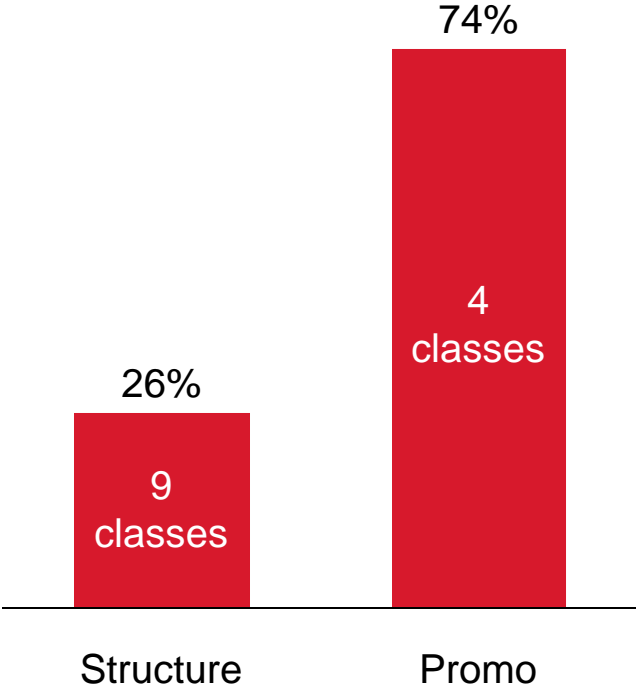
RevMan forecast accuracy

**Simplistic pricing strategies**

Out of data system inputs and parameters

### Long-haul economy cabin fare ladder usage

(% of total bookings)



# Revenue Management had several issues...(3/3)

## Main issues

Resources and organisation

Inadequate and inconsistent RevMan processes

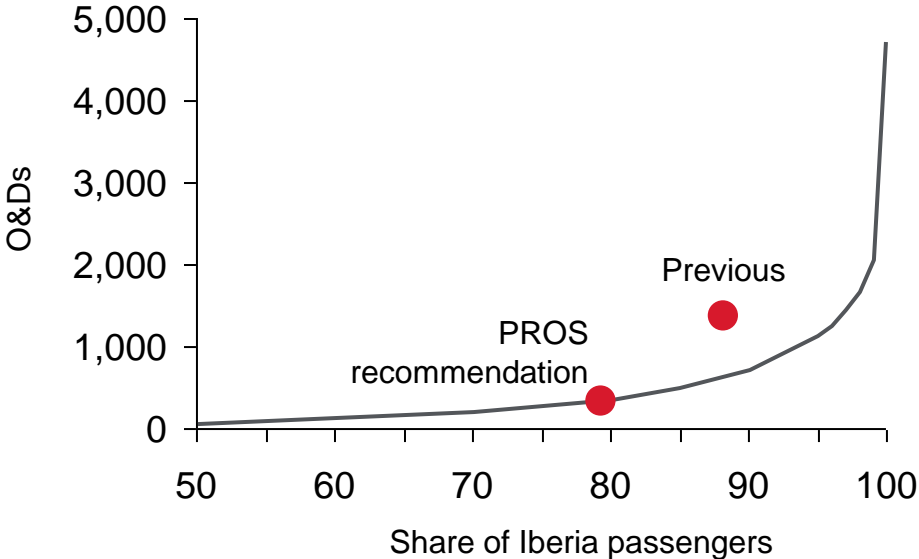
RevMan forecast accuracy

Simplistic pricing strategies

Out of data system inputs and parameters

New PROS system focuses on more relevant data

O&D significant point-of-sale, FY2013



# ...that we are currently addressing through the implementation of best-practices, with significant upside potential

**IAG** Joint-effort/  
coordination

## The revenue management initiatives...

### People

- Changed **50% of management team**
- Separation between **pricing** and **demand/inventory**
- Develop **culture** of initiative and risk-taking

**IAG**

### Systems

- Rationalise system inputs – **significant O&D list**
- Ensure **data integrity**
- Dedicated **support** group

**IAG**

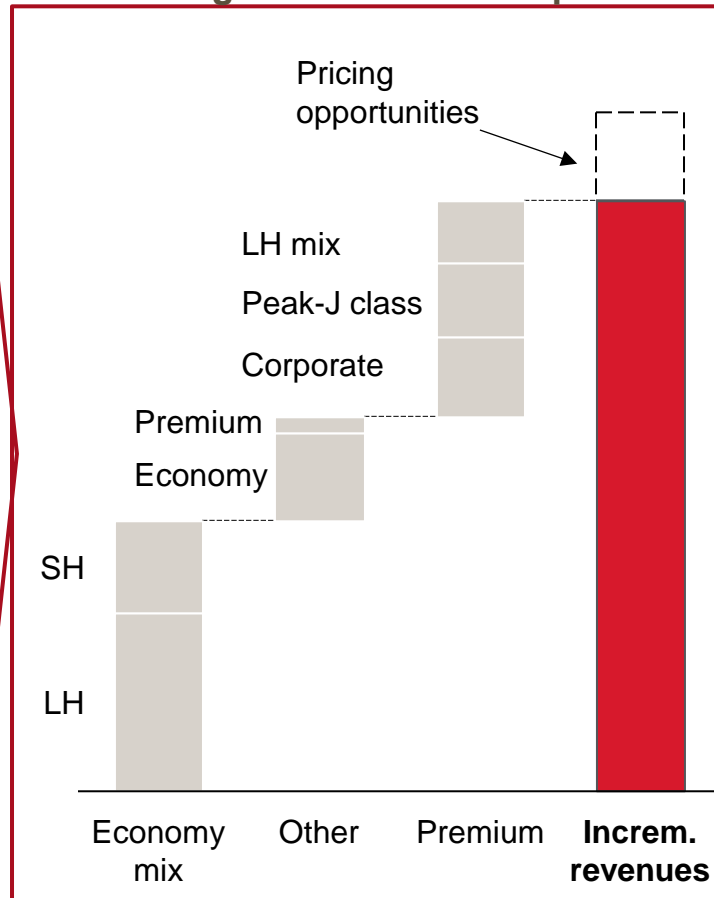
### Processes & policies

- **KPIs** and **incentive** plan
- **Analysis** and quantification of actions
- **Standard use of systems** across RevMan

**IAG**

**IAG**

## ...have a significant revenue upside



**IAG**

Boosting our RASK

RevMan initiatives

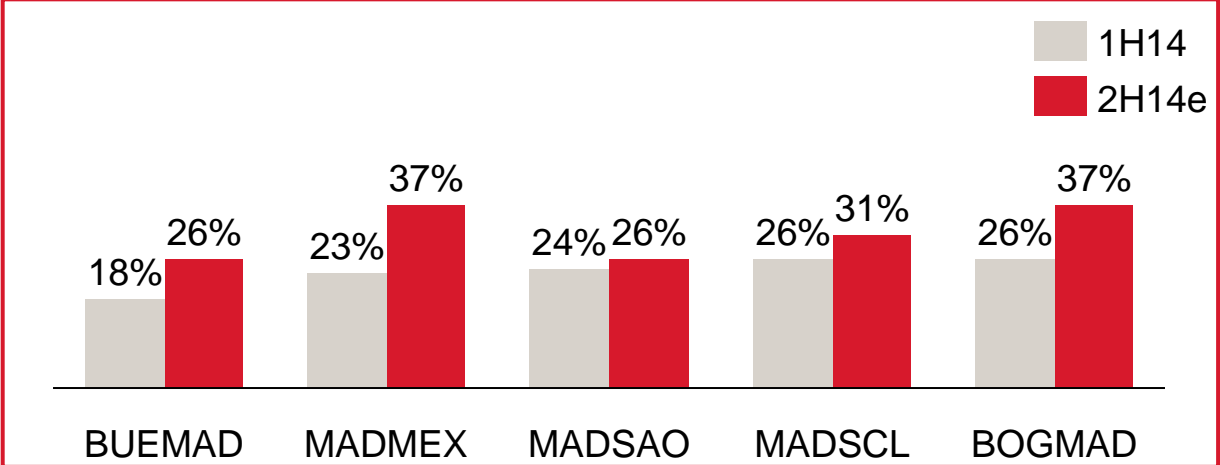
**IBERIA**

# Example: significant increase in LH structure fares usage and premium cabin revenue

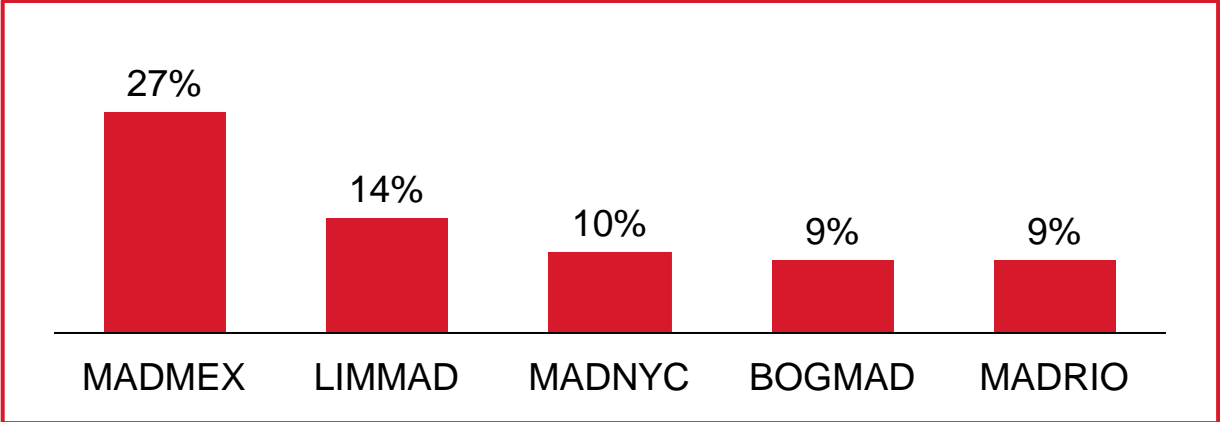
## Actions

- Improve spread of fare levels among the cabin to ensure that Iberia is able to generate sell up as flight fills up
- Introduce new types of premium cabin products and segments to improve revenue and load factor

## LH structure fares usage

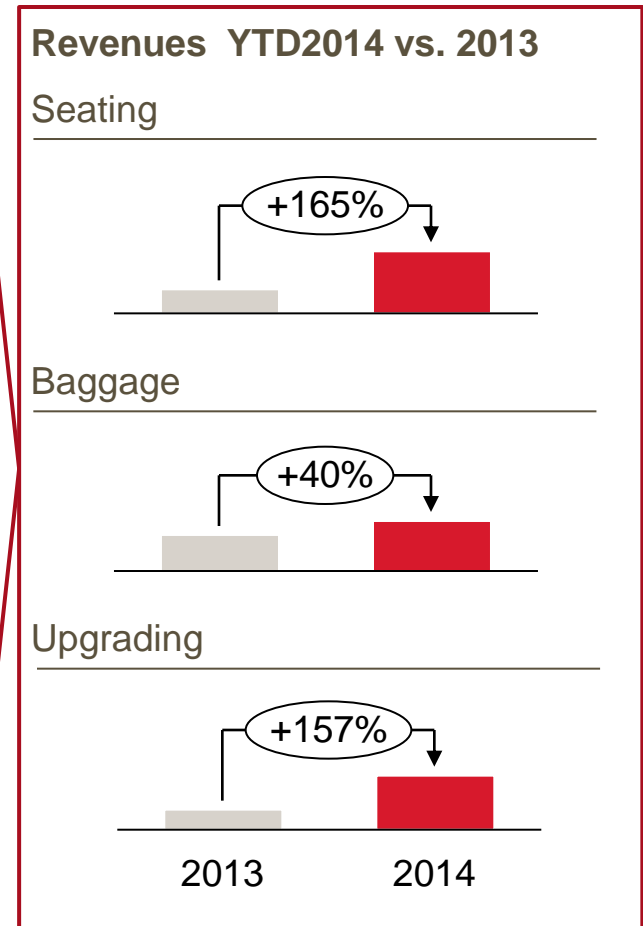
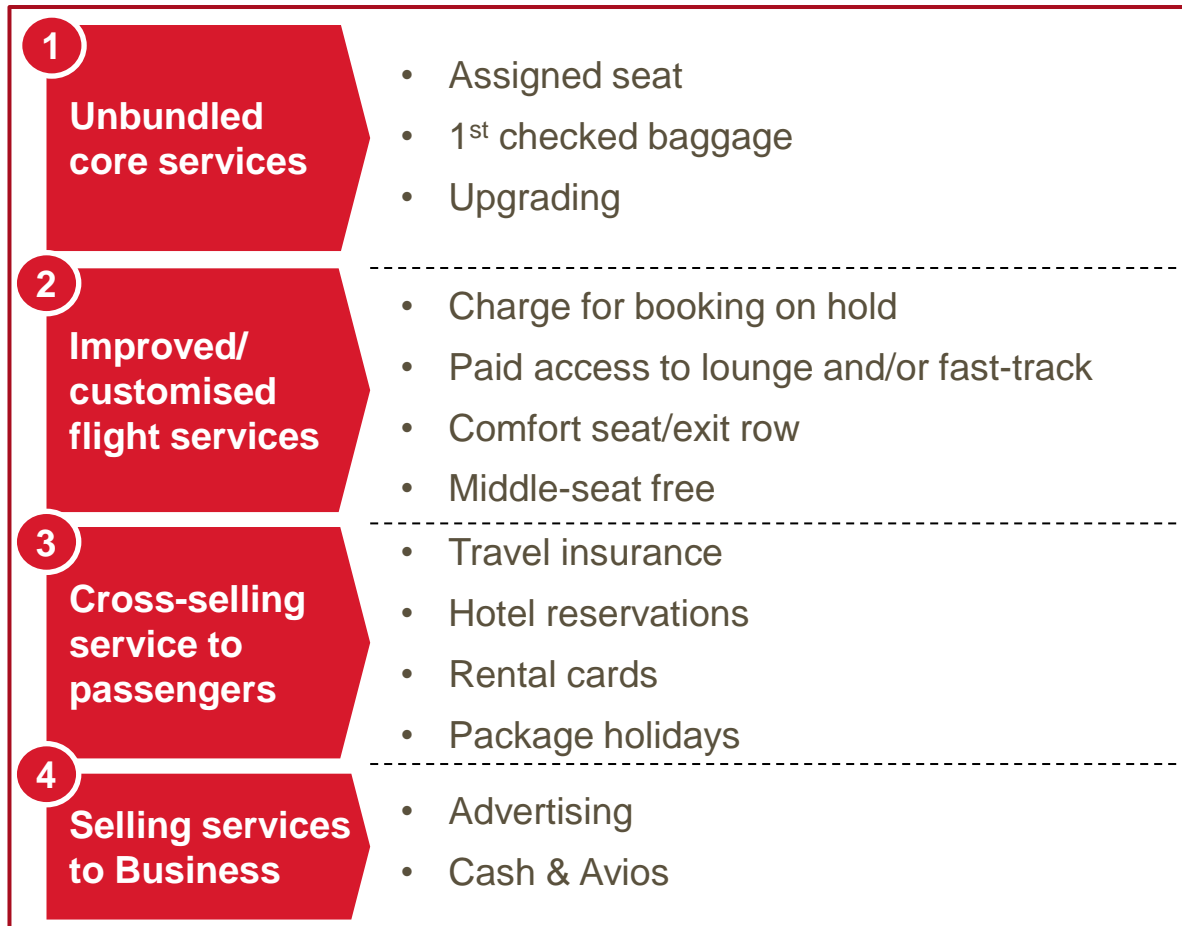


## LH premium cabin revenue increase (1H14 vs. 2H14e)





# Ancillaries: complementary flight services to increase cross-selling and to capture potential revenue, both in B2C and B2B



# Examples of ancillaries: selling advertising space and new fare families

## Selling advertising space

- New strategy for **inventory management**:
  - Adding new inventory
  - Single inventory management
- RFP launched for a **single seller of all advertising** (print & non-print):
  - Already selected new provider starting Jan '15



Expected higher revenues for commercialising additional media opportunities

## New fare families: meeting the expectations and needs of our customers

- First European flag-carrier launching (Sep '13) **new fare structure for domestic & European flights**, appealing to **all market segments**
- Three **different fares**: offering three different prices and service levels:

### Basic



For economy-minded customers carrying only hand luggage

### Classic



Including one piece of luggage and a choice of seats

### Flexible

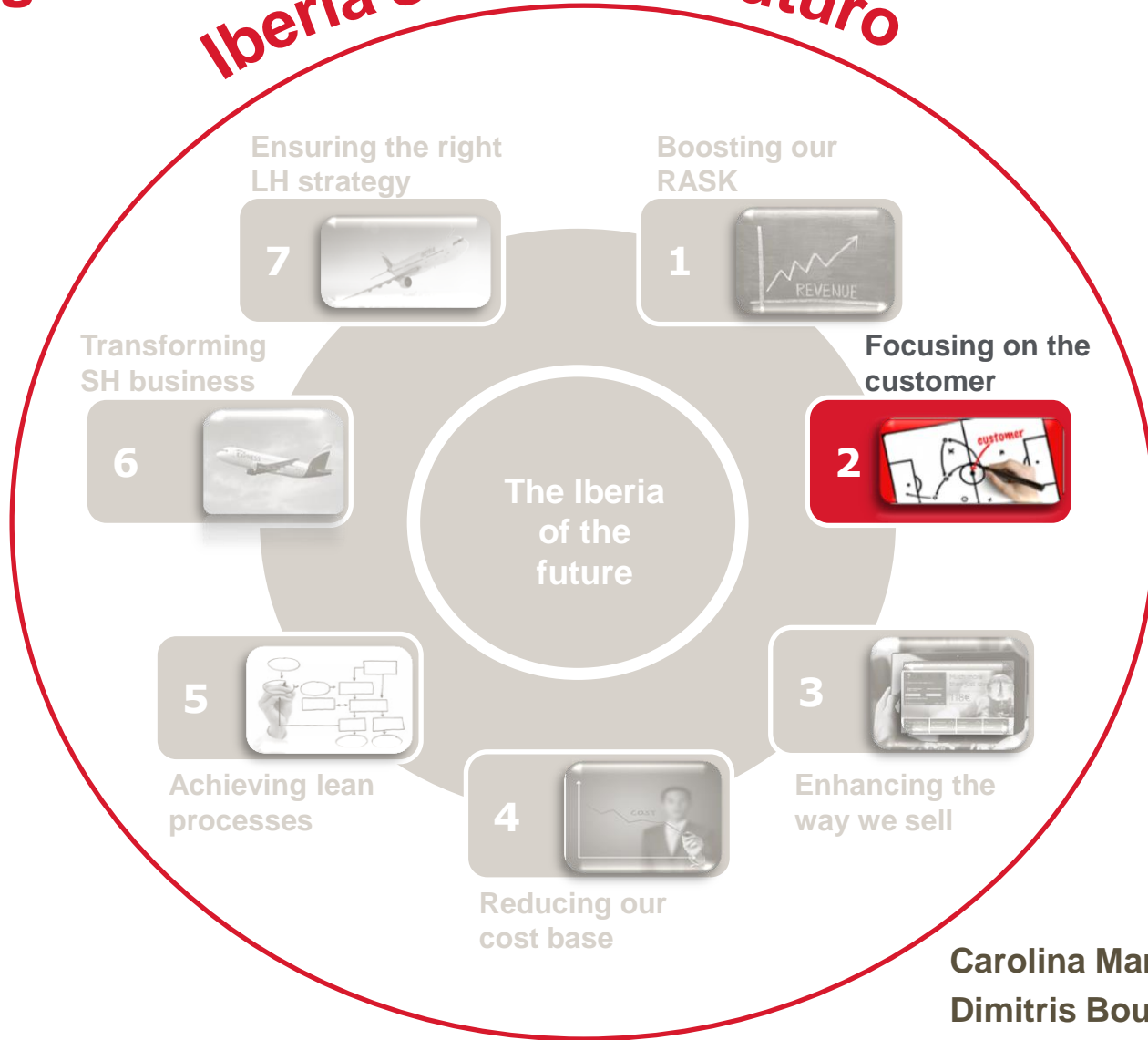


Changes not penalised, refund for a fee and priority in boarding

- Enlarge our customer base
- Generate additional revenues by selling additional services

# Agenda

## Iberia's Plan de Futuro



**Carolina Martinoli** – Marketing Director  
**Dimitris Bountolos** – Customer Experience Director



# A new image...



**BUSINESS PLUS**  
Más distancia entre butacas. Más espacio para usted.

En Iberia sabemos que mirar hacia delante es poder ofrecer cada día un servicio excelente, tanto a tierra como en vuelo. Por ello, hemos incorporado nuevas mejoras que hacen de Business Plus una clase única: ahora le ofrecemos un espacio personal mucho más amplio, **más de 220 cm**. Un espacio que le ayudará a descansar en nuestras butacas ergonómicas como en una **auténtica cama**. Porque cuando viaja con Iberia su comodidad está por encima de todo.

**Plus!** Cuanto pague para volar gratis. Oferte de más en [iberia.com](http://iberia.com)

# IBERIA

**IBERIA**

## Hola Montevideo. Hola Europa.

Desde el día 1 de septiembre, Iberia te lleva a Europa con 4 vuelos semanales para que vivas nuevas experiencias.

[iberia.com](http://iberia.com)



# ... for a new Iberia...



New look & feel



New livery



A new brand platform



Drive



Talent



Affinity

A new way to communicate





... substantiated by a radical transformation of our product and services centered on the needs of our customers and consistent with our revenues and costs

### New LH product



### Brand & communication



### Customer experience



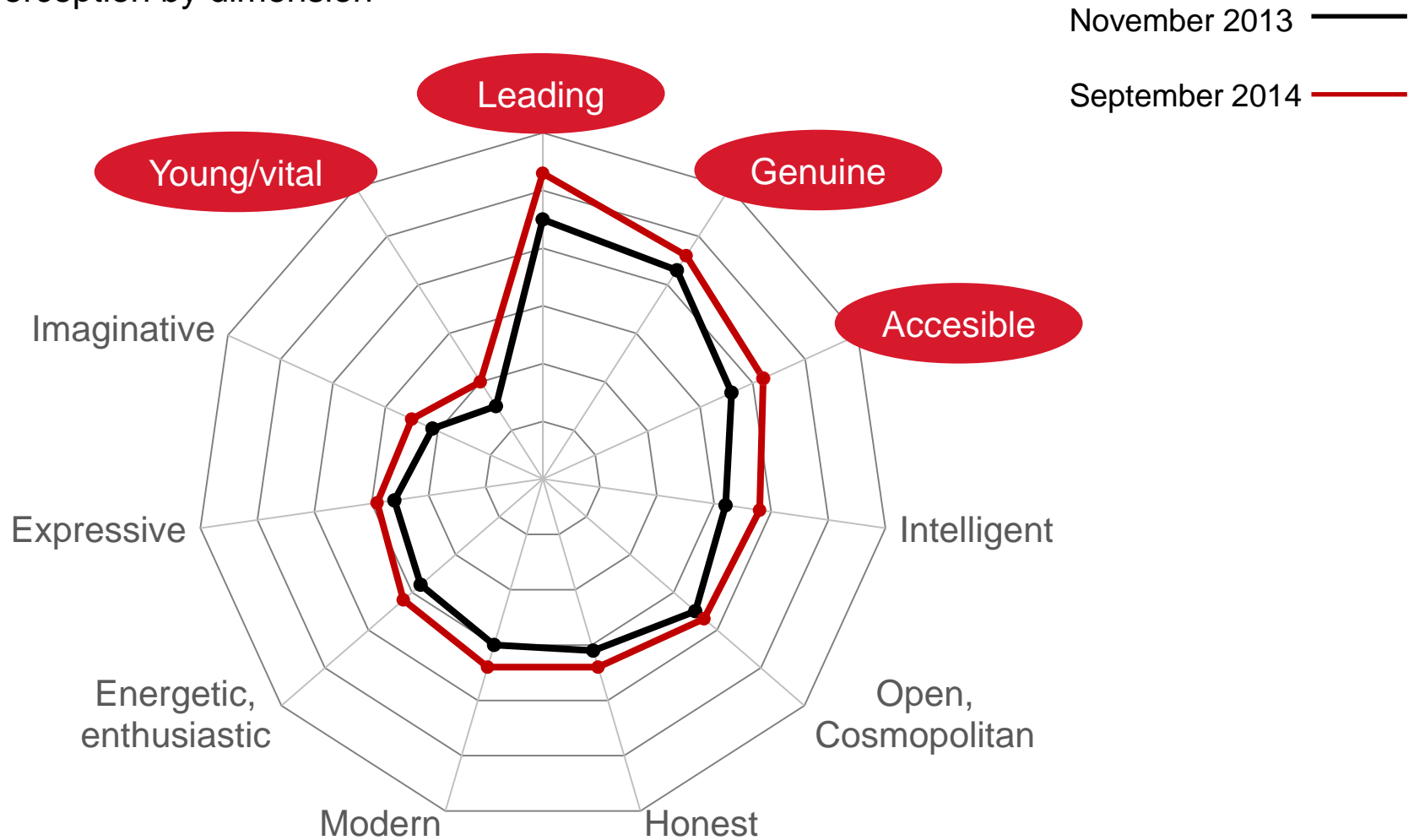
### Innovation & mobility



Improvements implemented under a cost-effective mindset to maintain cost positioning (joint-tenders, service re-design)

# Customers perceive the change positively...

Iberia brand perception by dimension



Source: Brand tracker Millward Brown

IAG

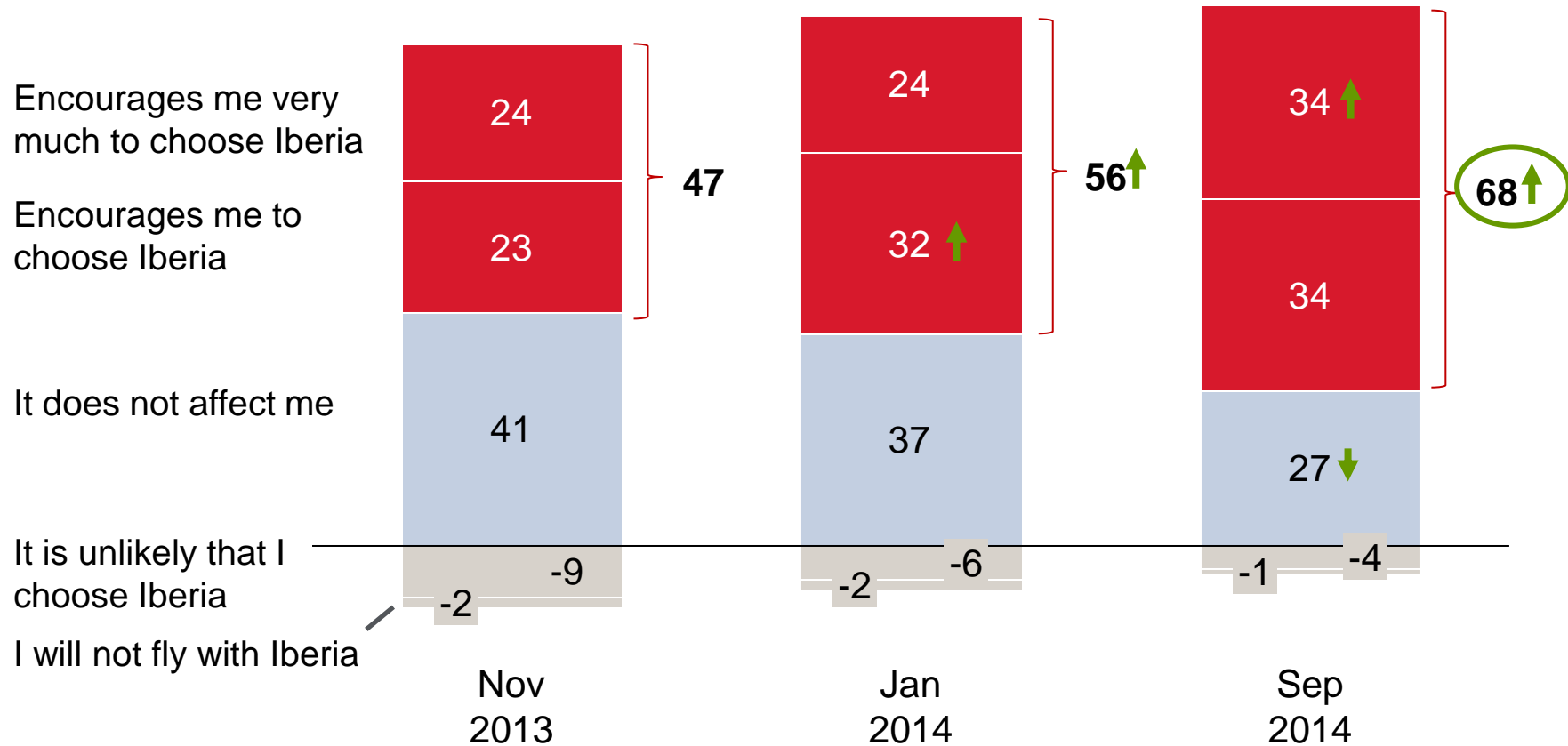
Focusing on the customer

Customer perception

IBERIA

# ... and the efforts in communication, product and services are increasing the consideration of the brand

Communication impact on consideration to fly (%)

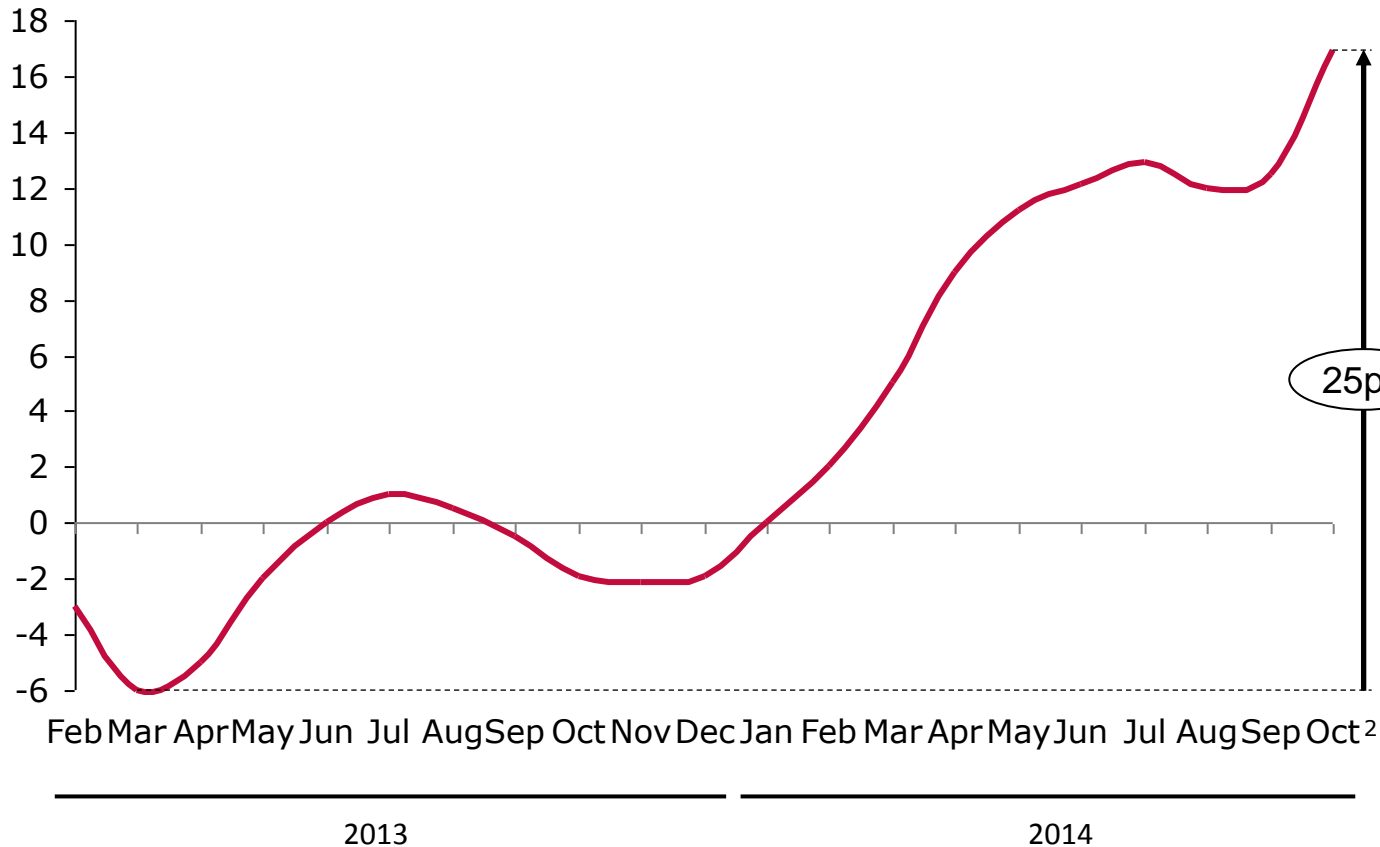


Source: Brand tracker Millward Brown



# Brand, product and service transformation is leading to a radical change in our customer's perception

Iberia Net Promoter Score<sup>1</sup> Feb'13-Oct'14 (%)



## Spend & loyalty

21% make >50% travel with Iberia (vs. 2% of unsatisfied)

## Recommendation

x4 recommendation propensity (vs. "neutral" customer)

<sup>1</sup> Net Promoter Scores measures difference between promoters (9-10 grade) and detractors (0-6 grade)

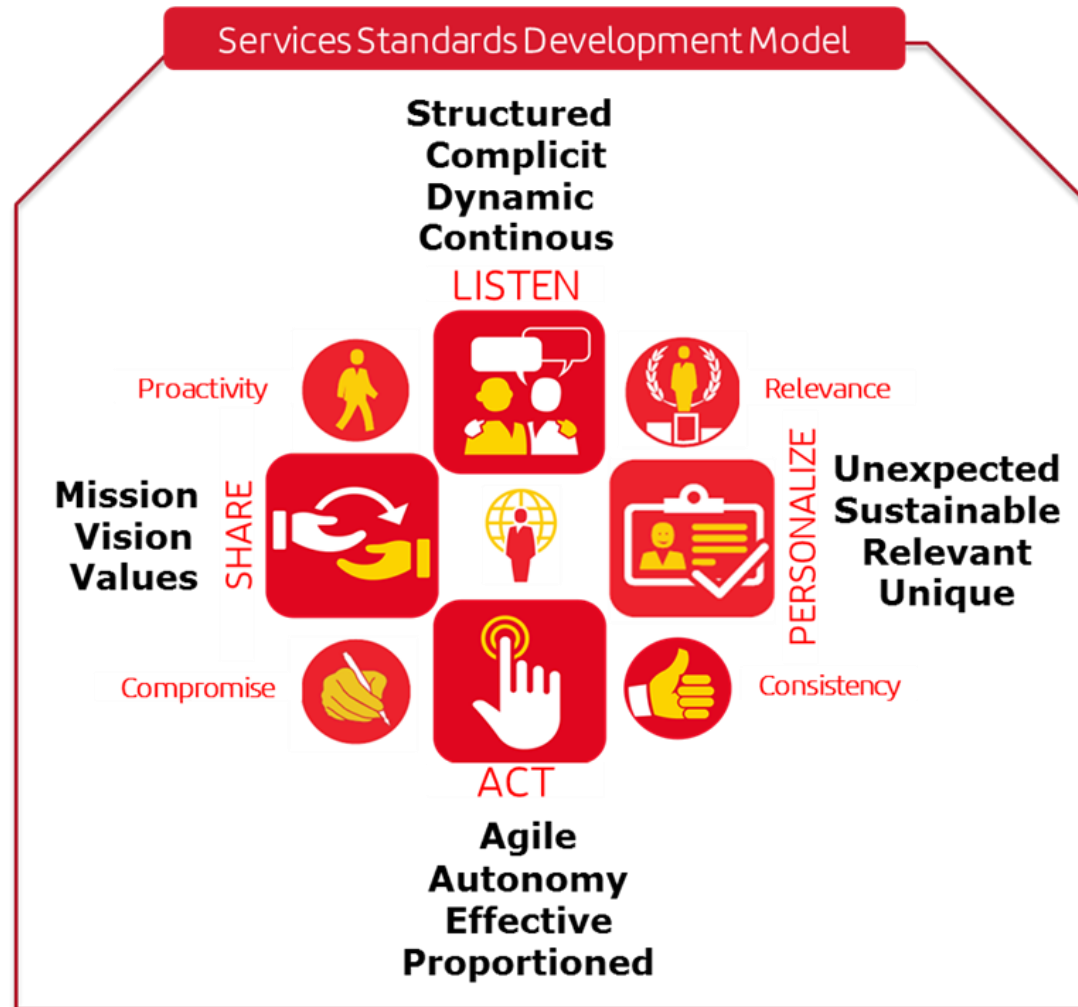
<sup>2</sup> Last four weeks average (21/10 – 11/11)

Source: Iberia Customer Experience; BCG market survey to Spanish consumers

# In addition we are introducing profound “customer experience management”: *Definition & delivery are our main pillars*


**Customer journey standard services**  
Inventory, definition and consistency in procedures

**Loyalty and personalisation multichannel plan**  
Single IAG's customer



- Service standards & customer journey assuring delivery in all touch points
- Customer centric company transferring this new DNA to a personalised service

# Old Surveys

IBERIA PLUS 


Estudio de Calidad percibida

Estimado/a RAMON

El cuestionario tiene como objetivo conocer su nivel de Satisfacción con el Servicio que le ha prestado **IBERIA** en su vuelo **MADRID-LOS ANGELES** de fecha **01/01/2009** en la cabina **Turista**. Gracias por su colaboración.

- ▶ Sus respuestas serán utilizadas para mejorar la experiencia de nuestros clientes.
- ▶ Si por algún motivo no puede finalizar el cuestionario, se ofrece la posibilidad de poder continuar en otro momento que usted considere más oportuno.
- ▶ El cuestionario está estructurado en diferentes bloques, incluyendo así todas las fases del servicio recibido.
- ▶ La escala de valoración será de 0 a 10, donde el 0 es Muy Insatisfecho y el 10 Muy Satisfecho, contemplando las valoraciones intermedias.



IBERIA PLUS 

Desconectar

Progreso de la encuesta

Estudio de Calidad percibida

## RESERVA Y COMPRA DEL BILLETE

La Facilidad de reservar por IBERIA.com



Globalmente indique su Satisfacción con la reserva y compra del billete de **IBERIA**.



Satisfacción global con la Reserva y Compra del billete de **KLM**.



ANTERIOR

SIGUIENTE

# New Surveys

IBERIA 

Comparte tus emociones con nosotros.

**Danos tu opinión**

Nos encantaría que compartieras tu experiencia y las emociones de tu viaje con nosotros.

Sabemos que tu tiempo es valioso por lo que te damos las gracias por dedicarnos unos minutos.

IBERIA 

Share your thoughts with us!

We'd love to hear about how your recent journey went.

Servicio a bordo.

Votara tu satisfacción global con nuestra tripulación de cabina:

Poco satisfecho Muy satisfecho

© Copyright 2014, Iberia Viajes, S.L. Todos los derechos reservados. 



## Online feedback and employee's recommendation

**IBERIA**

### Tus comentarios o sugerencias.

¿Quieres que tus comentarios lleguen a un equipo específico? Marca el recuadro de abajo y se lo enviaremos:

Nuestro equipo de tierra:


Madrid

Nuestra tripulación:


Madrid > Nueva York

Comparte con nosotros tus felicitaciones o sugerencias... si crees que lo hicimos bien dínoslo. Nos pondrá muy contentos.

Nuestro equipo de tierra

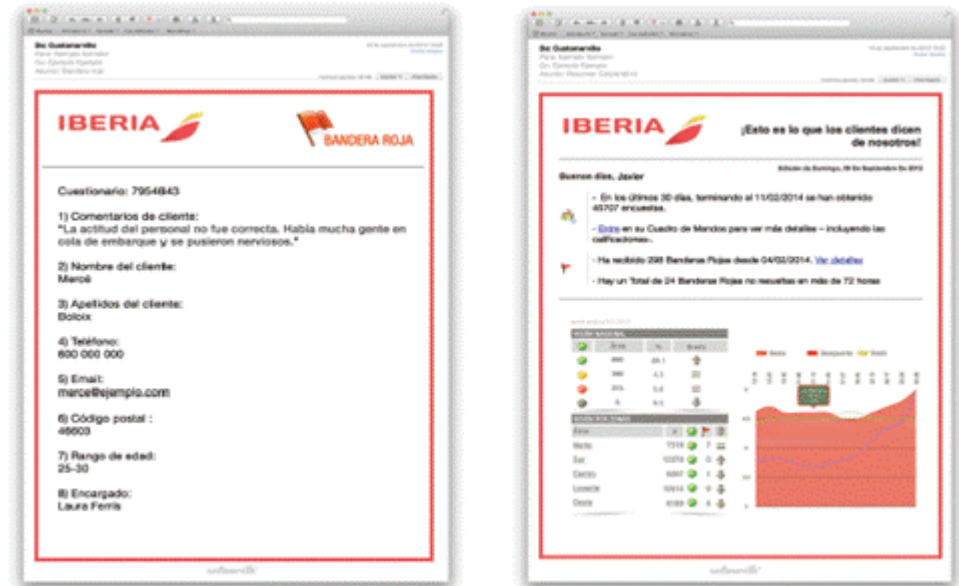


Nuestra tripulación

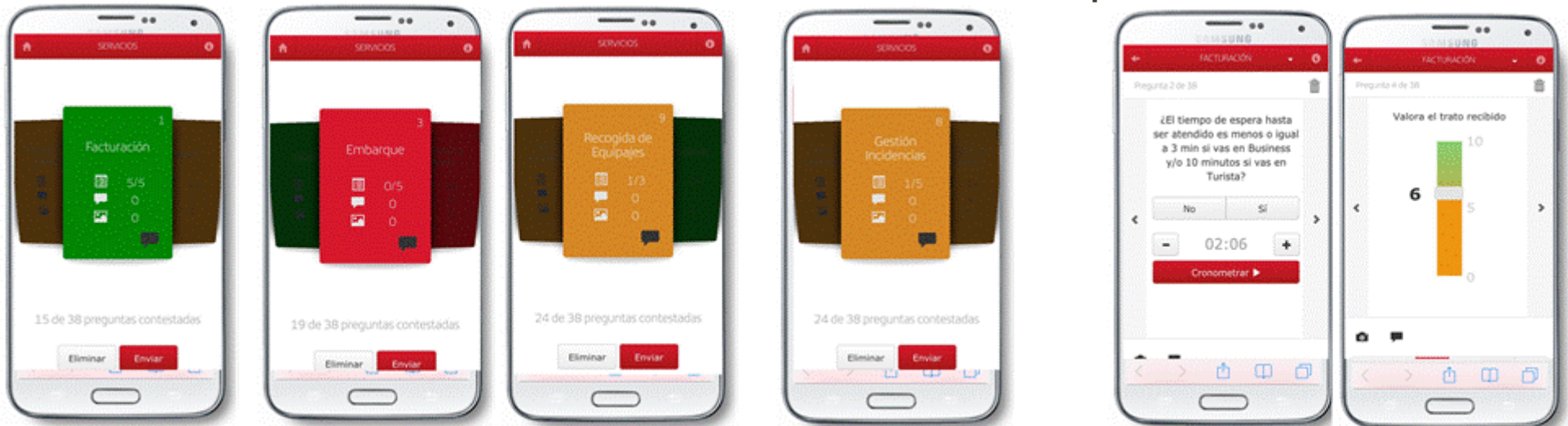


< anterior siguiente >

## Online warnings & red flags - newsletters



## Online Qualitative & Quantitative of each touch-point



## Voice of the customer



- **Position: CEO of a Spanish multinational based in Houston**
- **Status: United & Iberia Platinum member**
- **More than 500 flights in last 3 years**

IBERIA 

IAG

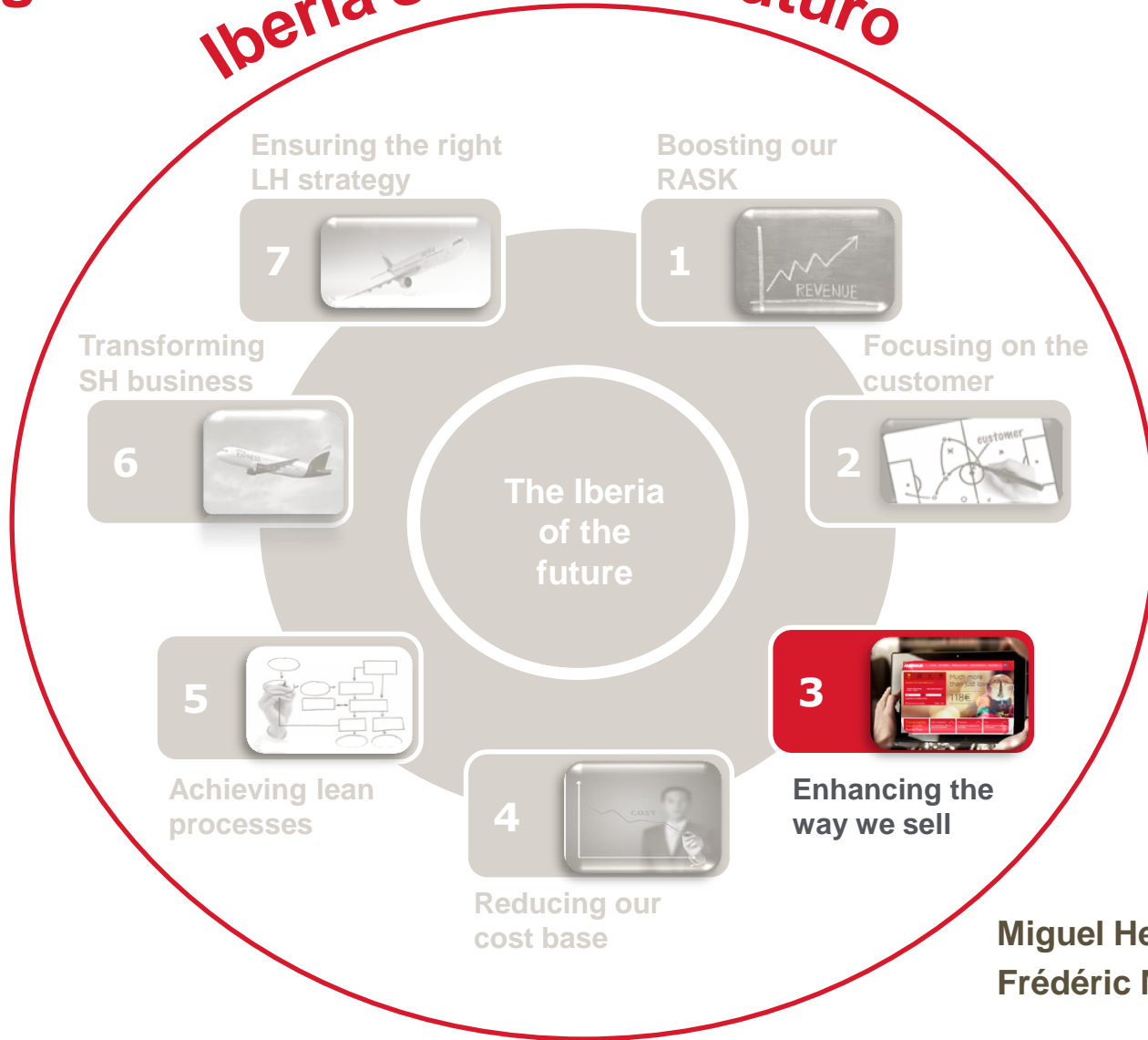
Focusing on the customer

Voice of the customer

IBERIA 

# Agenda

# Iberia's Plan de Futuro



**Miguel Henales** – e-Business Director  
**Frédéric Martínez** – LatAm Sales Director



# Boosting our digital channel is one of the pillars of Iberia's sales transformation

## Main distribution channels

Leisure travel agencies



Travel management companies



Online travel agencies



Digital platforms – Iberia.com



# Digitising Iberia - digital channel as the main route to building sales and customer relationships

## Objectives

### Improve user experience



- Multi-channel
- Cover all customer journey
- Imbue the company with digital DNA
- Customer intimacy

### Develop digital channel



- Boost influence of digital channel
- New revenue streams
- Customisation
- Generate savings

## How

- Increase traffic
- Enhance conversion
- Facilitate mobility
- Promote engagement
- Offer ancillaries



# Increase traffic through new digital actions

## Wider scope of digital channel

- From single focus on purchase and research...
- ...to covering all dimensions of digital channel

## Growth in new markets

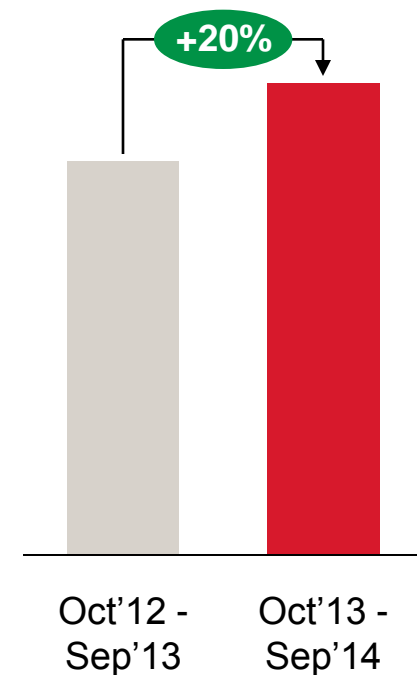
- Increased presence in new markets: from 4 in 2013 to 18 in 2014 (weight increase +17pp)

## Growth in new channels

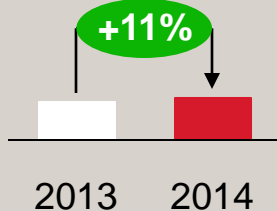

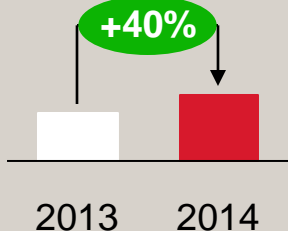
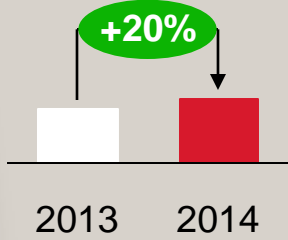

- Increased presence in new channels such as retargeting and RTB/Display

## Significant traffic increase

Web visits  
million



# Global user experience improved

<b>Conversion</b>	<p><b>New design</b></p> 	<p><b>Fixing the basics</b></p> <p><b>Usability improvements</b></p> <p><b>Conversion rate</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Conversion Rate</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>Baseline</td> </tr> <tr> <td>2014</td> <td>+11%</td> </tr> </tbody> </table>	Year	Conversion Rate	2013	Baseline	2014	+11%
Year	Conversion Rate							
2013	Baseline							
2014	+11%							
<b>Innovation</b>	<p><b>New ways of selling</b></p> 	<p><b>Ancillaries</b></p> <p><b>Revenues</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Revenues</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>Baseline</td> </tr> <tr> <td>2014</td> <td>+40%</td> </tr> </tbody> </table>	Year	Revenues	2013	Baseline	2014	+40%
Year	Revenues							
2013	Baseline							
2014	+40%							
<b>Mobility</b>	<p><b>Mobile</b></p> <p><b>+1m downloads</b></p> <p><b>1 Core App</b></p> <p><b>+5 Apps</b></p> 	<p><b>Engagement</b></p> <p><b>Social media</b></p> <p><b>Followers</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Followers</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>Baseline</td> </tr> <tr> <td>2014</td> <td>+20%</td> </tr> </tbody> </table> 	Year	Followers	2013	Baseline	2014	+20%
Year	Followers							
2013	Baseline							
2014	+20%							

# Iberia's digital transformation aims to foster the online channel

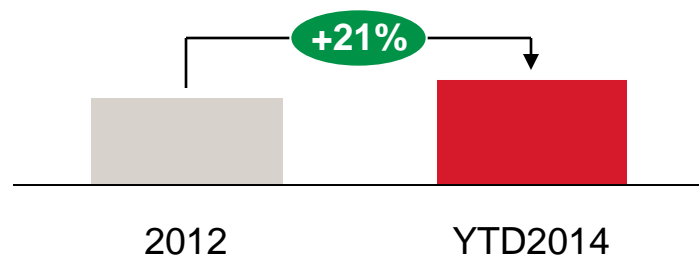
## Short term targets

## Long term targets

### Digital transformation as an important tool to improve customer experience

- Develop the **website & mobile apps** to:
  - Increase **mobile penetration**
  - Improve **digital experience** and user engagement
  - Increase **ancillaries revenue**

Digital penetration, 2012 vs. YTD2014



### New joint IAG digital vision

- A personal, seamless & effortless **global efficient retail experience...**
- ...to drive **revenue, margin & customer satisfaction** through:
  - A **common digital strategic framework**
  - An **organisation** to support delivery
- Scope includes **selling, servicing and communication** across **digital channels** and **future technologies**



# We are implementing profound changes in sales, including people, processes and systems

## BA/ IB Integration

- Single sales organisation worldwide



## Increase efficiency

- Opportunities through a single CRM (IAG)
- New IAG tools (2<sup>nd</sup> wave)



## Lighter organization

- Reduction of overstaffing
- Outsourced low-value activities



## Manage distribution costs

- Iberia.com
- Global deals (IAG)
- Optimize trade mix



## Increase productivity

- Reduce hierarchical levels
- Sales specialisation
- Back-office reorganisation



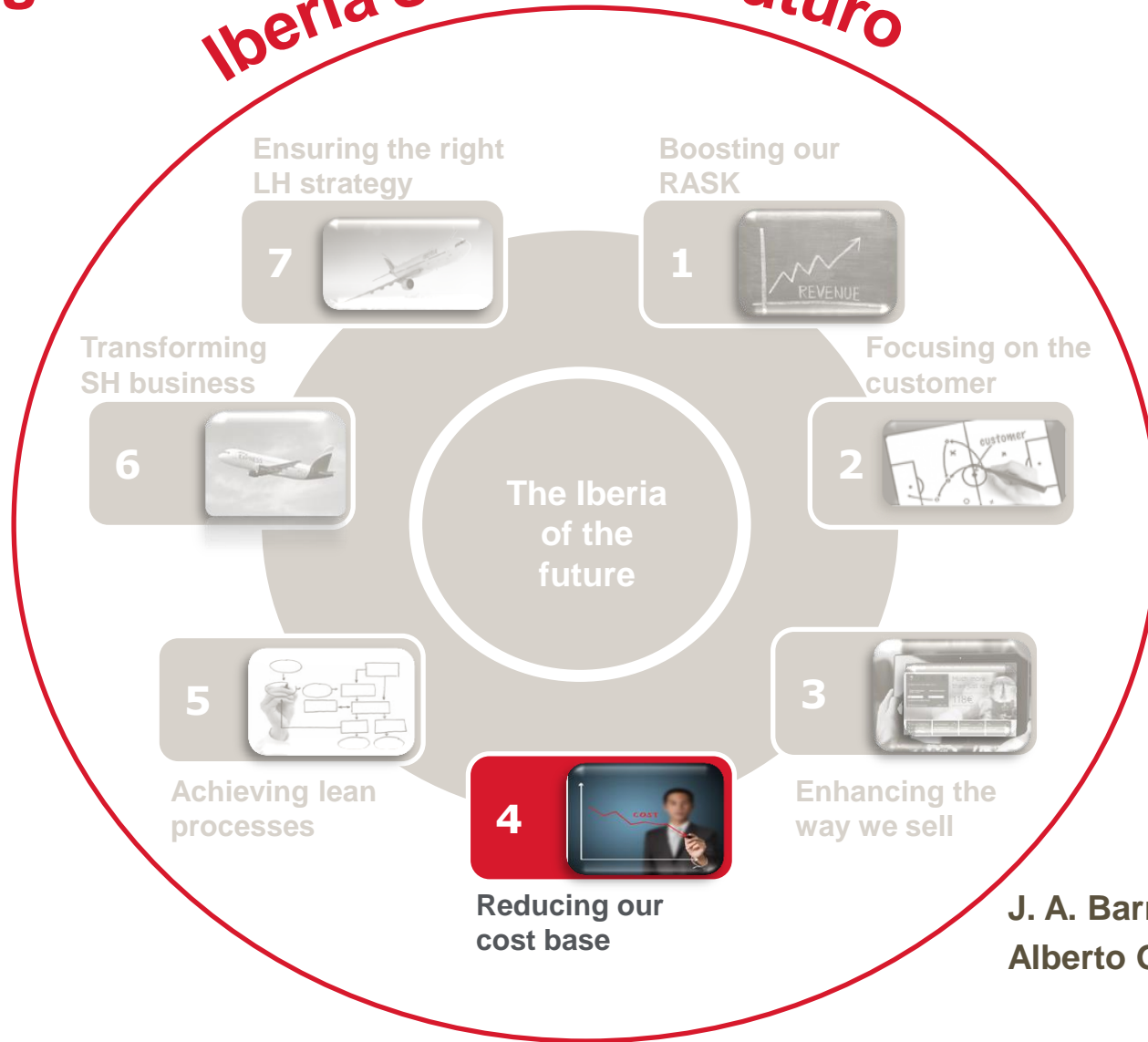
## Enhance sales incentives

- New Incentive Sales Plan to motivate salesforce



# Agenda

# Iberia's Plan de Futuro



**J. A. Barrionuevo** – Strategic Planning Director  
**Alberto García-Torres** – Fleet Planning Director

# Iberia is optimising its cost base across several dimensions in order to reach a best-in-class cost position

1

**Labour restructuring**



2

**Overhead optimisation (non-personnel)**



3

**Fleet renewal**



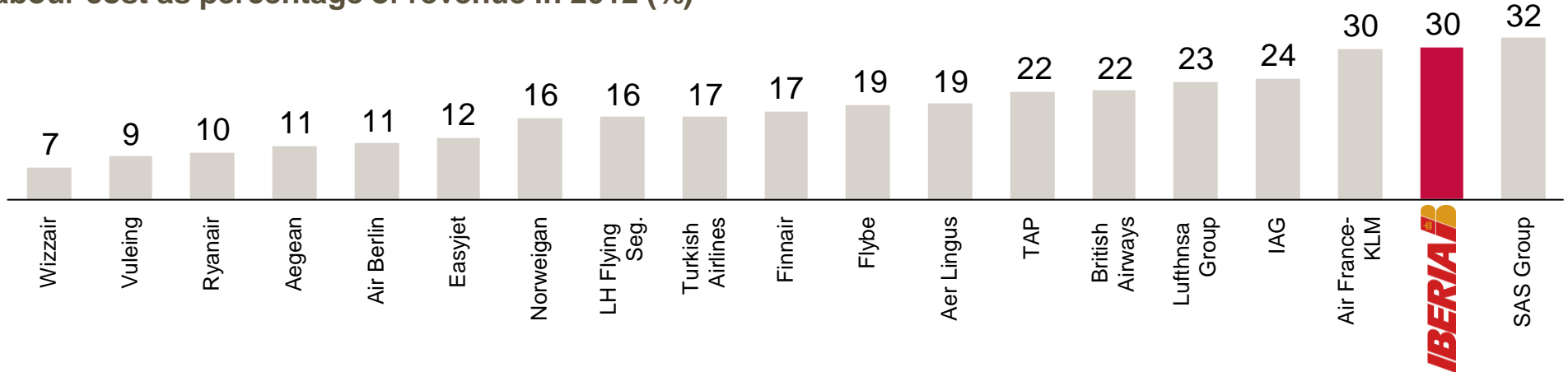
4

**Long-haul fleet configuration**

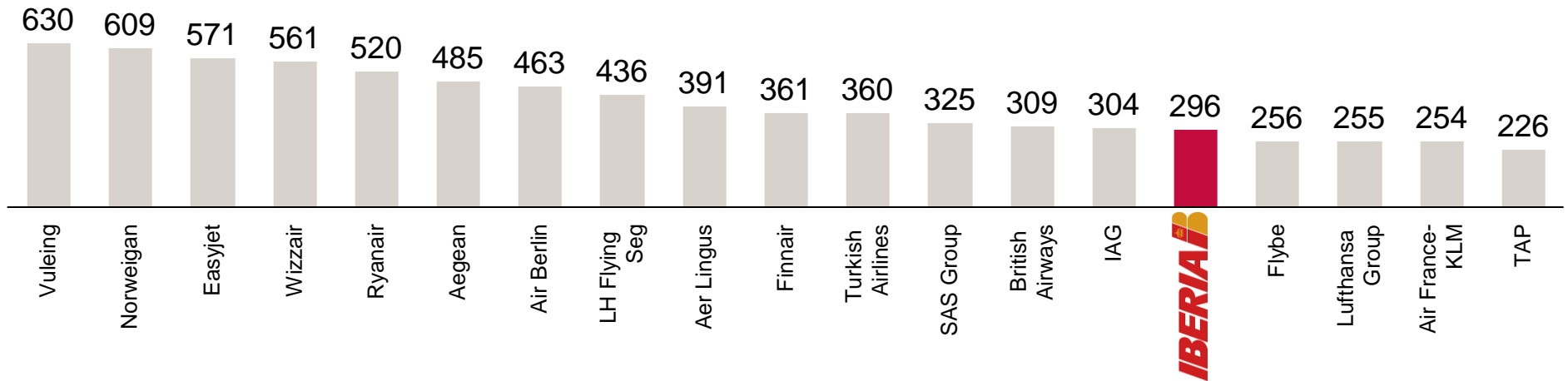


# 1 Back in 2012 Iberia had a very uncompetitive cost base, predominantly due to extremely high labour costs

Labour cost as percentage of revenue in 2012 (%)



Revenue per employee in 2012 (€k)



Source: CAPA – Centre for Aviation analysis of airline company financial and traffic statements

**IAG** Reducing our cost base Historical context





# 1 We have reached labour agreements with all groups that will ensure a competitive cost base

## Main labour issues

## Key measures of labour agreements

### Size

- **Oversized** labour structure (among the worst in Europe)

- Potential reduction of **5,471 people** through Mediation Agreement and new ERE (Jul '14)



### Productivity

- **Low productivity** (among the worst in Europe)

- **Flying hours** in line with competitors
- **More flexibility** in shifts/schedules
- Increase in the number of **duty days**



### Unit cost

- **High unit cost** and **rapidly growing pay-scale**

- **Salary reduction** (14% crew, 7% ground staff)
- **Salaries freeze until 2015** (later subject to EBIT margin)
- Establishment of **caps** in seniority scales



### Entry levels

- **High entry levels**

- **New entry levels** at market conditions (€35K for SH pilots, €20K for cabin crew)



**Stable labour environment since 2014**

**IAG**

Reducing our cost base

Labour agreements

**IBERIA** 

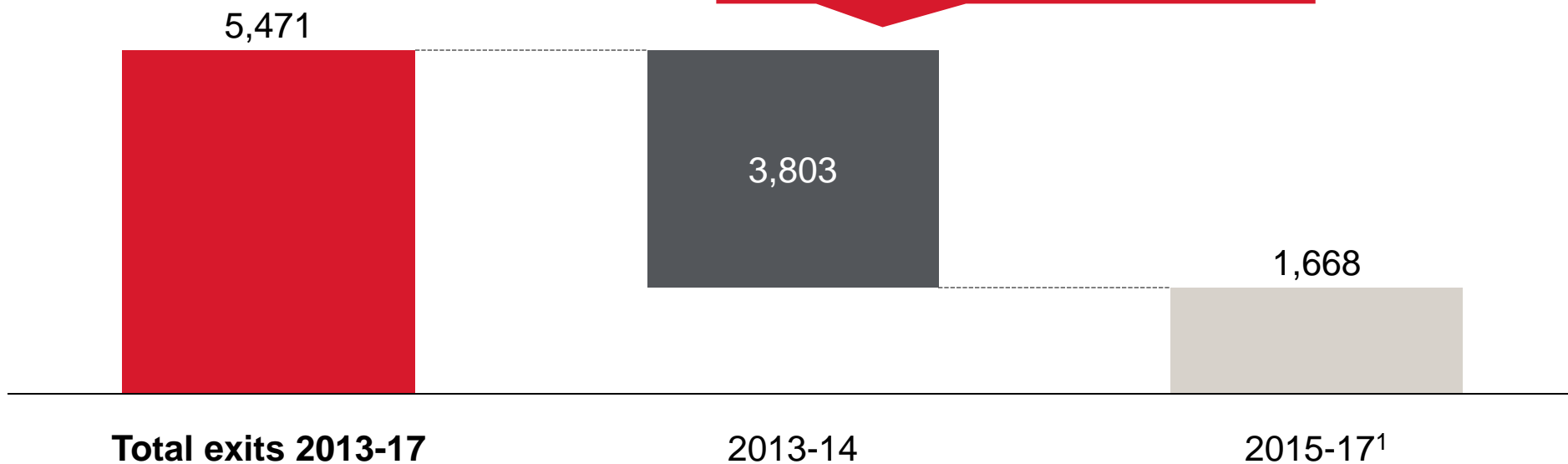
# 1 By year-end we should have completed 70% of the labour restructuring program, reaching ~3,800 exits...

Total personnel exits (# headcount)

- ~25% personnel reduction from a starting point of 20,600 in 2012

- 5,471 expected exits vs. 4,500 initially targeted in 2012

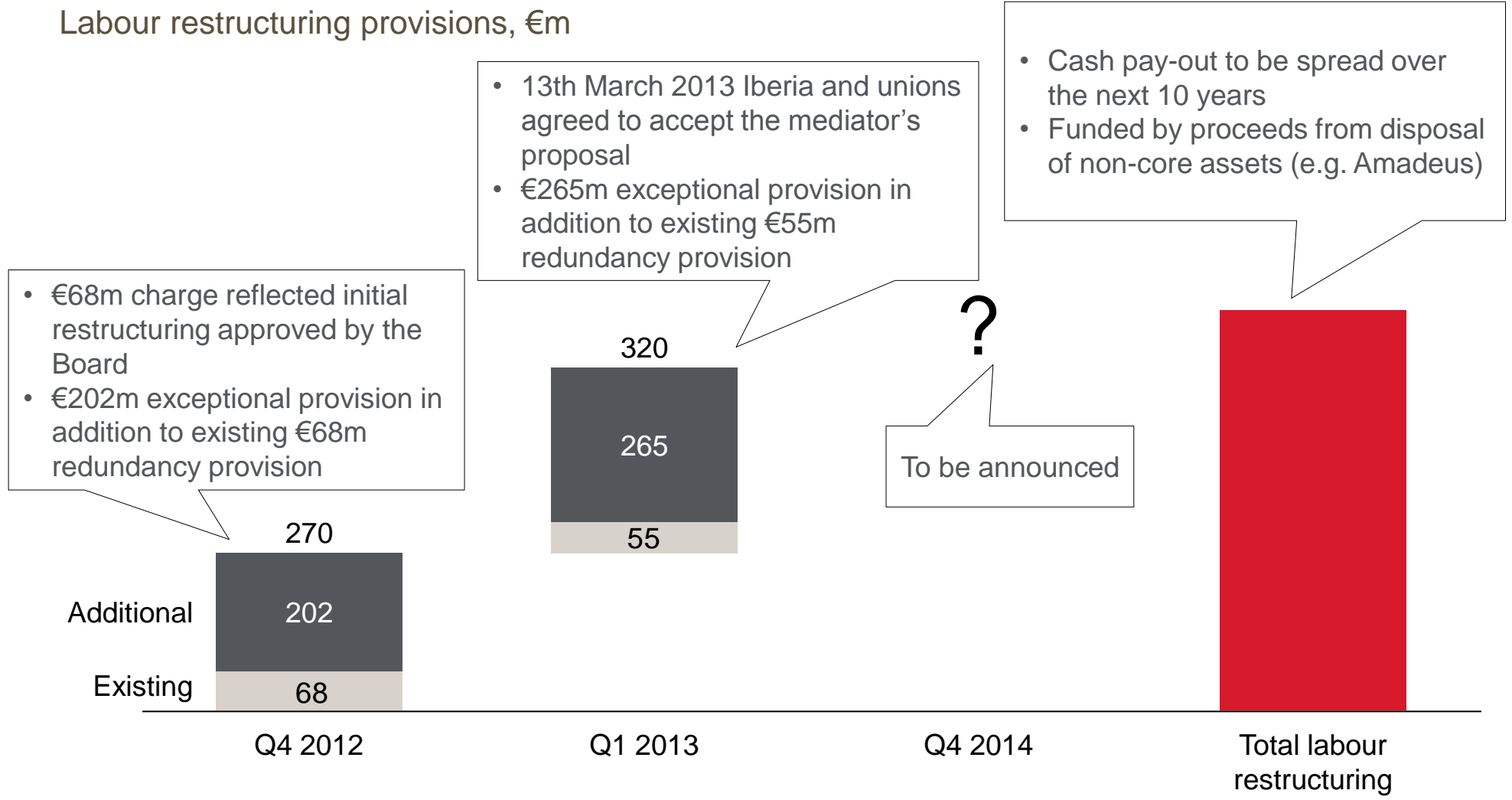
- 70% of labour restructuring already completed by end of 2014



<sup>1</sup> Maximum number of exits; final figure will depend on actual number of employees that apply for (voluntary basis)

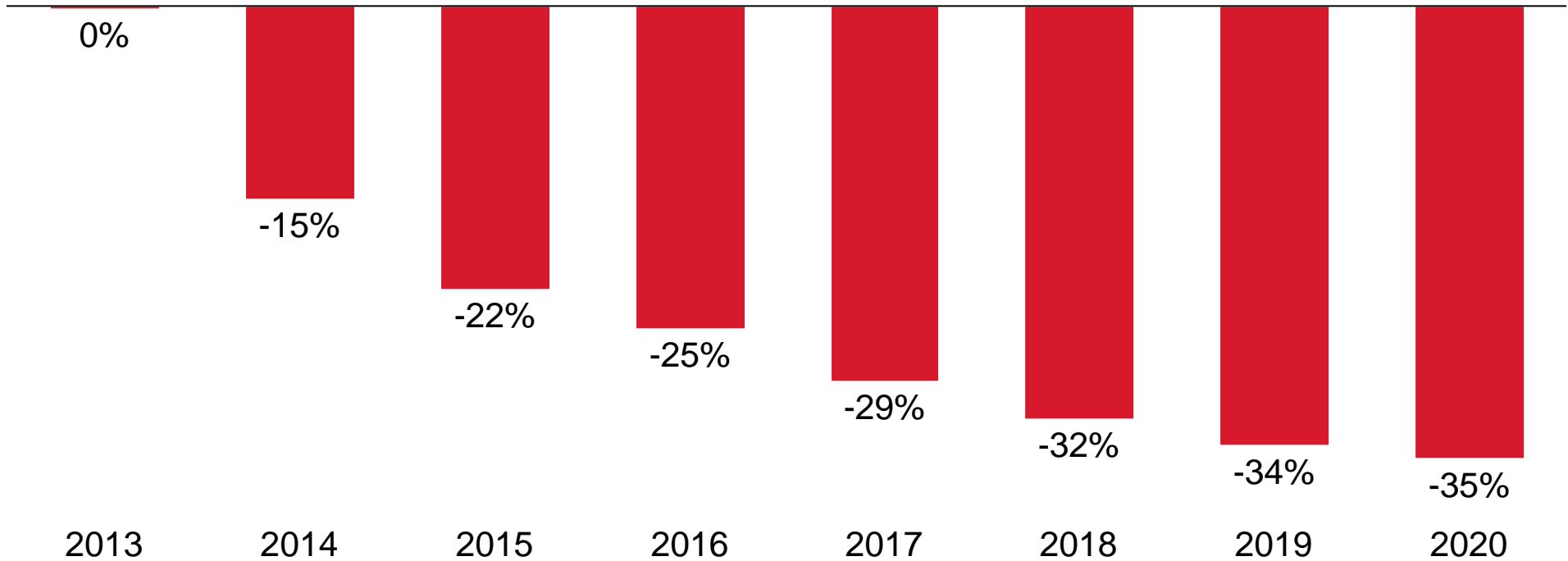
# 1 ...that has already been provisioned, with a payback ~2 years

Labour restructuring provisions, €m



# 1 The labour restructuring program will reduce overall employee CASK by ~35% in 2020

Expected employee CASK savings versus 2012 (%)



-25% employee CASK in with similar capacity than in 2012

-35% employee CASK in 2020 vs. 2012



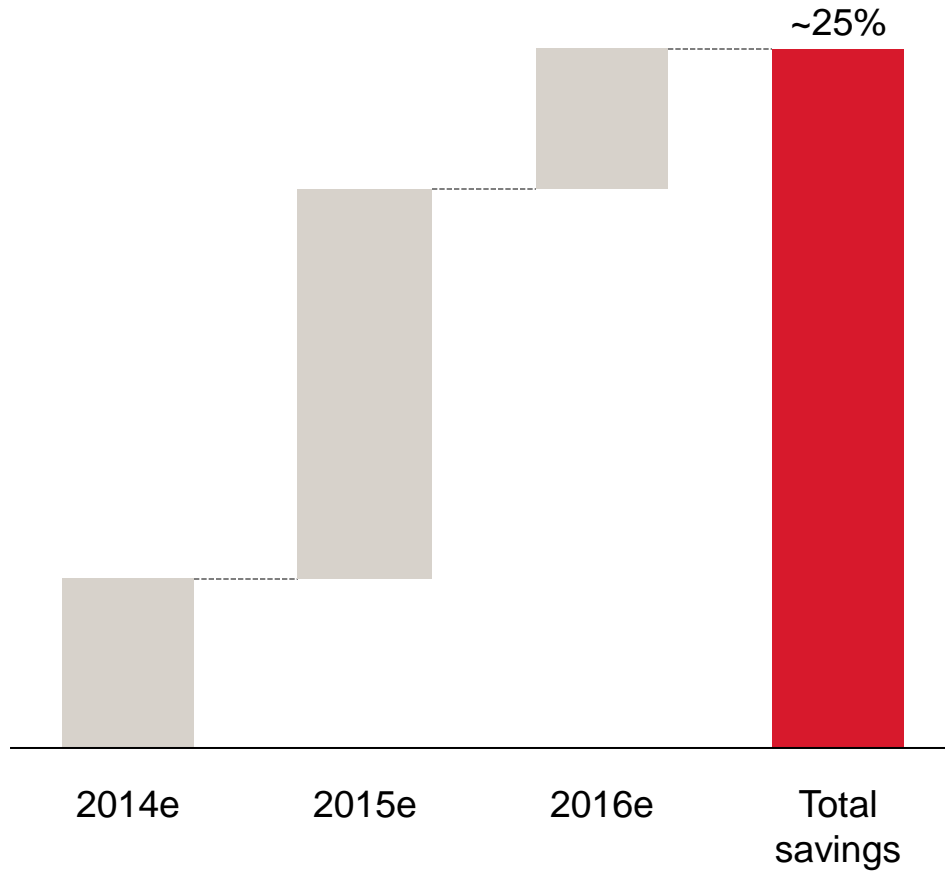
Reducing our cost base

Employee CASK progression



## 2 Iberia is aiming to reduce non-labour overheads by ~25% (a large proportion to be captured in 2015)

Non-labour overheads savings vs 2013, %



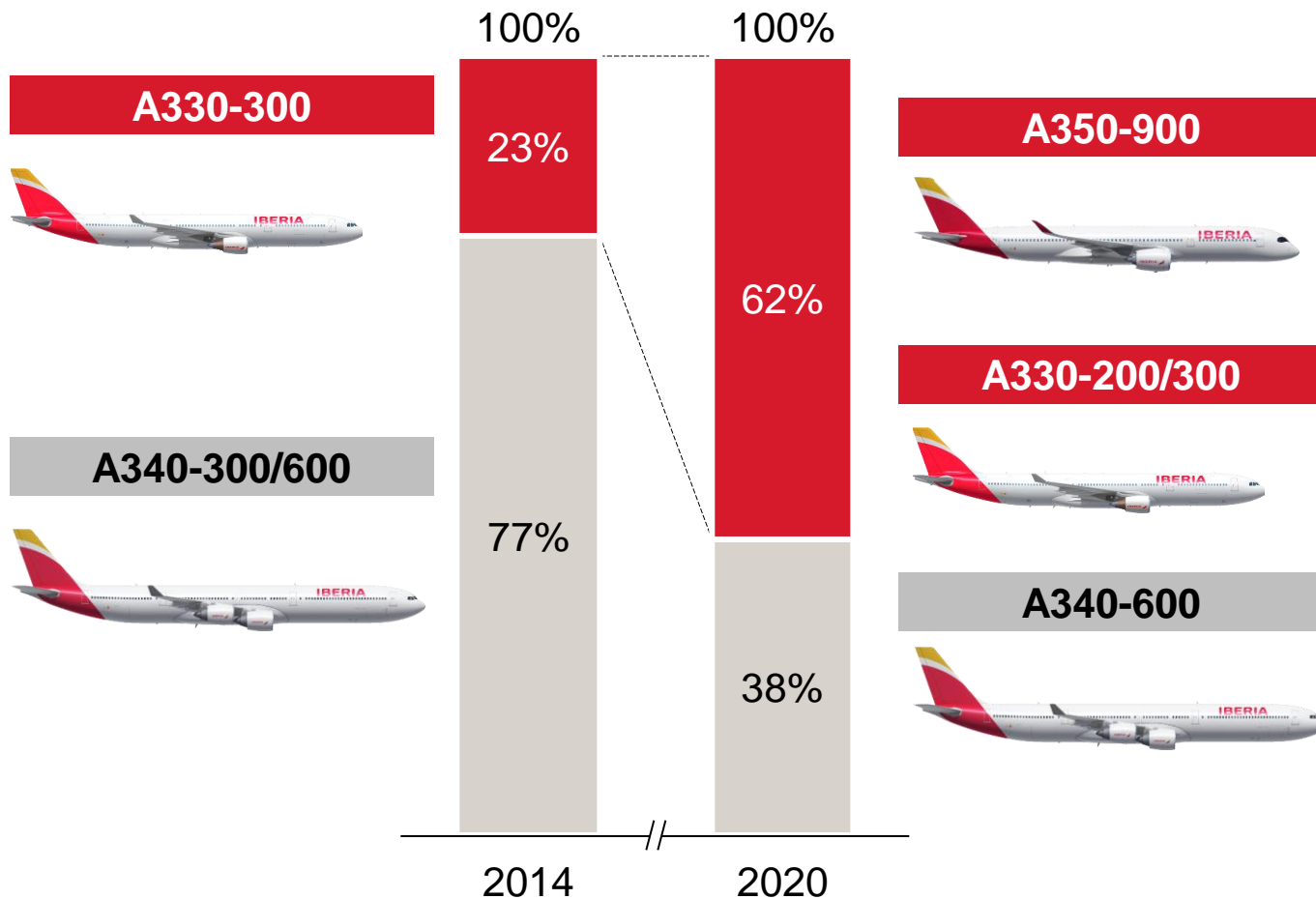
### Examples of savings initiatives

- ✂ Optimisation of rented spaces (national and int'l): commercial, corporate and MRO
- ✂ Optimisation of infrastructure contracts (cleaning, supplies and maintenance)
- ✂ Drastic reduction of consulting
- ✂ Increased oversight on communications, transportation and travel expenses
- ✂ Sharp fall in institutional advertising, sponsorships and public relations
- ✂ Decline in non-core training courses
- ✂ Elimination of meeting costs and discretionary expenses

### 3 We are enhancing our LH fleet, consistent with our network strategy, ensuring flexibility and significant fuel savings

Iberia long-haul fleet mix 2014-20, (% of seats)

■ New/current generation   ■ Old generation



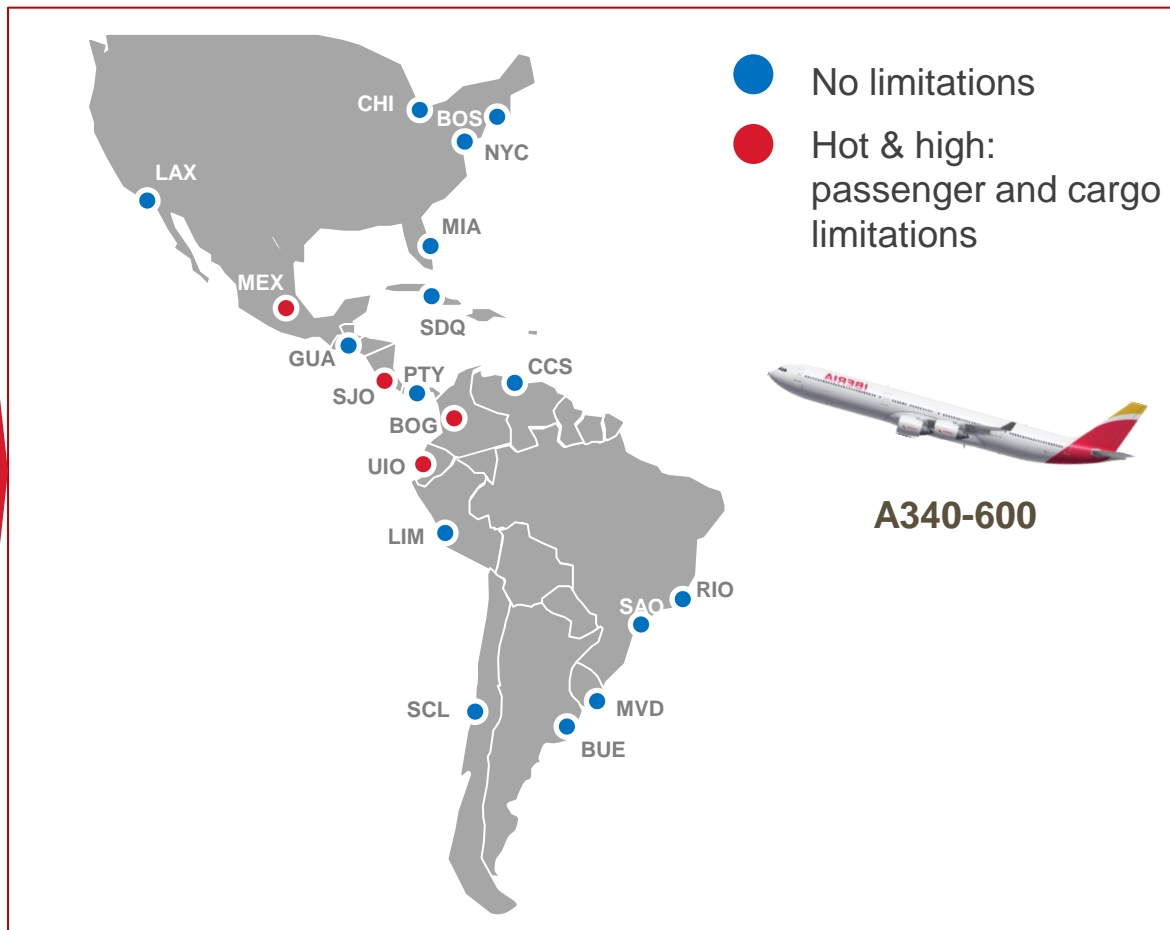
- ~10% fuel savings by 2020 due to new generation fleet (>€100m)
- Additional fuel savings ~10% expected in the long-term

### 3 We will keep the A340-600 to serve our hot & high destinations until new generation solutions are available

#### Description of H&H

- **Hot & high (HH)** is a condition of **low air density** due to:
  - High ambient temperature
  - High airport elevation
- Iberia currently flies to **four hot & high destinations in LatAm**:
  - Mexico DF
  - San Jose
  - Bogota
  - Quito


#### Current Iberia destinations in America





# 4 Optimising “selling space”

1 Number and size of cabin classes



4 Lavatories, storage and cabin attendant seats



3 Galley space



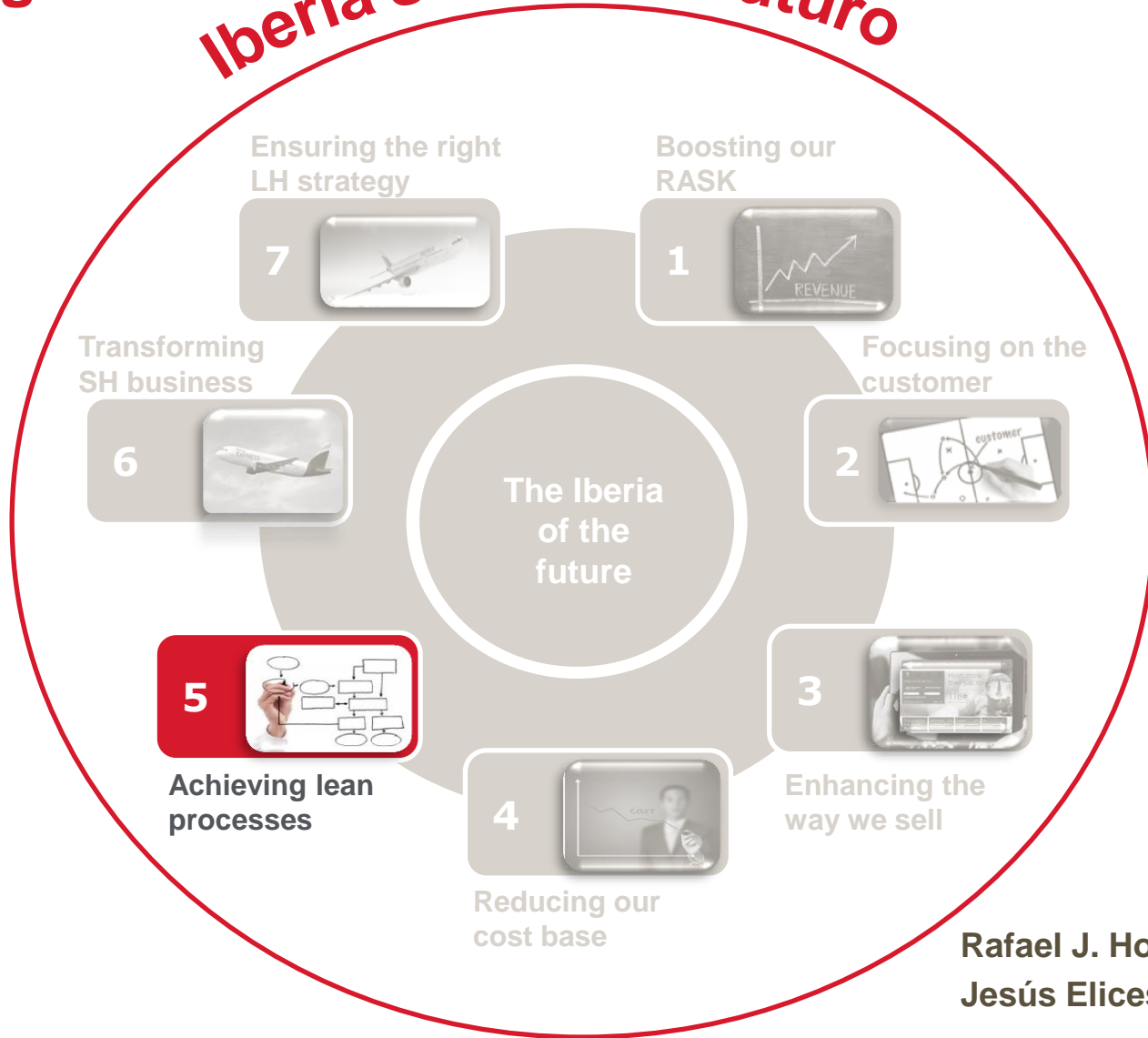
2 Economy class pitch



Cost optimisation while maintaining comfort and in-flight service level

# Agenda

# Iberia's Plan de Futuro



**Rafael J. Hoyos** – Chief Operating Officer  
**Jesús Elices** - Head of Standards and Procedures

# Iberia operations are transforming to reduce costs while improving punctuality and service

- We continuously look for opportunities to **reduce cost** by optimising processes...
- ... while delivering to our customers the most punctual and enjoyable flights to **boost our revenue**

## Cultural change



Flight, Ground and Office Staff committed to Iberia objectives

## Punctuality



A key factor on passenger satisfaction... and passenger comeback

## Efficiency



Lean processes lead to cost reduction... and improved CASK

# Focus on fuel efficiency



**Flight preparation**

**Taxi out**

**Take-off & climb**

**Cruise**

**Descent & landing**

**Taxi in**

## Flight planning

- Match planned and real operation
- Fuel optimised payload, route, FL & Speed

## Execution excellence

- Best fuel efficiencies practices applied in flight execution
- Continuous feedback between Flight Ops Management and Crews, focusing on efficiency issues

## Balance weight on board vs. profit

- Optimisation of in flight retail and pantry as a function of profitability
- Overall cabin weight reduction: lighter trolleys, water and magazines

# On-going implementation of lean processes



## iPad electronic flight bag

Cost-effective IT platform on board that will allow us to optimise both ground & flight operations



## Evidence based training

- Detect and correct inefficiencies
- Reduce the need for proficiency checks



## Resource reallocation & optimisation

- Flight plan & loadsheet generation facilities concentration
- Short & long haul self dispatch
- Electronic lido cartography
- Electronic flight operations manuals

# Crewing optimisation

## Costs Control

- **Revision of all indirect costs** associated with the day-to-day operation and systems
  - Removal of a daily standby crew at Hotel
  - Reduction & integration of IT systems in place

## Productivity

- **Optimization between Network and Crew Duties**
  - Revision of all network turn-around times
  - Other to improve productivity (850hours/year)

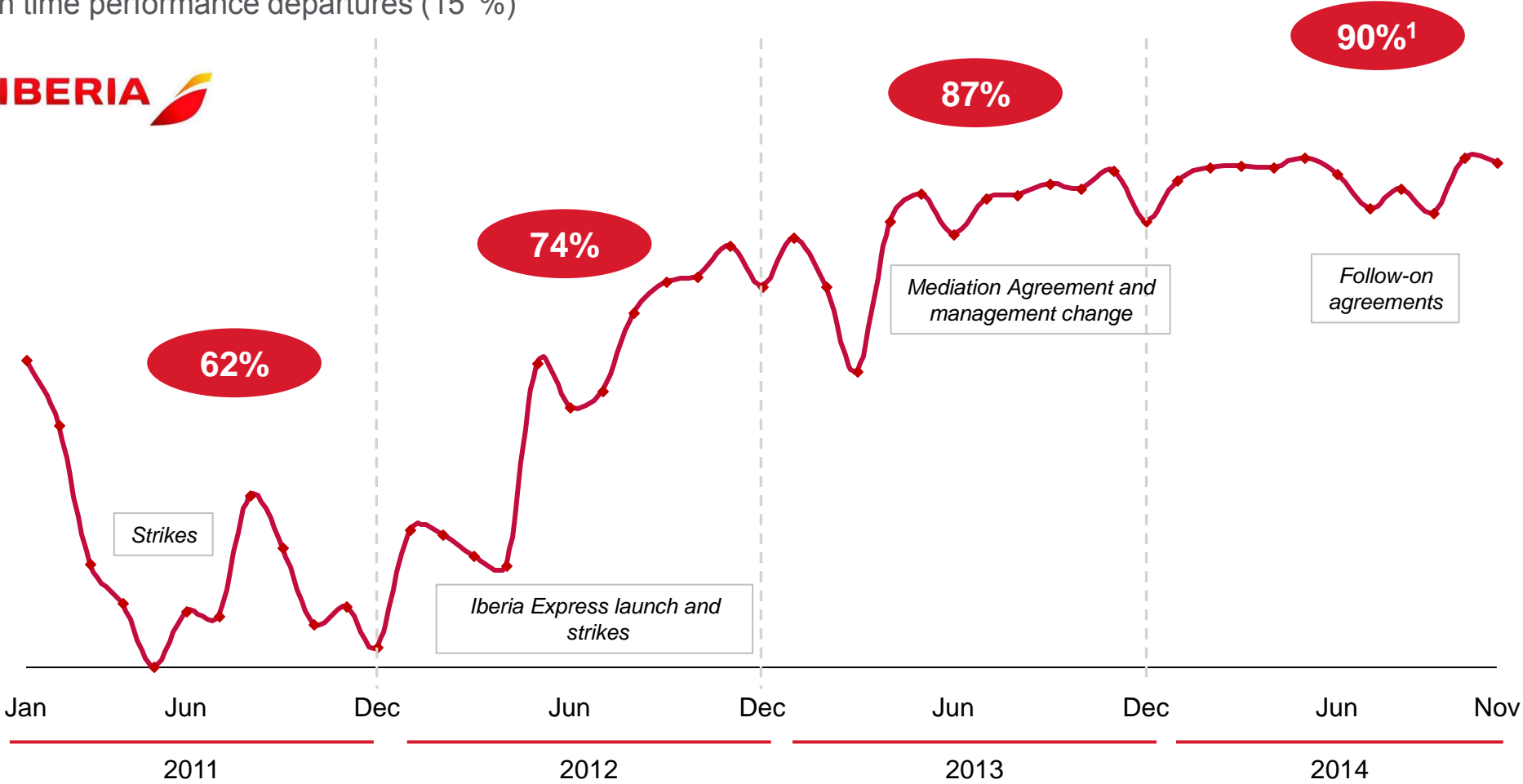
## Continuous bidirectional feedback

- **Continuous focus on feedback and inputs**
  - Dedicated work group with the target to improve the Rostering paradigm
  - Incorporating crew feedback through poll



# Iberia operational transformation: world-leading punctuality

On time performance departures (15' %)



<sup>1</sup> January-November 2014

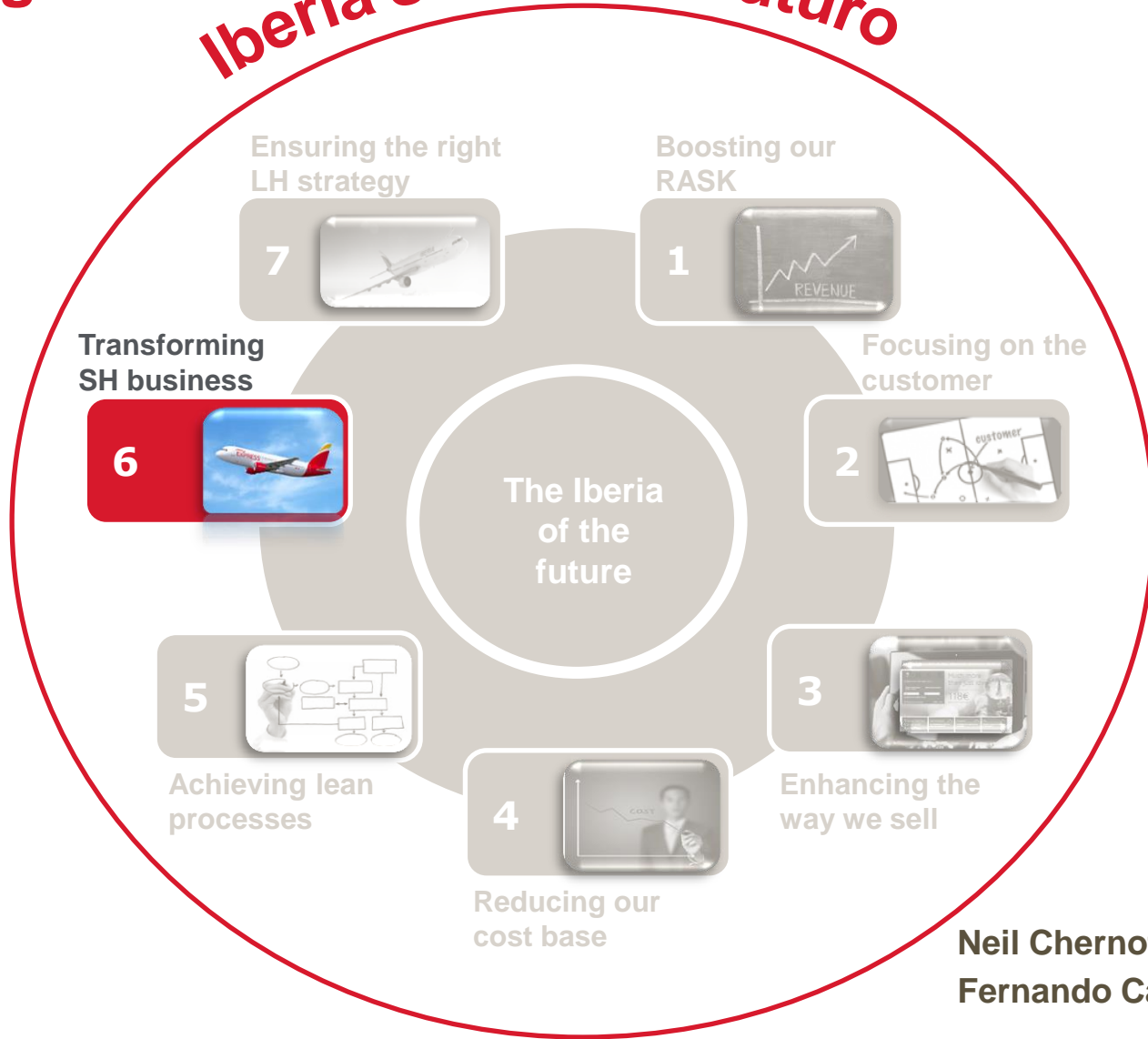
**IAG** Achieving lean processes Punctuality





# Agenda

## Iberia's Plan de Futuro



Neil Chernoff – Network Planning & Alliances Director  
Fernando Candela – Iberia Express CEO



# Iberia's SH business is to provide the most efficient feed of all the European carriers

## Cost structure

More efficient cost structure on the back of salary reductions and new entry levels



## Productivity

Flying hours in line with best-in-class and increased flexibility in shifts and schedules



## Operational excellence

~90% on-time performance 2014YTD vs. ~62% in 2011

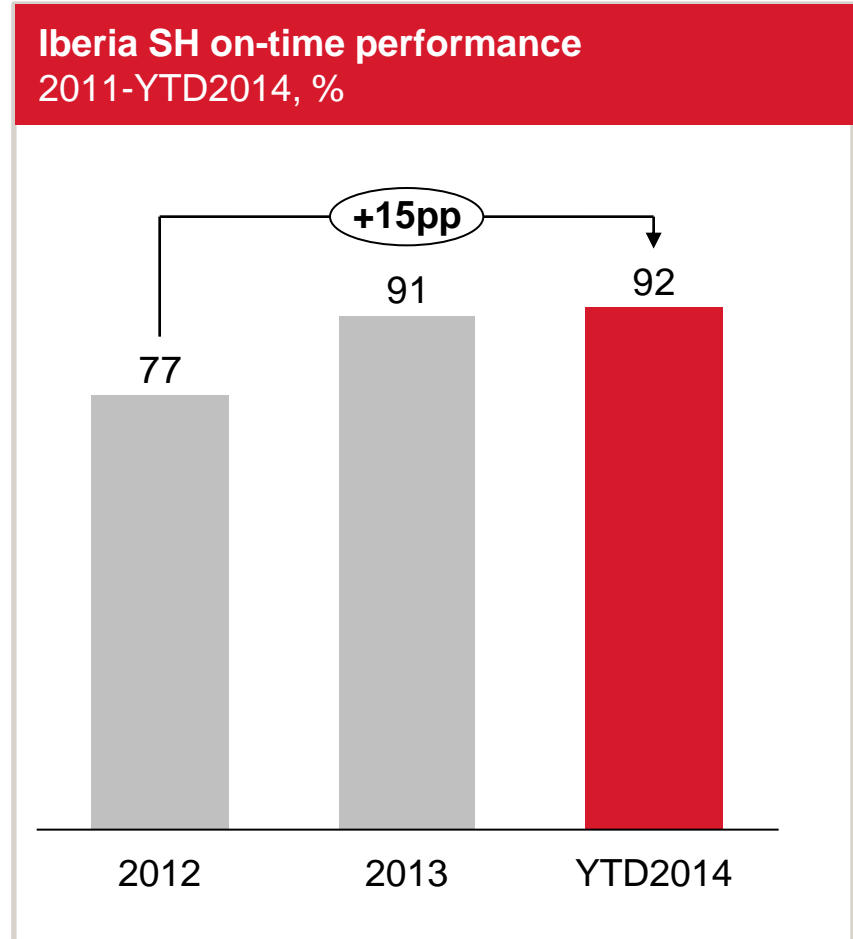
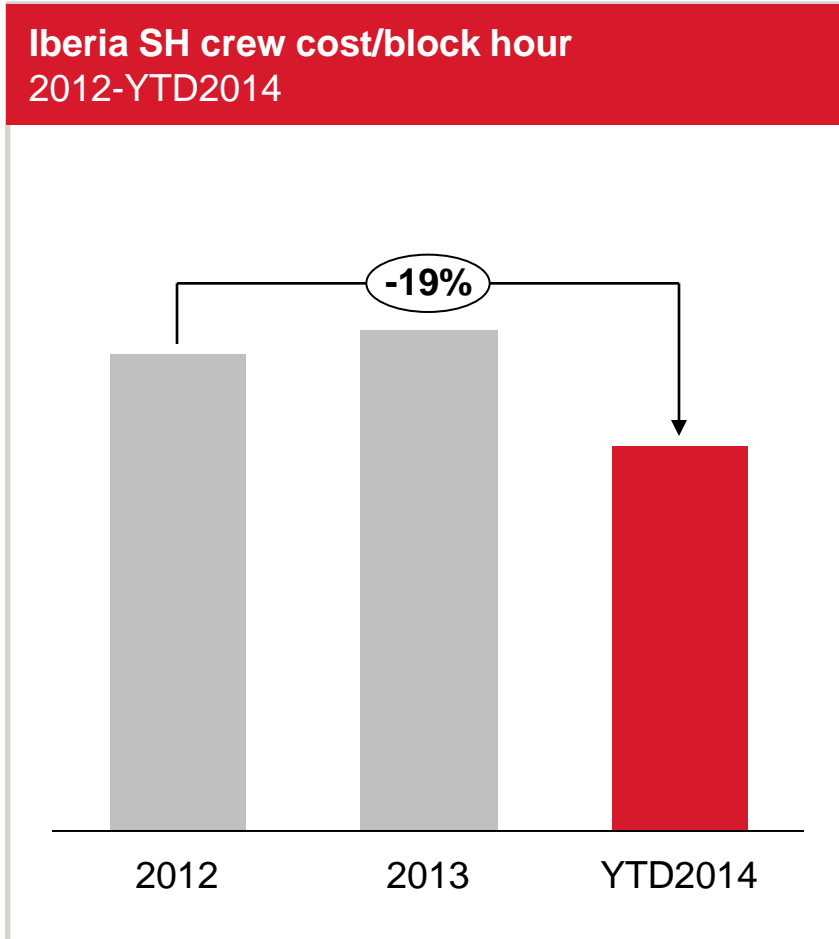


## Strong brand

The most widely known and preferred airline across all regions of Spain

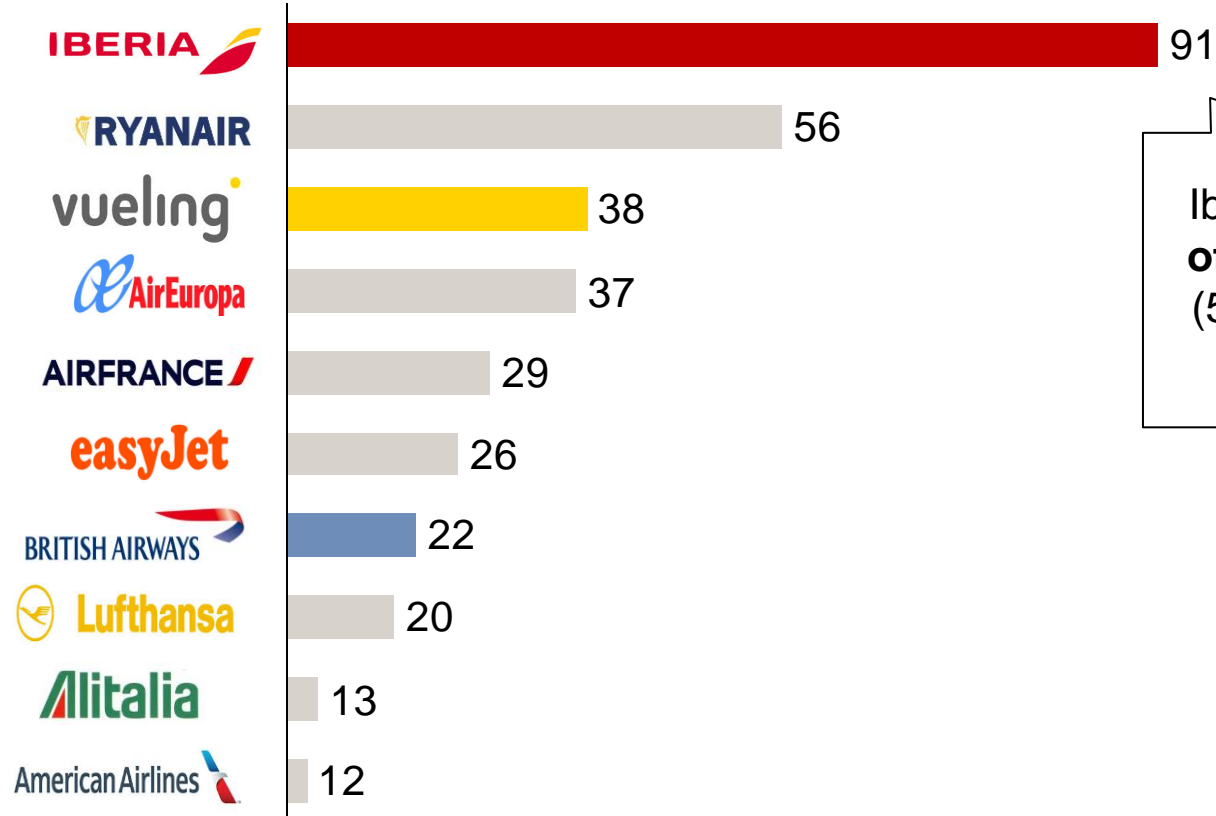


# We have been able to drastically reduce our costs while improving operations



# Iberia's SH business leverages its strong brand, being by far the most widely known airline across all regions of Spain

Top-10 spontaneous brand awareness in Spain, January 2014 (n=655)

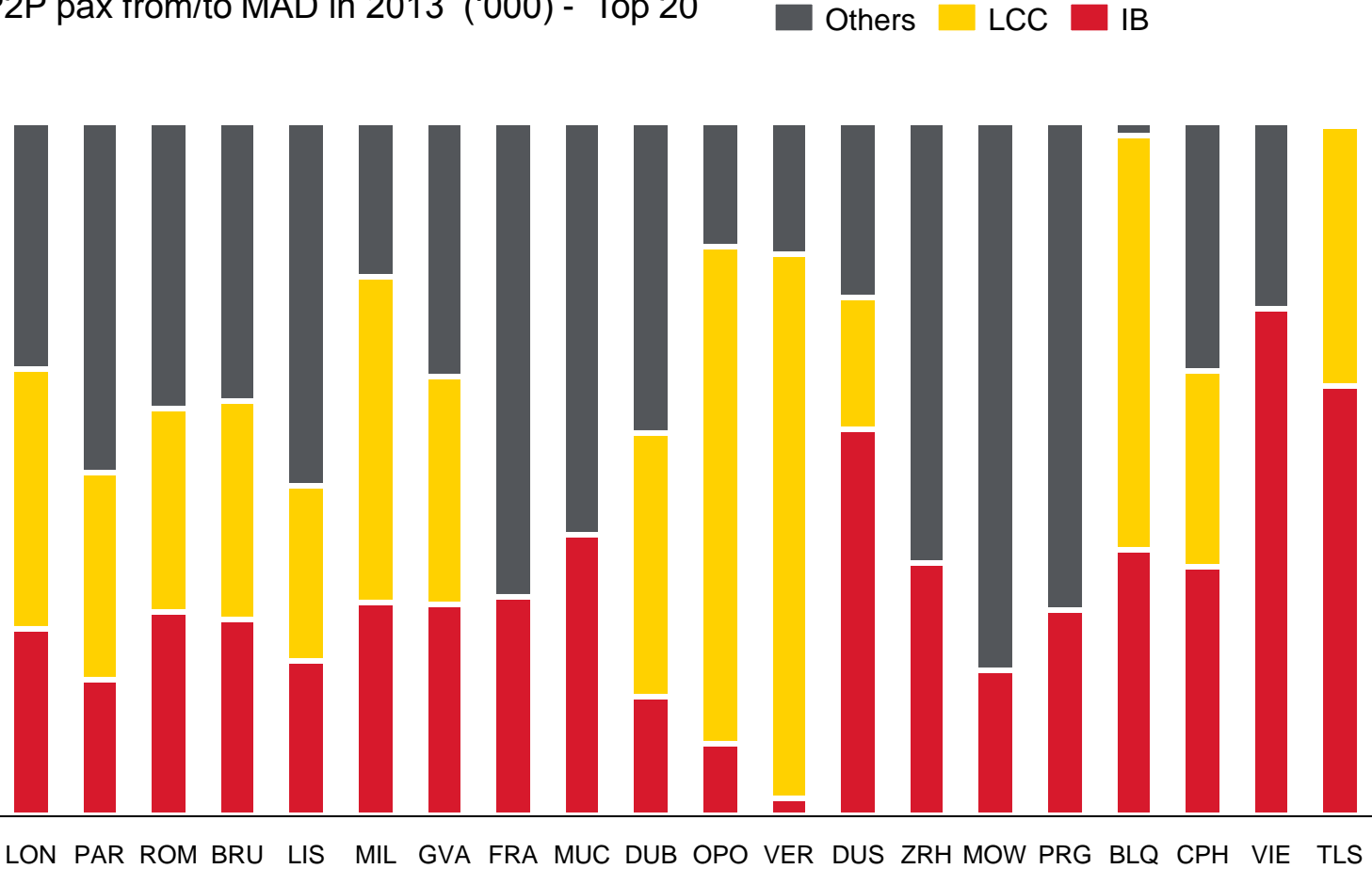


Iberia is also **top of mind** in Spain (59% vs. 15% of 2<sup>nd</sup> ranked)

Source: Tracking de marca España Millward Brown (Jan 2014)

# High LCC presence in MAD requires competitiveness in P2P in order to have a sustainable feed

# P2P pax from/to MAD in 2013 ('000) - Top 20

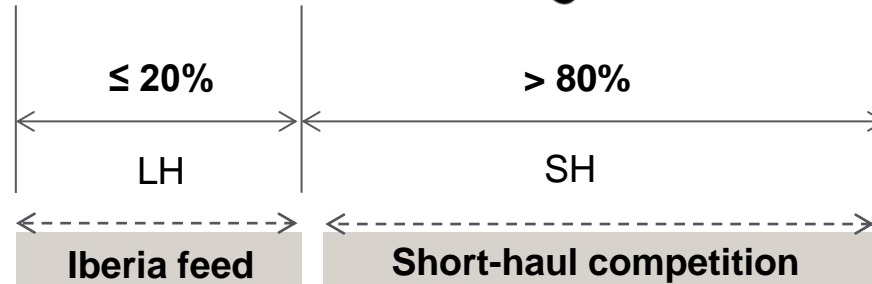


LCCs are strong competitors in 14 out of the 20 largest MAD-EU P2P markets

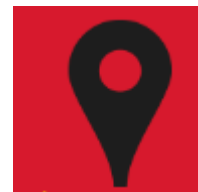
Source: Coupons, OAG and MIDT

# Iberia Express: the LCC of Madrid

- Offers a **low cost platform from day one** to compete effectively against LCCs in the **MAD P2P flows**
- Represents an **engine of change** for Iberia bringing a culture based on **efficiency and simplicity**
- Able to reach **new market segments**



17 A320  
aircraft



21  
destinations



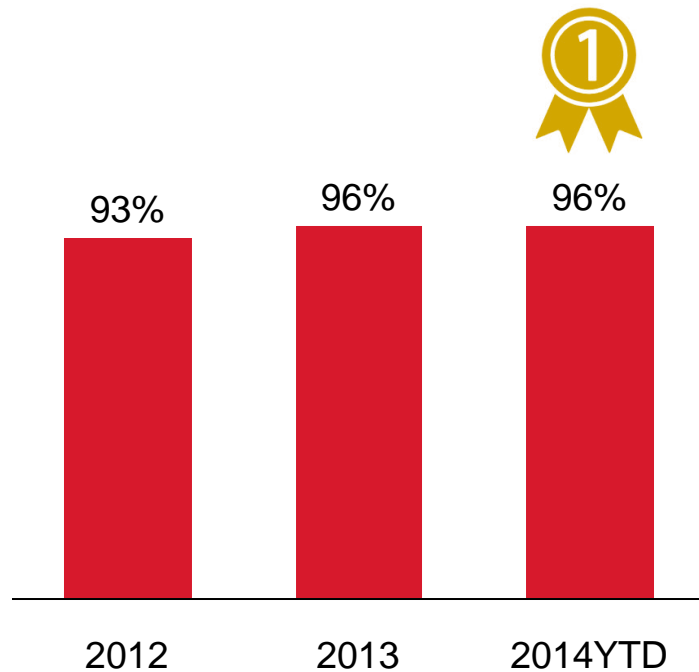
3.5m annual  
pax



410 staff

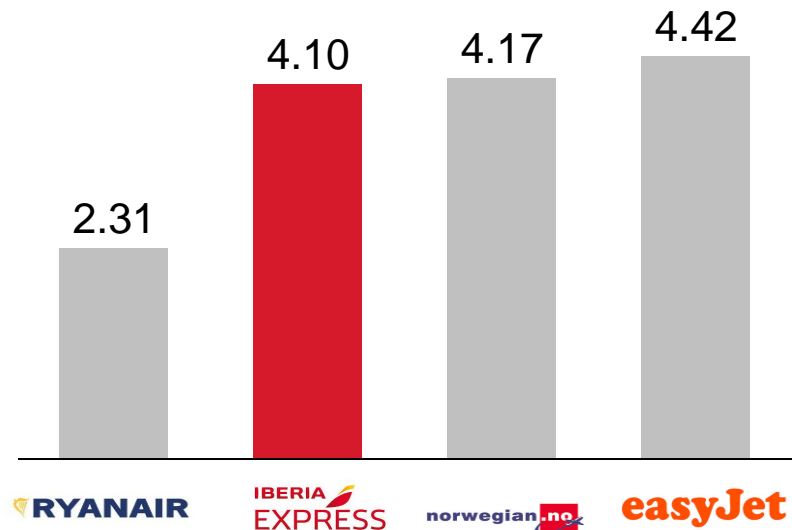
# Iberia Express is a successful model able to compete against LCCs ...

I2 on-time performance  
2012-YTD14, %



Source: FlightStats

CASK<sup>1</sup> ex-fuel  
H1 2014, €cent



<sup>1</sup> Stage length adjusted. I2 CASK adjusted to remove business class/feeding related cost for like-to-like comparison

Source: Company presentations



# ...leveraging a very efficient cost structure

## Crews & operations

- Lowest **crew cost** in Europe
- Pilots' **labour agreement** up to 2020 (UPPA union)
- **High motivation**
- **Best operational performance:** best punctuality in Europe & excellent regularity

## Group synergies

- **Handling and maintenance**
- **Fleet, insurance and procurement**
- **Distribution agreements**



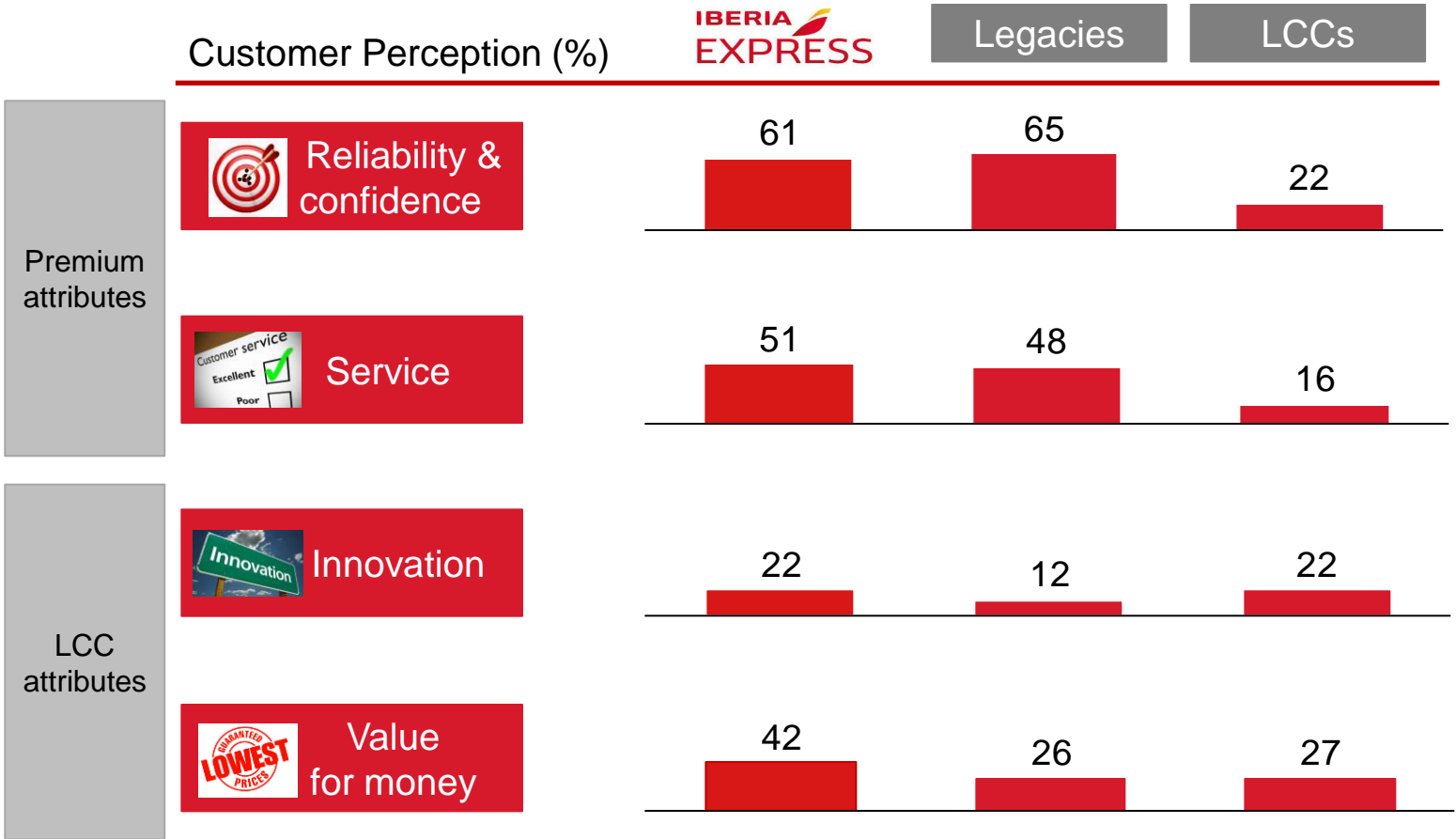
IAG

Transforming SH  
business

Iberia Express  
cost structure

IBERIA  
EXPRESS

# Iberia Express is able to combine the best of a LCC with the attributes of a traditional carrier...



Source: MilwardBrown; Response to the question: Which one of these airlines do you believe that are...?



Transforming SH business

Iberia Express business model



# ... on the back of an attractive value proposition in the LCC market

A complementary brand



Low fares with an attractive value proposition

IBERIA EXPRESS Buen Vuelo.

¡Nuevo Club Express con 20% de descuento!

Te presentamos el nuevo Club Express y queremos que lo disfrutes a lo grande: ¡con un 20% de descuento! Aprovecha y reserva tu próximo vuelo al mejor precio. ¡Plazas limitadas!

Sigue [este enlace](#) para entrar en el Club.

PENÍNSULA Y PALMA DESDE	<del>29€</del> → 23€
CANARIAS DESDE	<del>75€</del> → 60€
EUROPA DESDE	<del>49€</del> → 39€

Acceder al Club Express >>

Leading online services, innovation and technology

IBERIA EXPRESS Buen Vuelo.

Vuelos | Calendario de precios | Ofertas

Ida y vuelta | Origen | Destino | Salir | Ayuda | Pedidos | Buscar Vuelo

¿Eres residente o familia numerosa?

Península y Palma desde 29€ | Europa desde 49€ | Canarias desde 69€

Información del pasajero | Iberia Express | Club Express | Contrato

EXPRESS

Ida y vuelta

Origen | Destino

Salida | Regreso

1 Pasajero

¿Eres residente o familia numerosa?

Buscar Vuelo

Access to young, new generation, and price sensitive customers

IAG

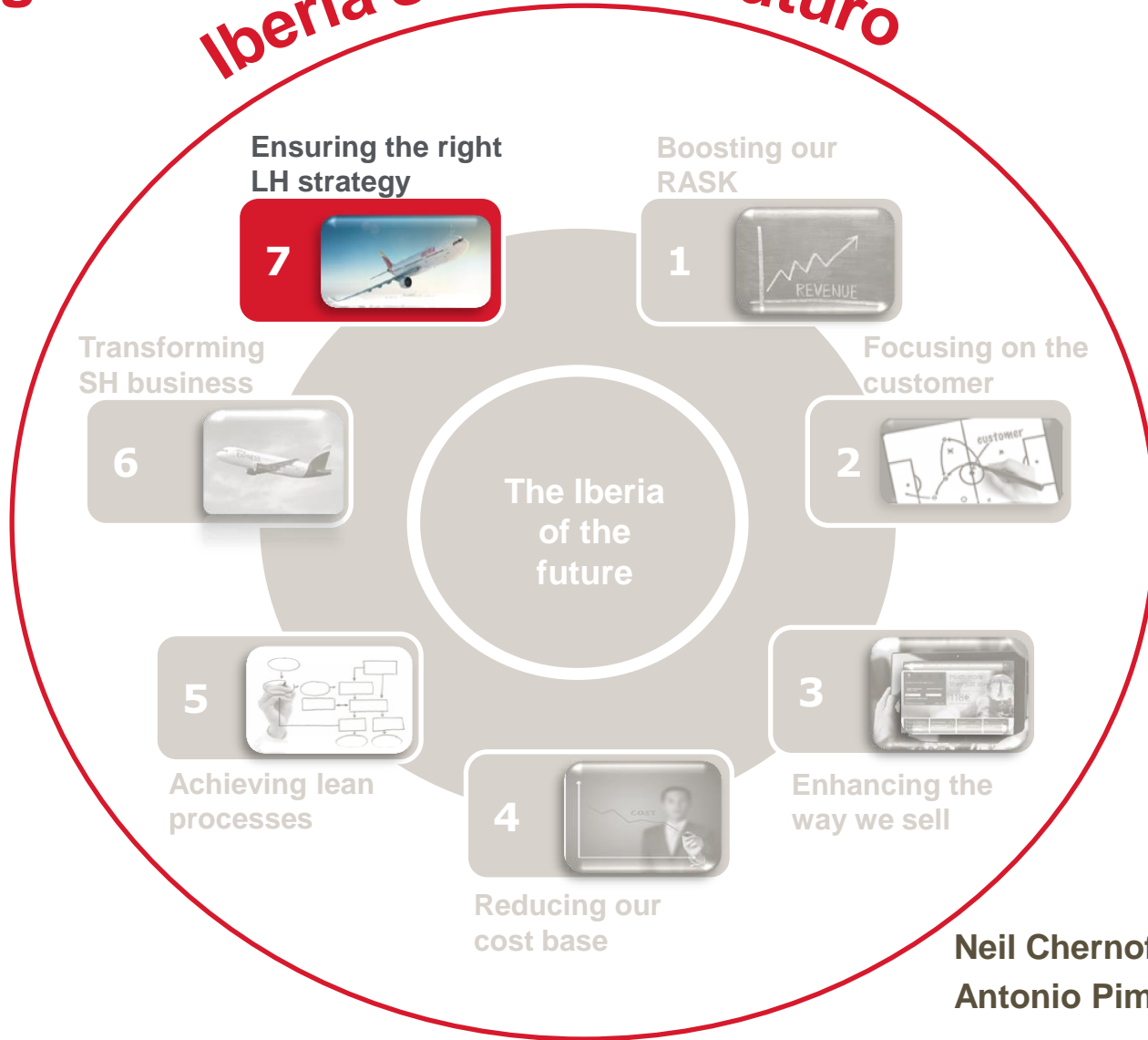
Transforming SH business

Iberia Express value proposition

IBERIA EXPRESS

# Agenda

## Iberia's Plan de Futuro

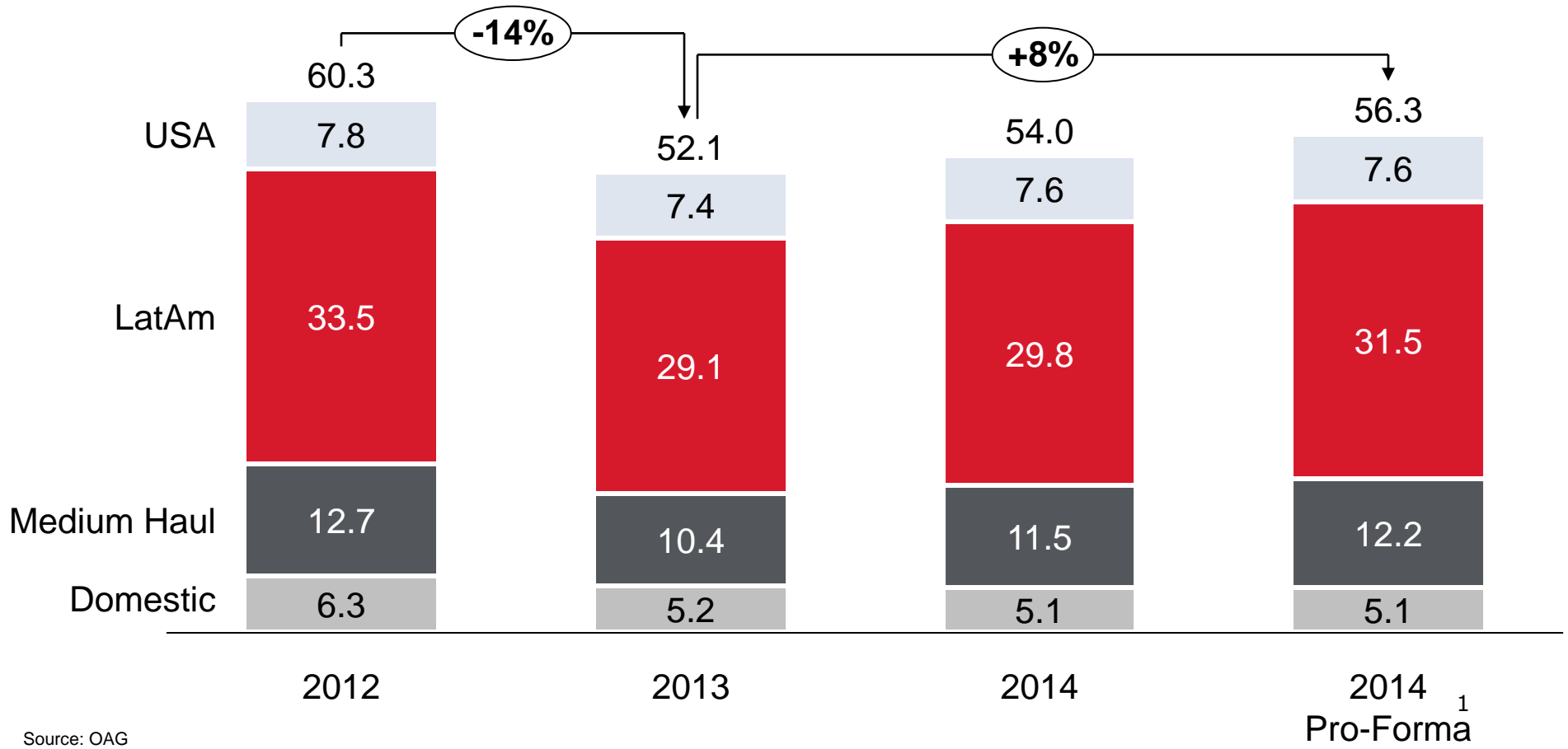


**Neil Chernoff** – Network Planning & Alliances Director  
**Antonio Pimentel** – Alliances Director



# Plan de Futuro has allowed Iberia to start restoring routes after the reduction of non-profitable capacity...

Iberia capacity evolution  
ASK (bn)



Source: OAG  
1 AMS, IST, ATH, STO, SDQ, MVD & PTY whole year simulation

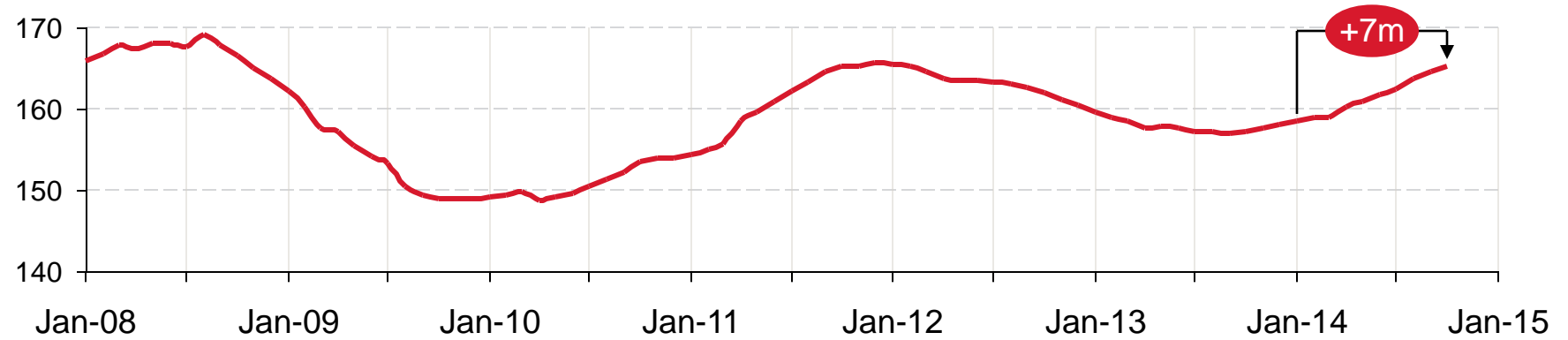
**IAG** Ensuring the right LH strategy Restoring routes



# ...in a market environment where demand has started to recover after 3 years of decline

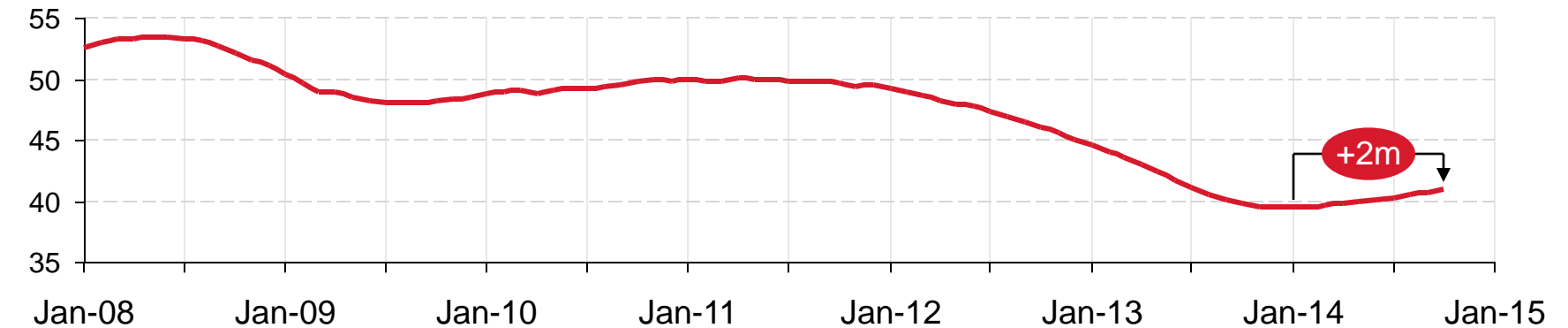
Spain

Total passengers to/from (m)



MAD

Total passengers to/from (m)



Source: AENA

IAG

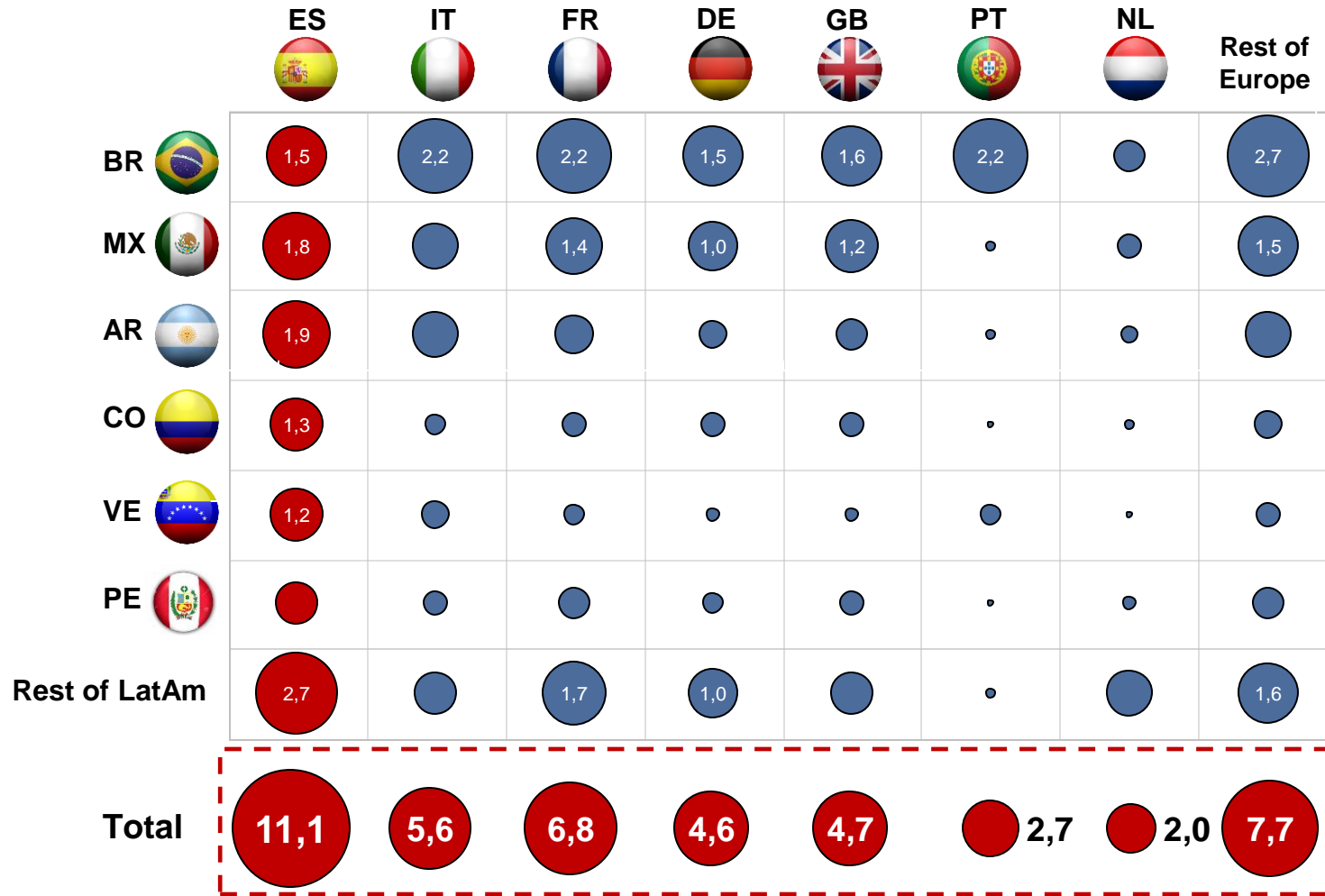
Ensuring the right LH strategy

Market environment

IBERIA

# The Iberia of the future will leverage its natural “home-market” advantage for traffic to Latin America...

Passengers daily from/to EU-LatAm  
(‘000)



Source: Internal analysis, LatAm excludes Caribbean

IAG

Ensuring the right LH strategy

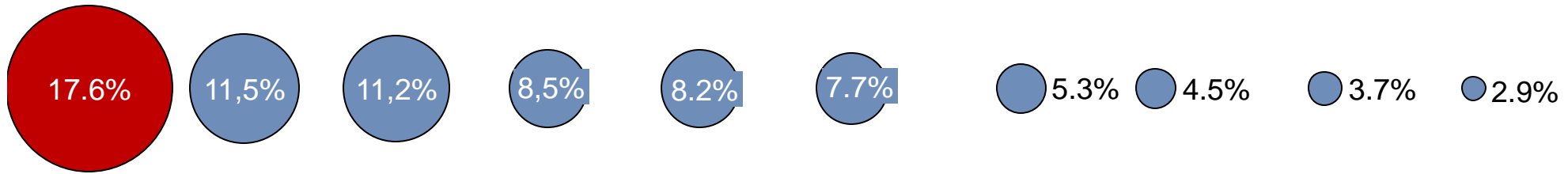
LatAm advantage



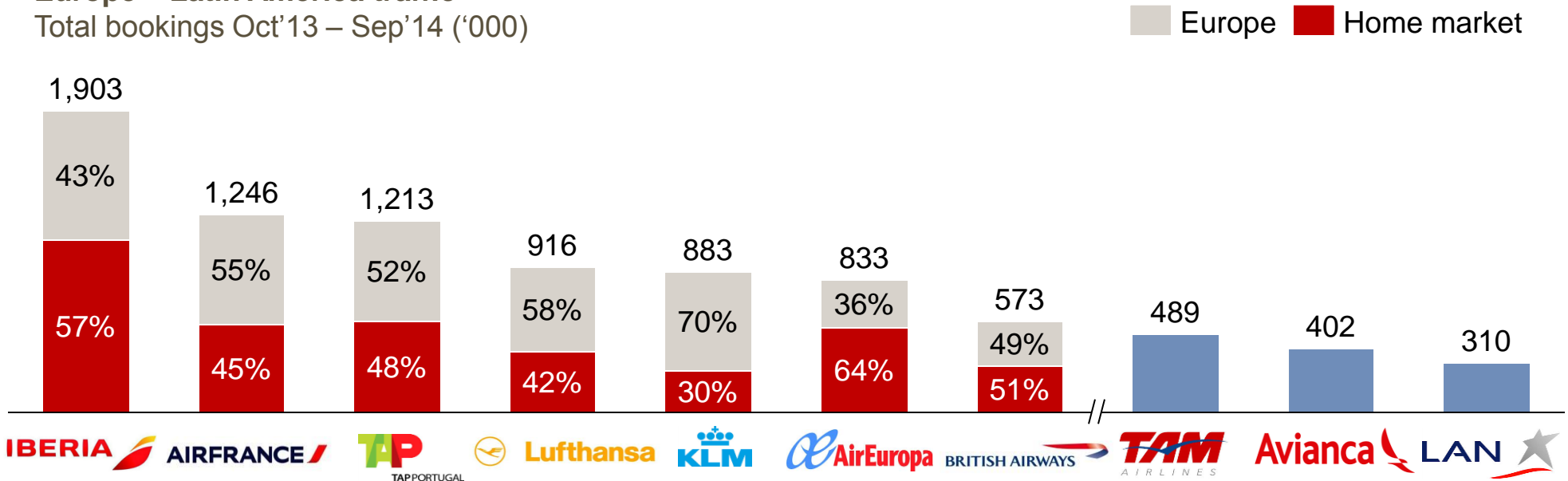


# ...continuing to build on its position as the leading carrier to Latin America...

Europe – Latin America market share  
% Oct'13 – Sep'14



Europe – Latin America traffic  
Total bookings Oct'13 – Sep'14 ('000)

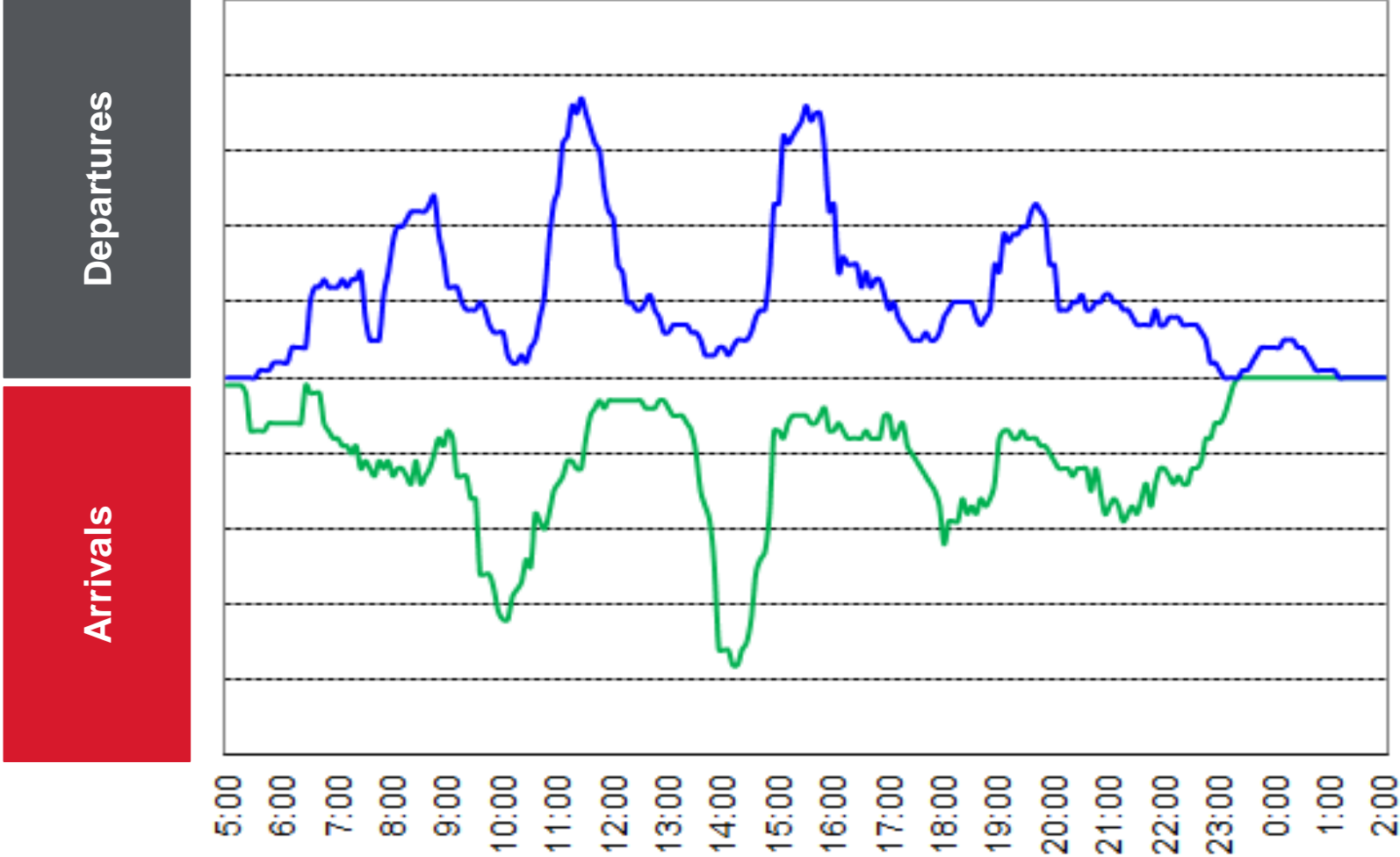


Source: CRS (Latin America excluding Caribbean)

**IAG** Ensuring the right LH strategy LatAm leadership



# ...leveraging and enhancing its best-in-class MAD hub...



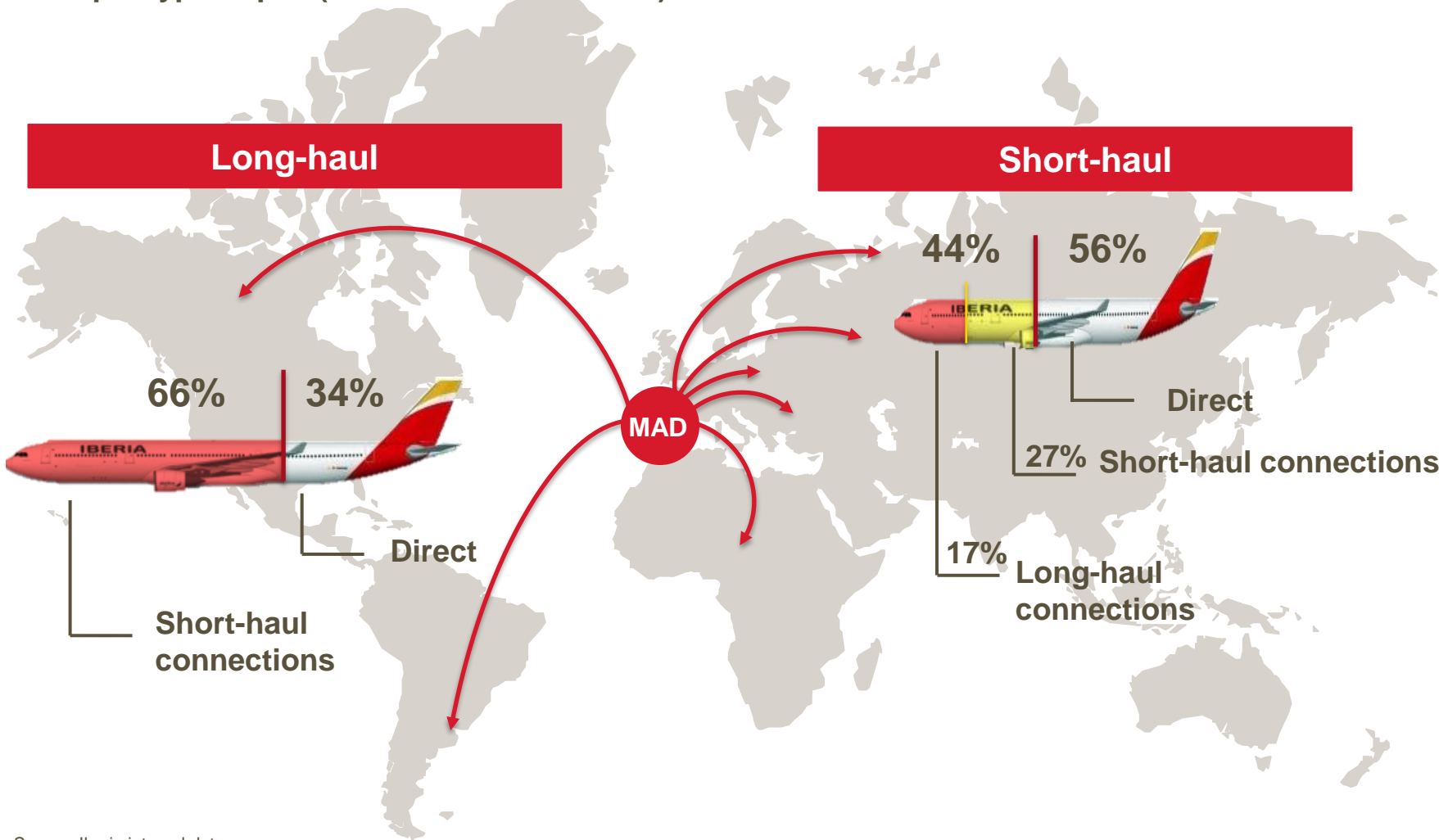
Ensuring the right LH strategy

Madrid hub



# ... to offer the best schedules for P2P passengers to Madrid and connecting passengers to the Americas...

Breakdown per type of pax (connections. vs. direct) in 2014



Source: Iberia internal data

# ... and exploring opportunities in other high growth markets leveraging Madrid's location and synergies of a bi-directional hub...

Passenger annual growth  
CAGR 13-17

- 5.8% Asia-LatAm
- 5.6% Africa-Europe
- 5.5% Africa-LatAm
- 4.7% Europe-LatAm
- 4.1% Africa-USA
- 3.4% Europe-USA



Source: OAG 2014; IATA pax forecast CAGR 13/17

1 Core Africa: North/Central/Western Africa excl. Libya & Egypt; 2 Middle-East



Ensuring the right LH strategy

Regional growth



# ...while continuing to enhance Iberia's network reach through selected agreements with other airlines



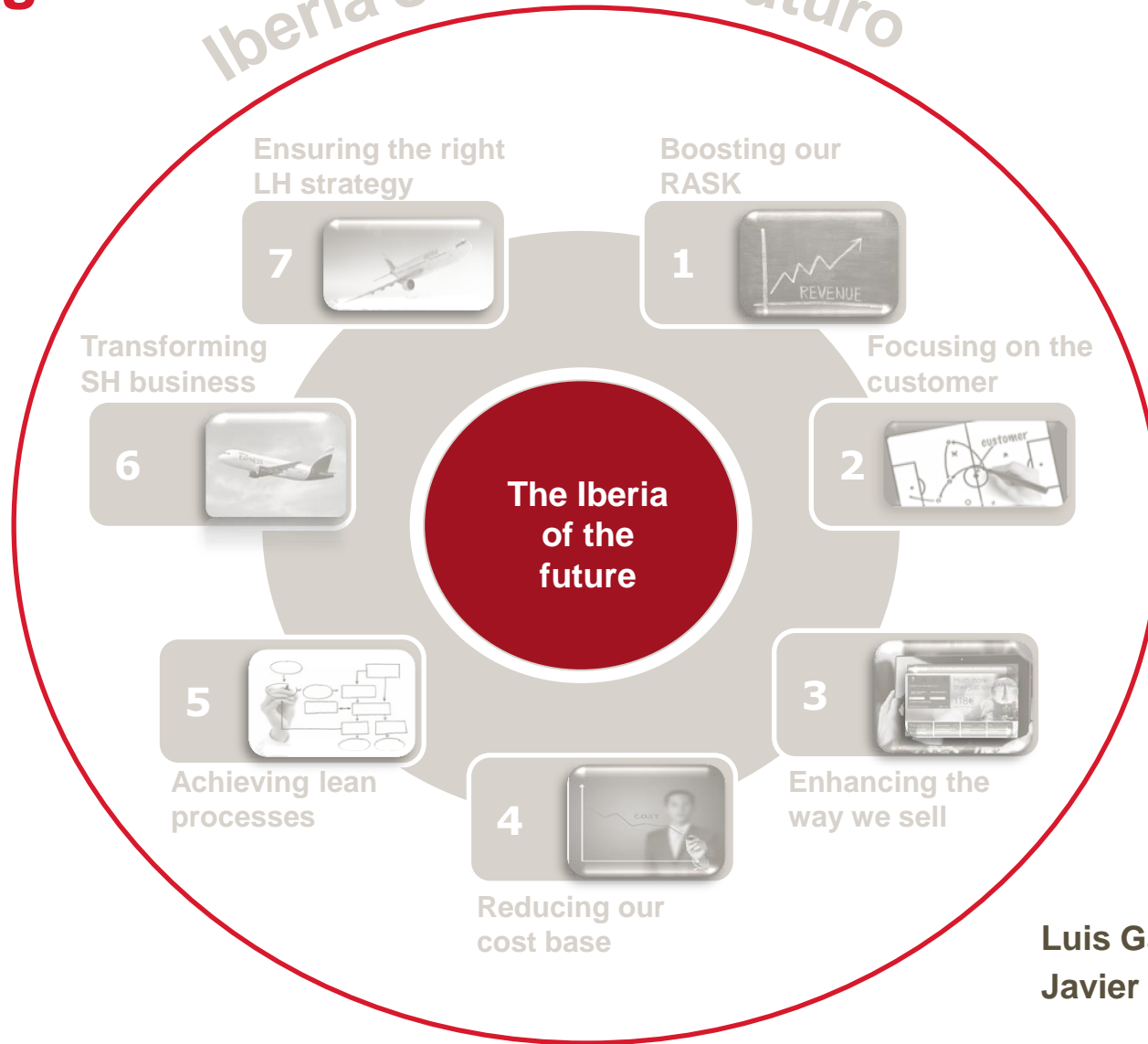
Ensuring the right LH strategy

Other airline agreements



# Agenda

## Iberia's Plan de Futuro



**Luis Gallego – CEO**

**Javier Sánchez-Prieto – CFO**

**IAG**

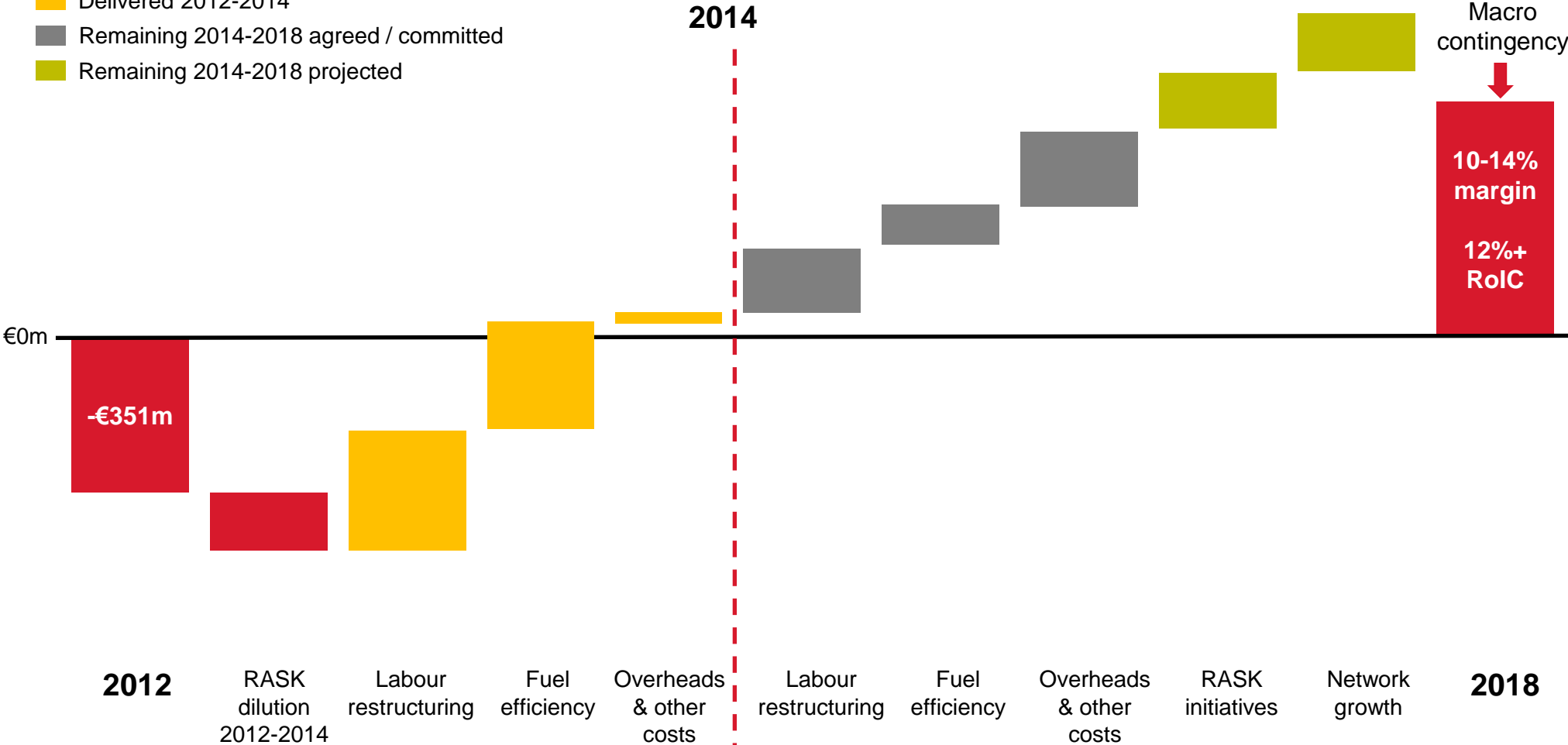
**IBERIA**

# Plan de Futuro defines a major turnaround for the company

EBIT (€m)

Indicative average numbers, not to scale

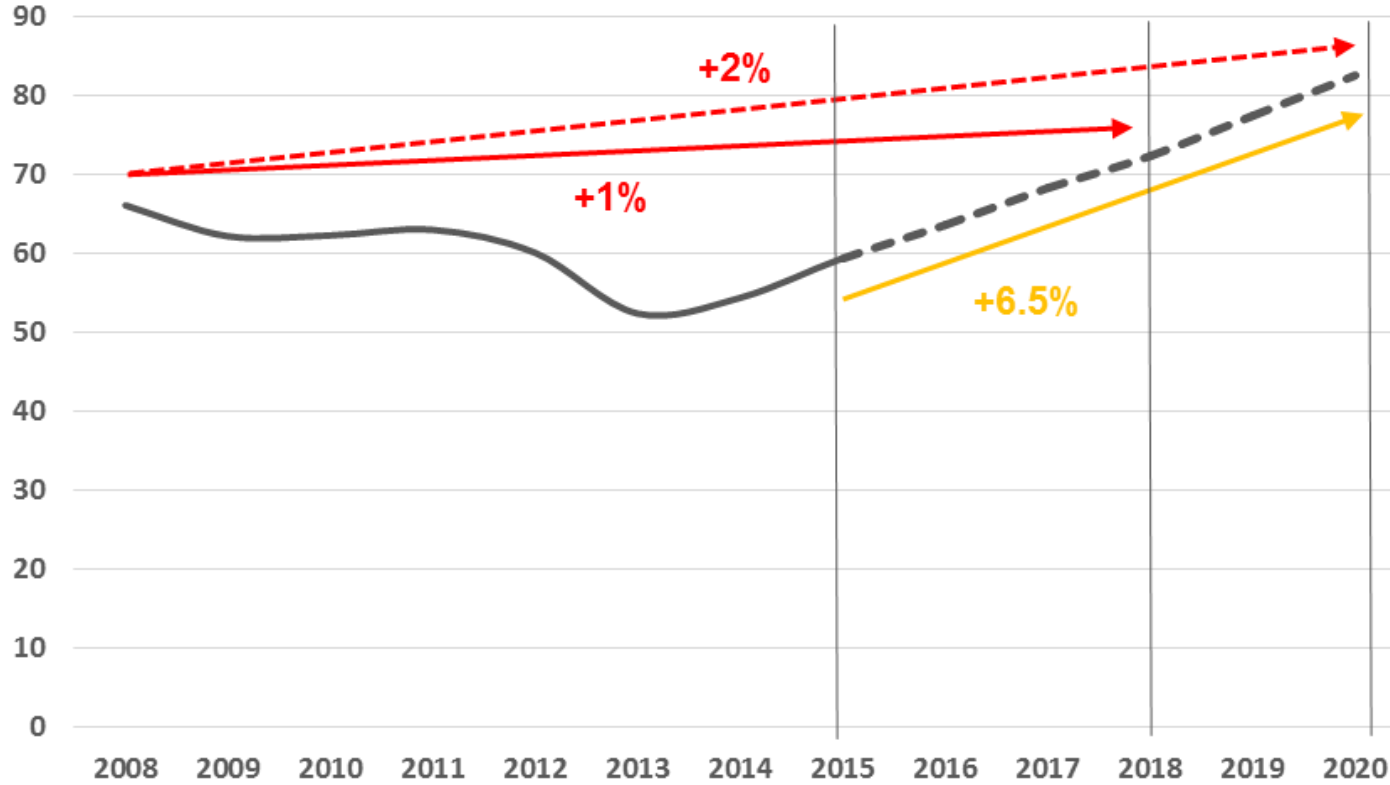
- Delivered 2012-2014
- Remaining 2014-2018 agreed / committed
- Remaining 2014-2018 projected





# ASKs plan long-term growth

Iberia capacity  
ASK (bn)



→ CAGR 2008-2018

- - - → CAGR 2008-2020

→ CAGR 2015-2020

IAG

The Iberia of the future

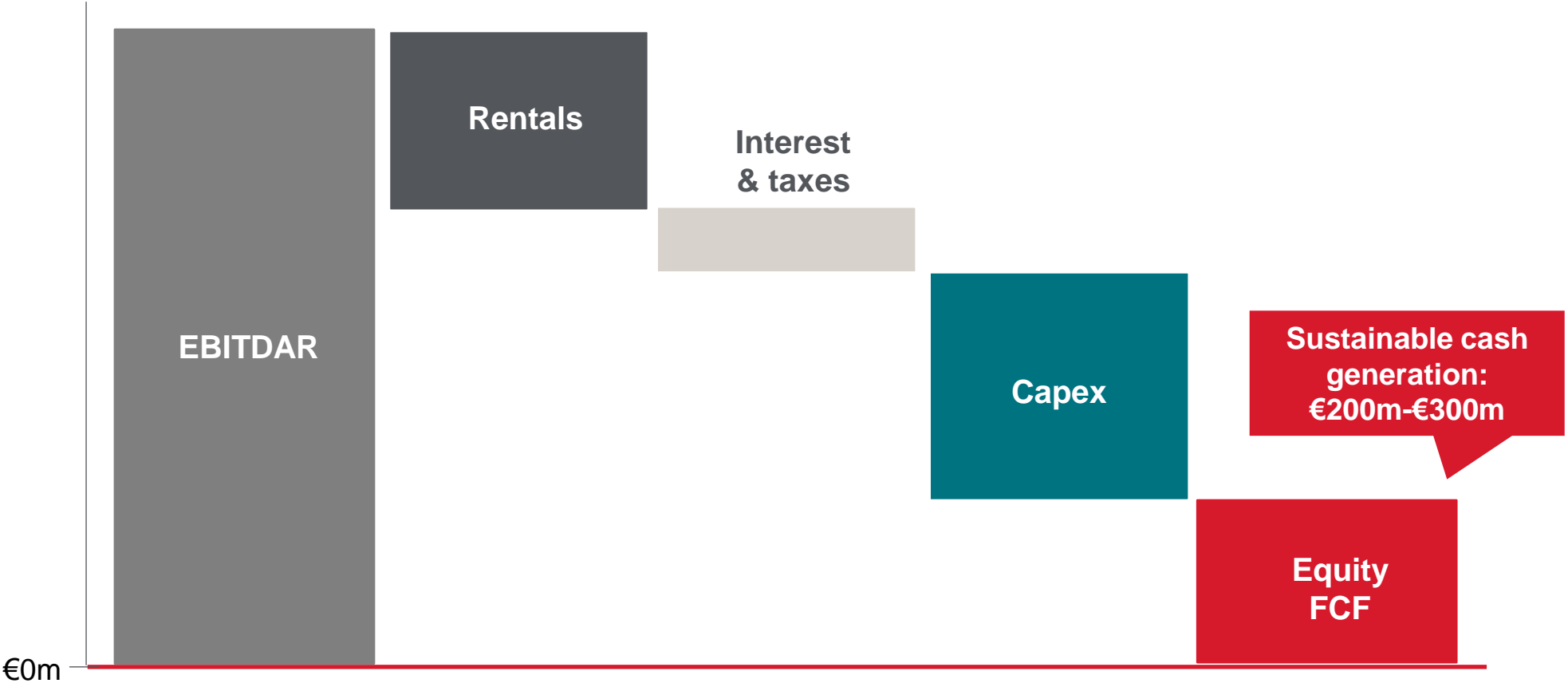
Capacity growth



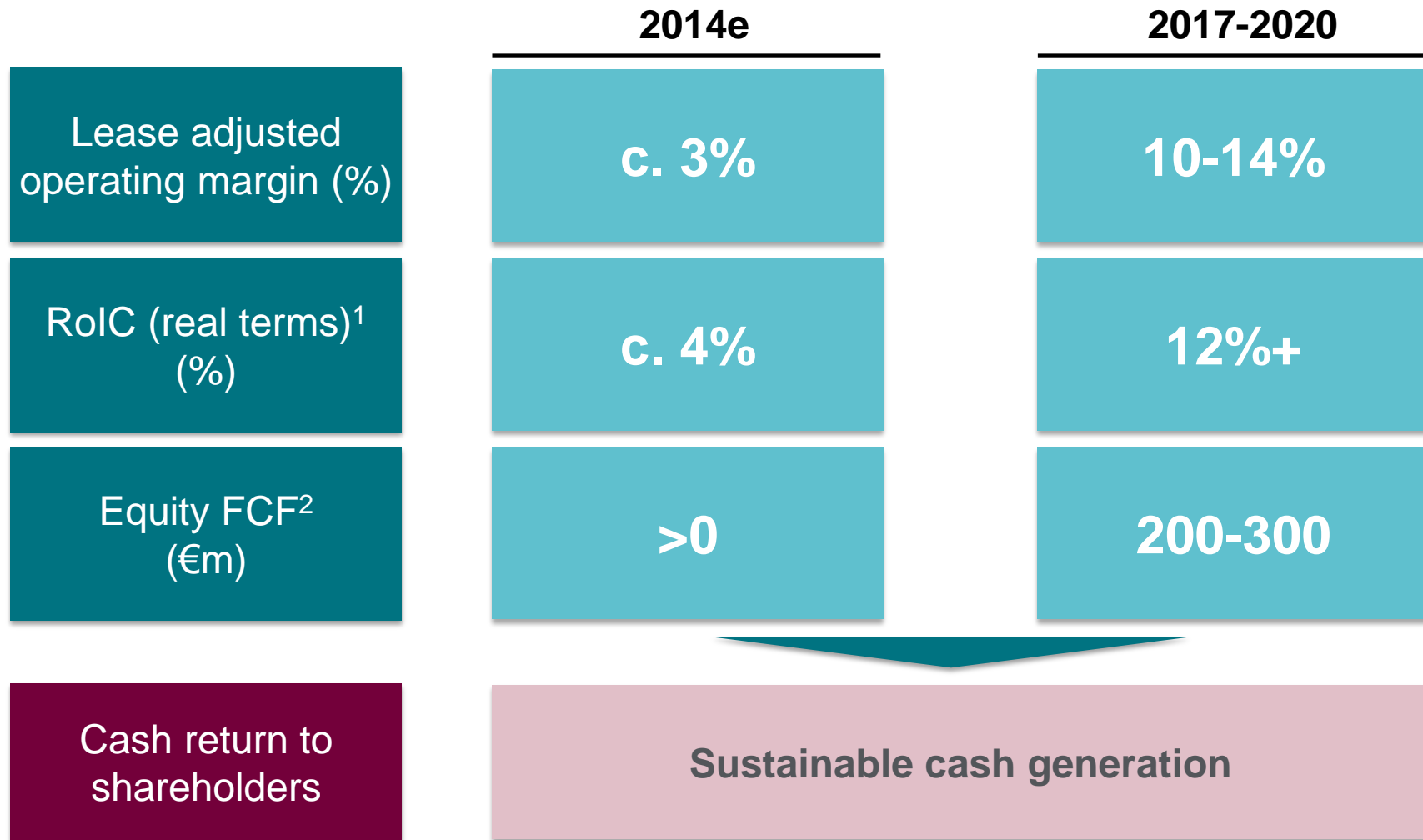
# In the medium-term Iberia will consistently generate cash

Indicative average numbers, not to scale

Equity FCF  
2017-20 (€m)



# Iberia has an ambitious medium term target, in line with the objectives set by IAG



<sup>1</sup> Real returns applicable to all airlines:  $(\text{operating profit} + \text{leases} \times 33\%) / (\text{adjusted depreciation} \times 10)$

<sup>2</sup> Equity FCF:  $\text{EBITDAR} - \text{Rentals} - \text{Interests} - \text{Taxes} - \text{Capex}$

# Plan de Futuro is delivering now and setting the basis of the Iberia of the future

## 2012 CMD objectives achieved

- ✓ **To stop Iberia's operating cash burn** by mid-2013
- ✓ **To give Iberia a competitive cost base** for long-term growth (15% capacity and 4,500 workforce reduction)
- ✓ **To fund the transformation entirely through Iberia's own resources**

## Plan de Futuro...

- Comprehensive plan aimed to **radically change** the company
- **30 initiatives** across all key areas of the company
- Continuous monitoring by **top management**
- Full **commitment to delivery**

## ... is shaping the Iberia of the future

- Plan de Futuro will allow Iberia to reach **positive results in 2014** after 6 years of losses...
- ... provides Iberia with an **attractive strategic positioning** in core markets (specially Europe-LatAm)
- ...sets the basis for **profitability and long-term growth**
  - Margins in IAG target range from 2017 onwards
  - Strong growth prospects
  - Free cash generation from 2014

# Plan de Futuro is delivering now and setting the basis of the Iberia of the future

- Plan de Futuro will allow Iberia to reach **positive results in 2014** after 6 years of losses...
- ... provides Iberia with an **attractive strategic positioning** in core markets (specially Europe-LatAm)
- ...sets the basis for **profitability and long-term growth**
  - Margins in IAG target range from 2017 onwards
  - Strong growth prospects
  - Free cash generation from 2014

Iberia is taking off. Get on board!



**IBERIA**

