

The creation of a leading European airline group



Antonio Vázquez

Chairman & Chief Executive Officer

Transaction Overview

- Merger of equals between British Airways and Iberia
- Binding MoU to create a leading European airline group

  - Enhanced customer benefits and network offering
  - Improved strategic position globally
  - Significant synergies with a management team aligned to deliver

- Significantly increased opportunities for employees of both Iberia and British Airways
- Effective governance structure to deliver joint business and synergy plans while retaining separate brands and airline operations
- Merger Agreement to be signed in Q1 2010 and completion expected by Q4 2010

Key terms

- **Merger of equals with British Airways and Iberia shareholders to own 55% and 45%, respectively.**
    - **BA shareholders to receive 1 share in TopCo for every BA share**
    - **Iberia shareholders to receive 1.0205 shares in TopCo for every Iberia share**
- **New TopCo to be incorporated and tax resident in Spain, headquartered and primary listing in UK and eligible for inclusion in FTSE UK Index series**

Synergies of €400m/year to be delivered at EBITDA level

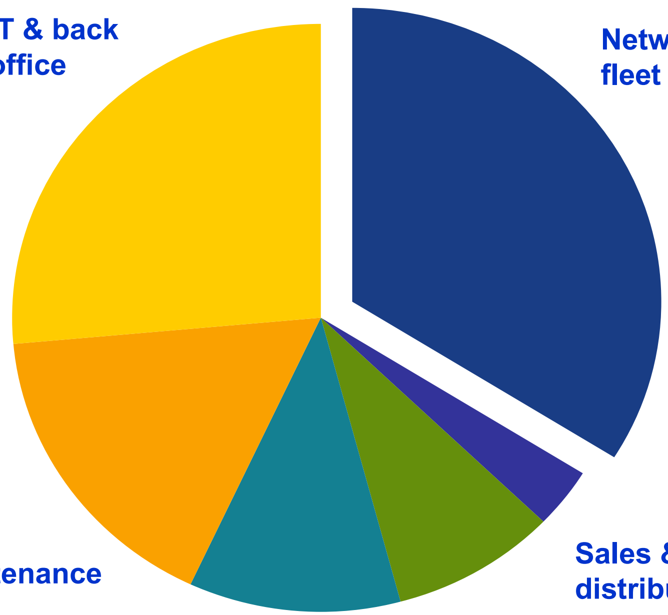
Synergy breakdown

Cost (c.€267m)

Revenue (c.€133m)

IT & back office

Network & fleet



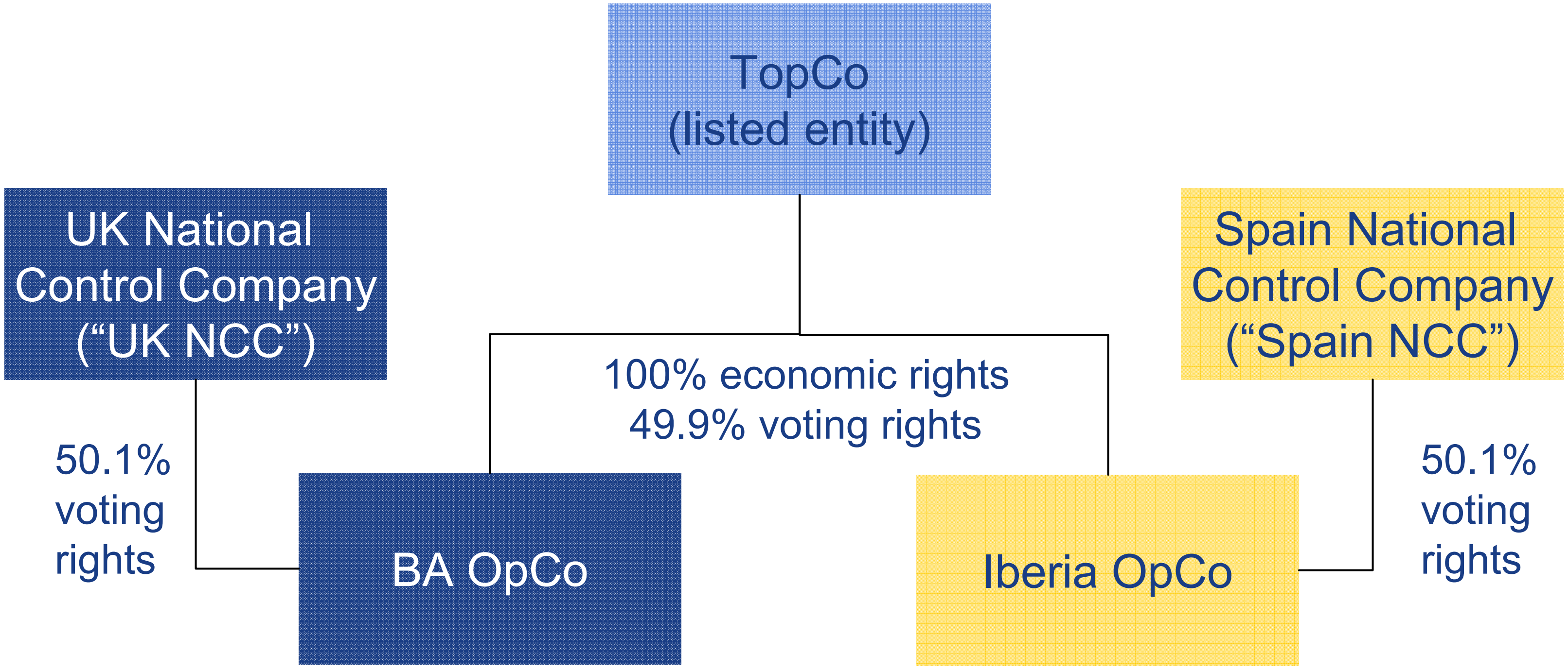
Maintenance

Sales & distribution

Ancillary business

Other (inc. purchasing)

Transaction Structure



•TopCo will be incorporated and tax resident in Spain

• TopCo will be primarily listed in UK. Possible secondary listing in Madrid.

• Operational and financial headquarters will be in London

Corporate Governance

•TopCo Board to compromise 14 members:

BA to provide 5 members
- Group CEO (Willie Walsh)
- BA OpCo CEO (Keith Williams)
- Non-Executive Group Deputy Chairman (Martin Broughton)
- 2 existing BA Non-Executive Directors

2 Independent Non-Executive Directors
2 appointed by BA

Iberia to provide 5 members
- Non-Executive Group Chairman (Antonio Vázquez)
- Iberia OpCo CEO (Rafael Sanchez Lozano)
- 3 existing Iberia Non-Executive Directors

2 Independent Non-Executive Directors
2 appointed by Iberia

•TopCo Executive Management structure

Group CEO
Willie Walsh

- Iberia OpCo CEO
Rafael Sánchez-Lozano Turmo
- BA OpCo CEO
Keith Williams
- Group CFO
Enrique Dupuy de Lõme
- Revenue Synergies Officer
Robert Boyle
- Cost Synergies Officer
Jose María Fariza

Summary

An exciting new phase of co-operation to create a leading European airline group

Enhanced customer benefits and network offering

Improved strategic position globally

Significant synergy potential with a management team aligned to ensure delivery

2009 3rd Quarter Results

Highlights Q3 2009

- Despite yields remain under pressure, the deterioration in unit revenues has diminished in relation to last quarter
- Market shares maintained in our main strategic markets
- Reduction of unit costs
- Solid balance sheet despite difficult environment
- New Plan 2010-2012 under way

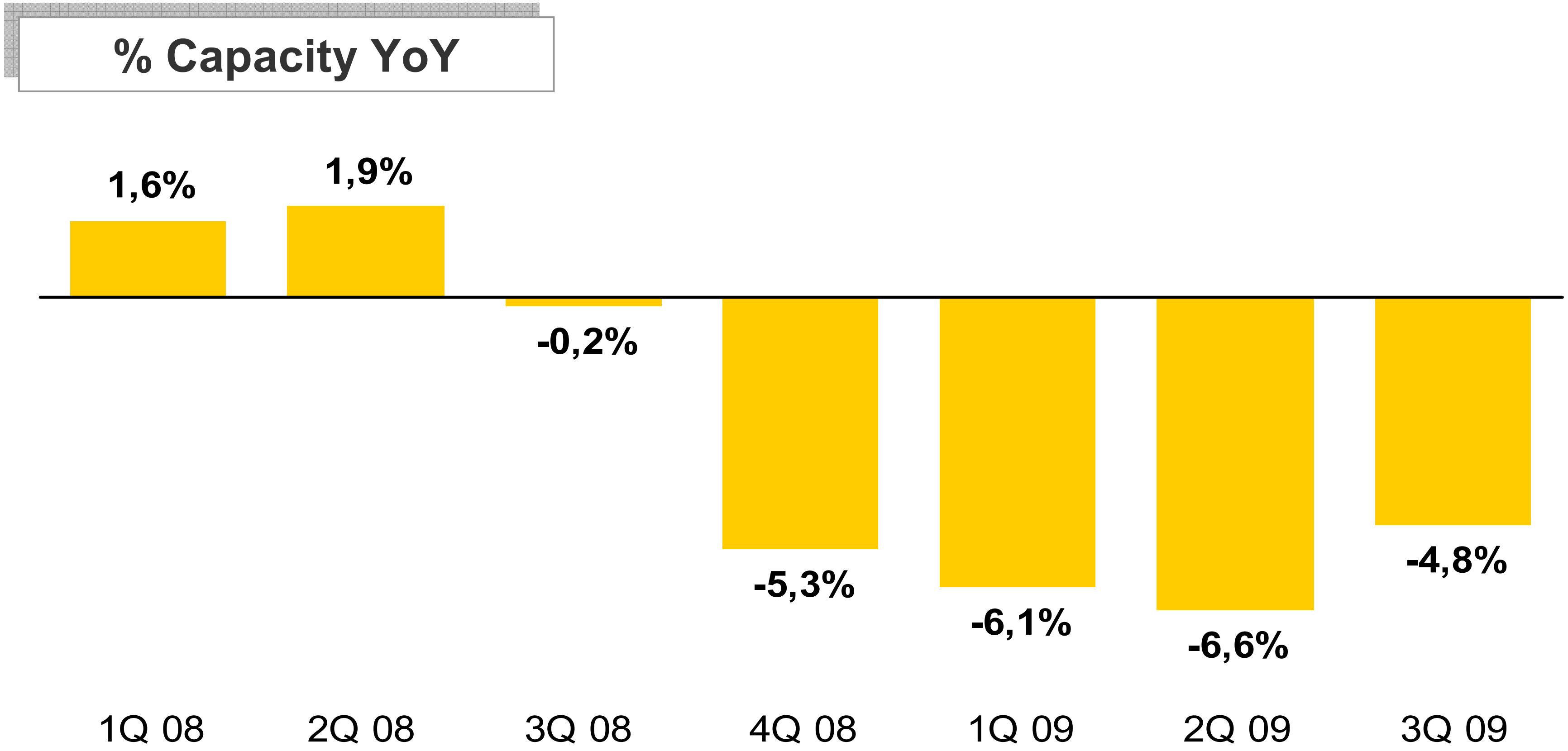
Main Figures

€ million	Q3 2009	Q3 2008
Operating Revenues	1,166.6	1,450.5
EBITDAR	74.5	159.6
EBIT	-54.0	16.2
Adjusted EBIT	*-26.9*	*45.3*
Profit from operations	-56.0	21.3
EBT	-30.4	36.3
Net Income	-16.4	30.4

Passenger revenues: Traffic Statistics

% Q3 09/08	ASK	RPK	LF
Domestic	-5.0	-1.6	2.7 pp
Europe	-9.2	-6.5	2.3 pp
Other Int. Medium haul	4.1	2.8	-1.0 pp
Long Haul	-3.5	-7.0	-3.2 pp
Total	**-4.8**	**-6.0**	**-1.1 pp**

Capacity reductions in accordance with market conditions and traffic



Market shares maintained in our main strategic markets

September accumulated

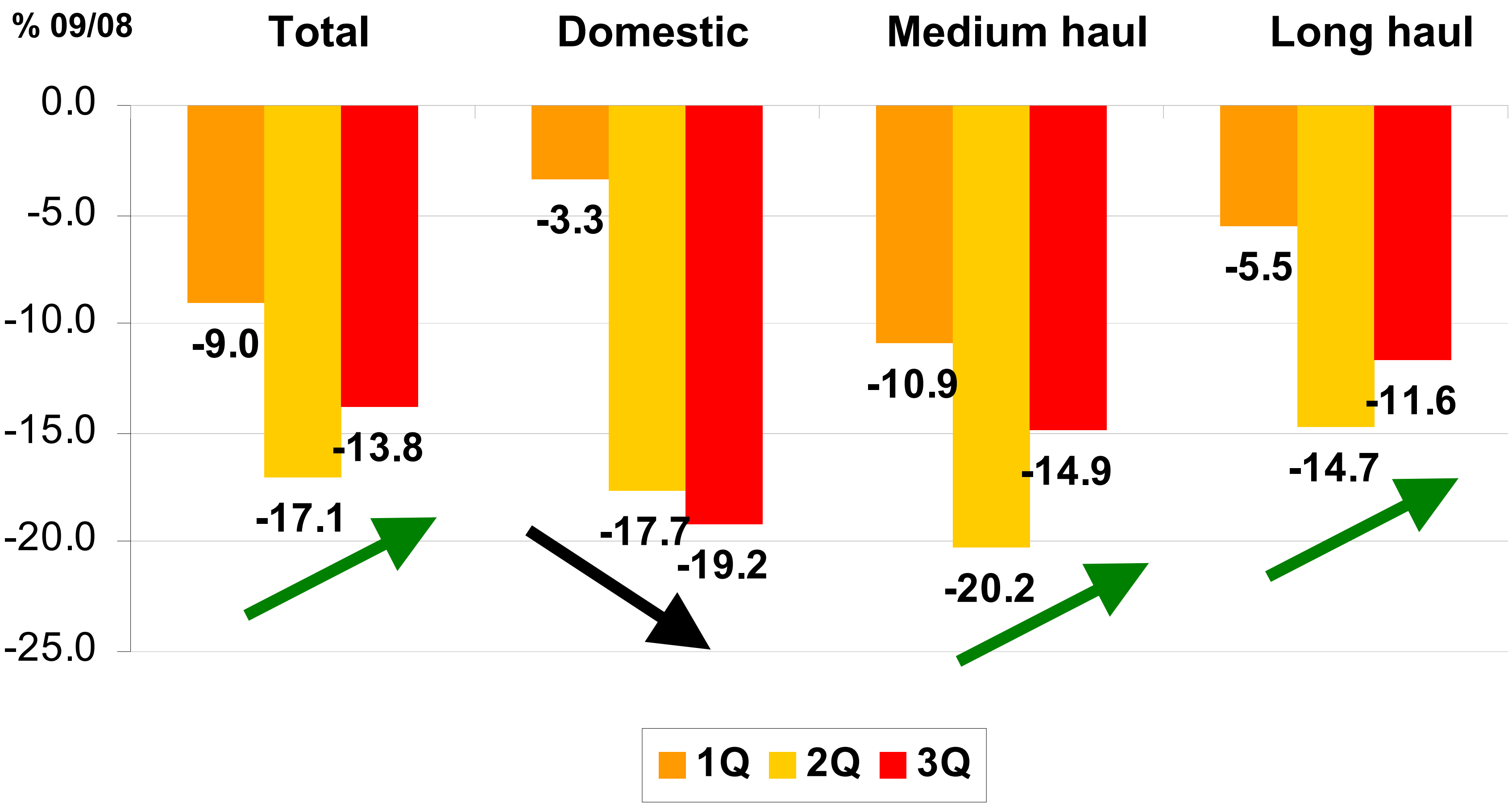
Total traffic	Market growth	IB Market share	Var. 09/08
Domestic	-10.5%	34.1%	-1.8p.p.
Spain – Europe	-10.2%	8.7%	+0.2p.p.
Madrid – Europe	-4.5%	42.2%	+1.1p.p.
Europe – Latin America	-10.6%	20.4%	0.0p.p.

Business traffic			
Europe – Latin America	-25.3%	23.8%	+0.5%

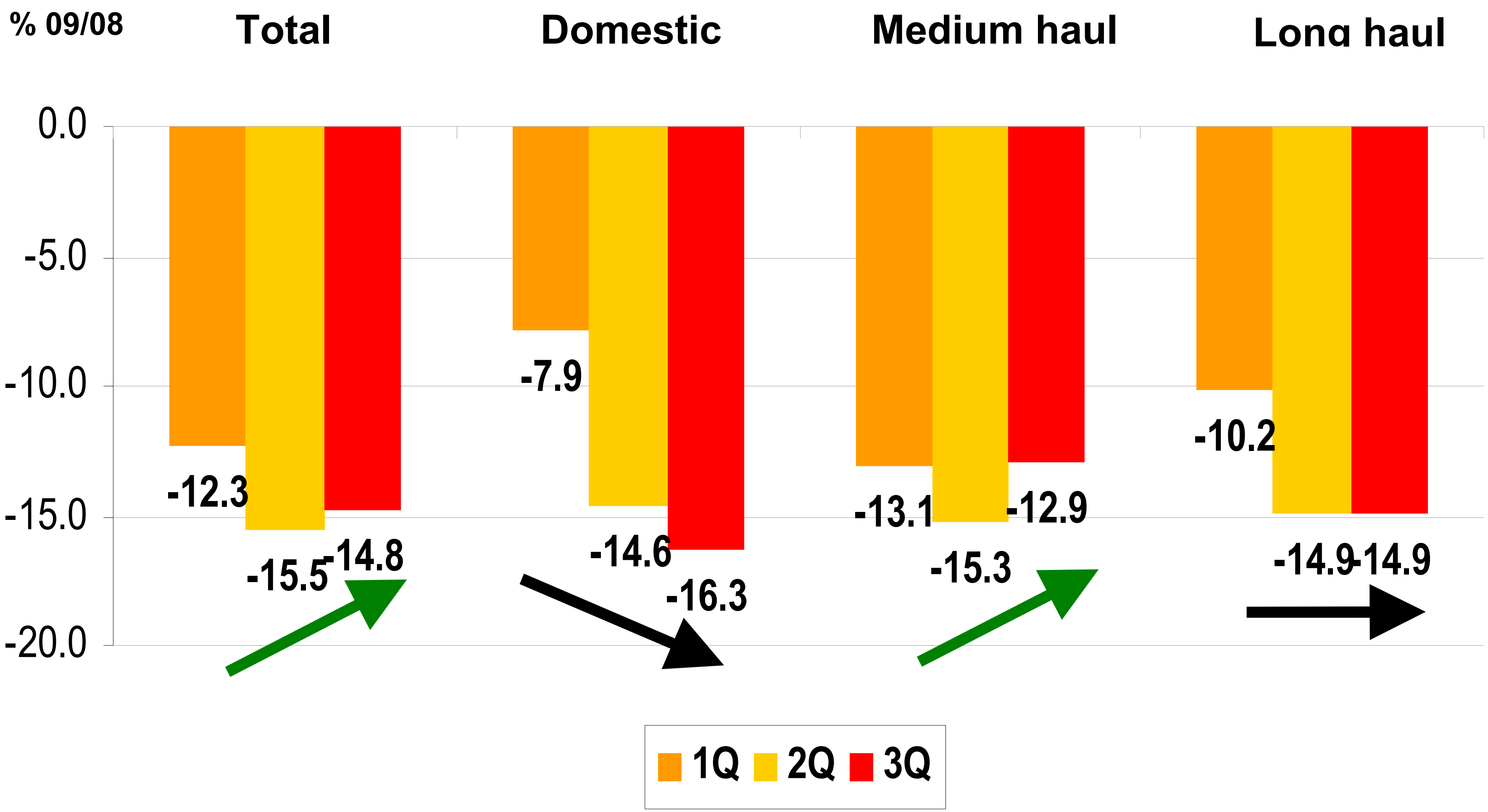
Deterioration of Operating Revenue

€ million	Q3 2009	% YoY
Passenger	892.7	- 21.6
Cargo	59.9	- 32.0
Handling	82.5	0.4
Maintenance	69.1	- 5.2
Rest	62.4	- 9.7
Total	**1,166.6**	**- 19.6**

Yield Evolution



Passenger Revenue/ ASK

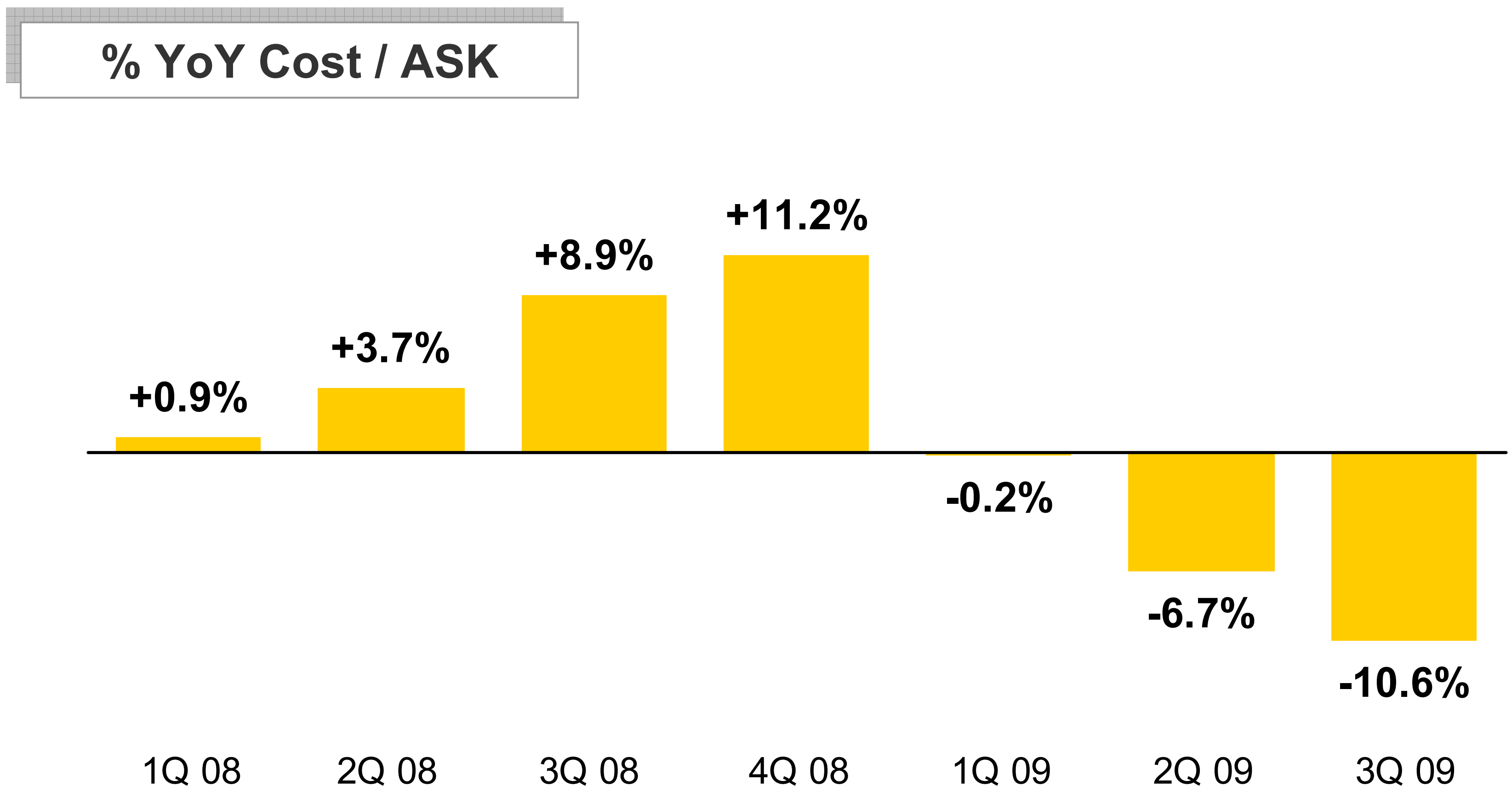


Good performance of Operating Costs

€ million	Q3 2009	% YoY
Personnel	324.8	- 2.8
Fuel	309.5	-34.1
Aircraft rentals + Depreciation	128.5	-10.3
Nav.aids + Traffic levies	166.4	-2.5
Commercial	35.5	- 30.4
Total costs	**1,220.6**	**- 14.9**

Total unit costs	**- 10.6%**

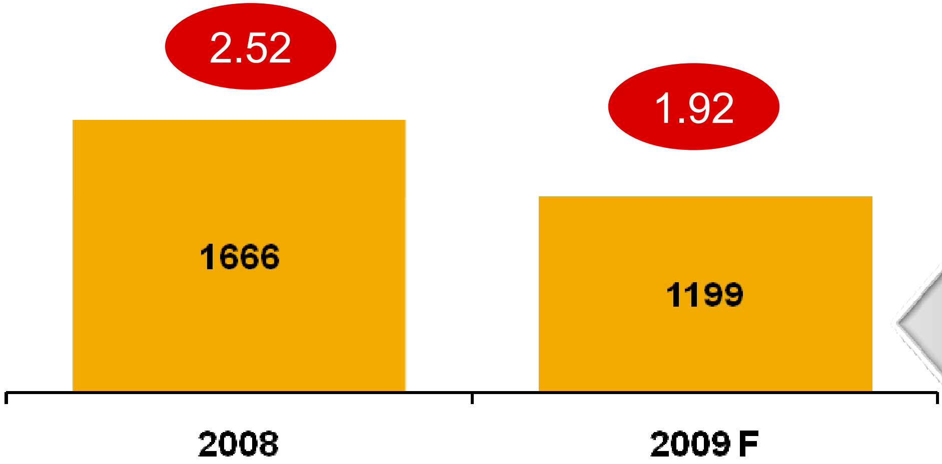
Unit costs evolution



Jet Fuel 2009 E

Around 70% hedged for balance 2009
Around 50% hedged for balance 2010

Unit Fuel Costs
€ cents



Total Fuel Costs
mm €

2009F: (640 $/tm; 1,40 €/USD)

Price sensitivity 2009 vs 2008 (1.45 USD/€)	Fuel Costs/ASK 2009(€ cents)
1195 mm € (-28,3%) 800 USD/tm	1.91
1190 mm € (-28,6%) 700 USD/tm	1.90
1186 mm € (-28,8%) 600 USD/tm	1.89

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Resources adjusted in line with capacity

	Q3 2009	% YoY
Average headcount	21,113	- 4.0%
Fleet	114	- 9 aircraft
Aircraft utilisation (Block Hours/Day)	10.6	+ 4.7%

Strong Balance Sheet

€ million	September 2009	December 2008
Gross cash	2,034	2,272
In Balance-sheet debt	513	468
In Balance-sheet net debt	**-1,521**	**-1,803**
Capitalised operating leases (x8)	2,691	2,816
Adjusted net debt	**1,171**	**1,013**

Iberia has maintained a strong financial position

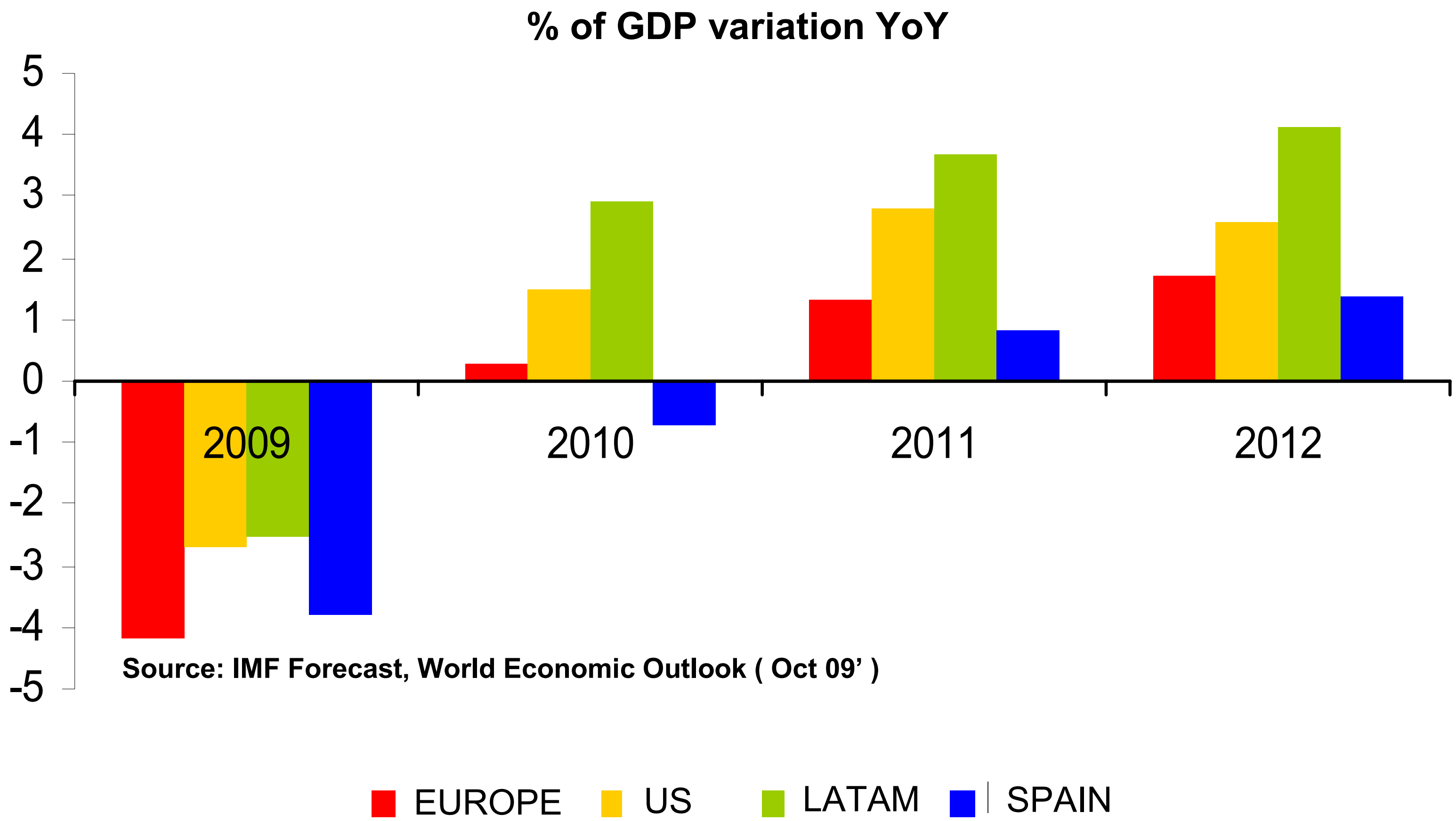
Rafael Sánchez-Lozano

Managing Director & Chief Operating Officer



Plan 2012

World macroeconomic situation



Delay economic recovery in Spain, moderate in Europe and USA and faster in Latin-American countries

Main challenges

Maintain leadership in Latam and improve quality of revenues

Need of an efficient short and medium haul feeding model

Maintain all costs at competitive levels

Guidelines of Plan 2012

- New operational model in short and medium haul routes with lower costs
- Reinforce the value / profitability of the maintenance and handling businesses.
- Improve the strategic position either as independent company or in a concentration process.

Maintain and improve the leadership position in its strategic markets

Recover profitability

Measures relating to size and capacity

Long Haul

- Growth in the Europe-Latam routes in order to maintain and increase Iberia’s leadership

Short and Medium Haul

- Reduction of capacity

- Change in the production model: creation of a new airline

Cost-cutting measures

Personnel

- Freeze of new entrants during the plan
- Wage freezes in 2010 and 2011
- Productivity measures for all employees

Other

- Savings of up to €37 million a year in overhead costs in addition to those already planned

Investments and restructuring costs

Investments

- New Business Plus class in long haul
- Improvement of current Business Plus: full flat beds
- Optimization of tourist cabin of A340-300 aircraft

Restructuring costs

- Extension of current redundancy plan for Ground employees
- Cabin crew replacement

Total investments and restructuring costs: €200 million



Outlook