

Iberia Investor Seminar

12th December 2014

IAG INTERNATIONAL
AIRLINES
GROUP

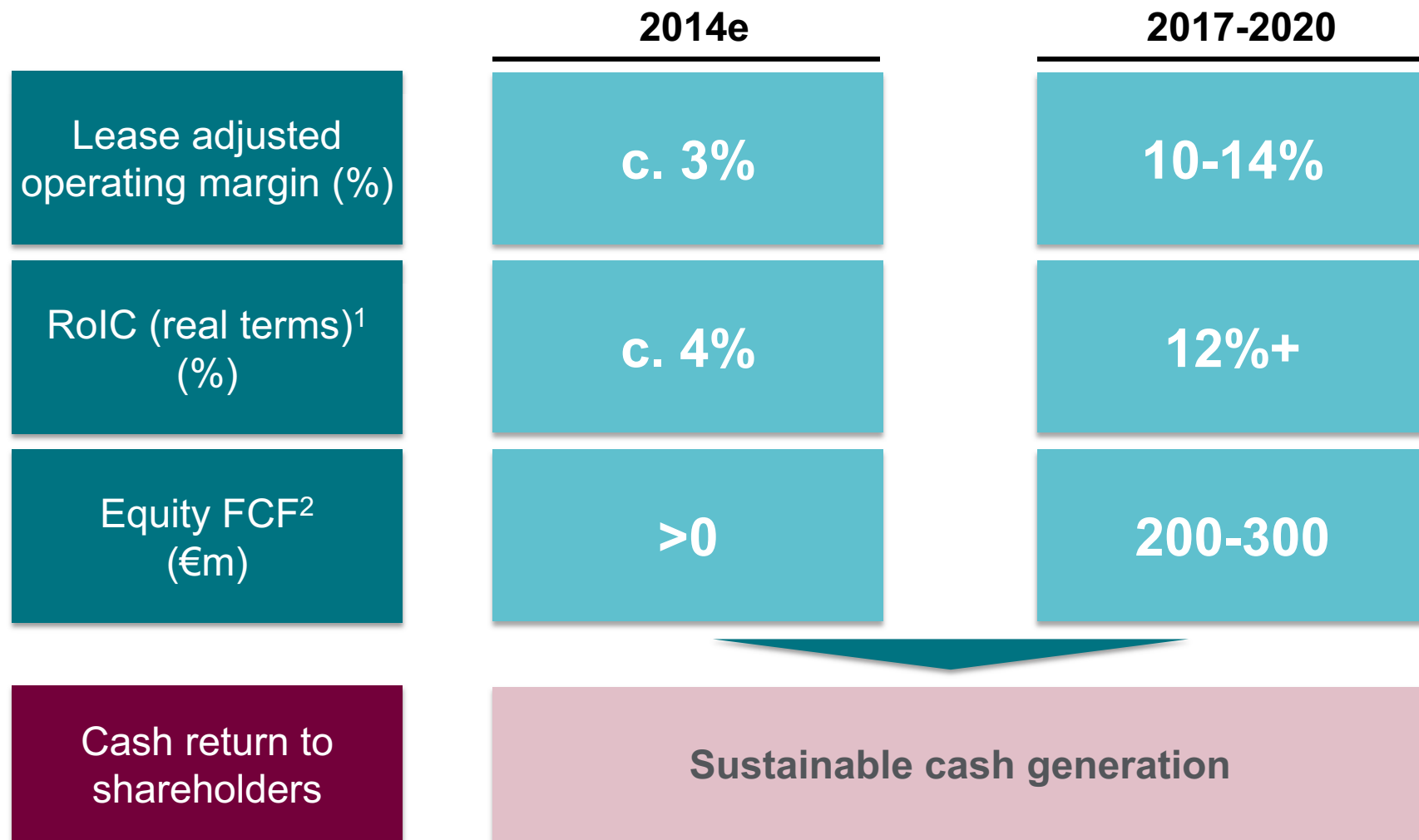


Iberia Investor Seminar - Agenda

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"> - Commercial Plan overview - Boosting our RASK - Focusing on the customer - Enhancing the way we sell 	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"> - Reducing our cost base - Achieving lean processes - Transforming SH business - Ensuring the right LH strategy 	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



¹ Real returns applicable to all airlines: (operating profit + leases*33%)/(adjusted depreciation*10)

² Equity FCF: EBITDAR – Rentals – Interests - Taxes - 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...

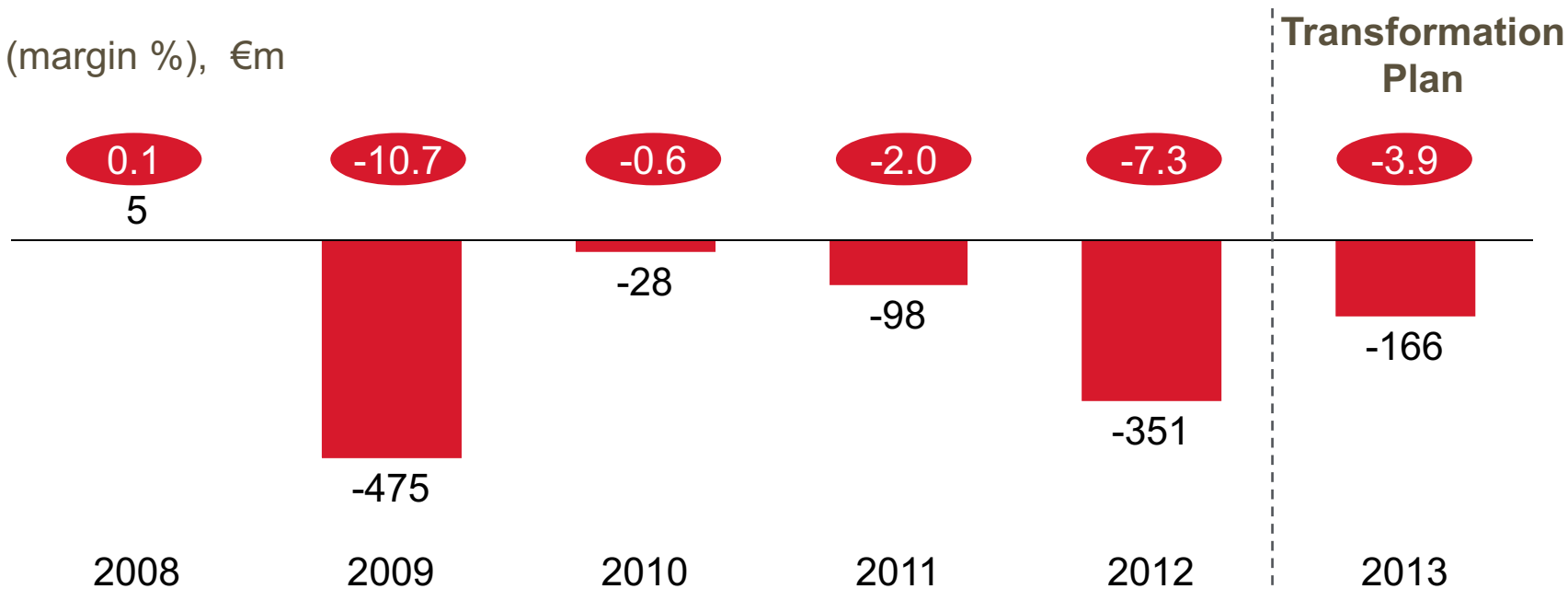
- Comprehensive plan aimed to **radically change** the company
- **30 initiatives** across all key areas of the company
- Continuous monitoring by **top management**
- Full **commitment to delivery**

... 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



ASKs
(bn)

66.1

62.2

62.3

63.0

60.1

52.4

Revenues
(€m)

5,516

4,458

4,800

4,863

4,841

4,235

Costs
(€m)

5,511

4,933

4,828

4,961

5,192

4,401

IAG

Plan de Futuro

Financial context

IBERIA

... 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



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 3rd party activities

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



IAG

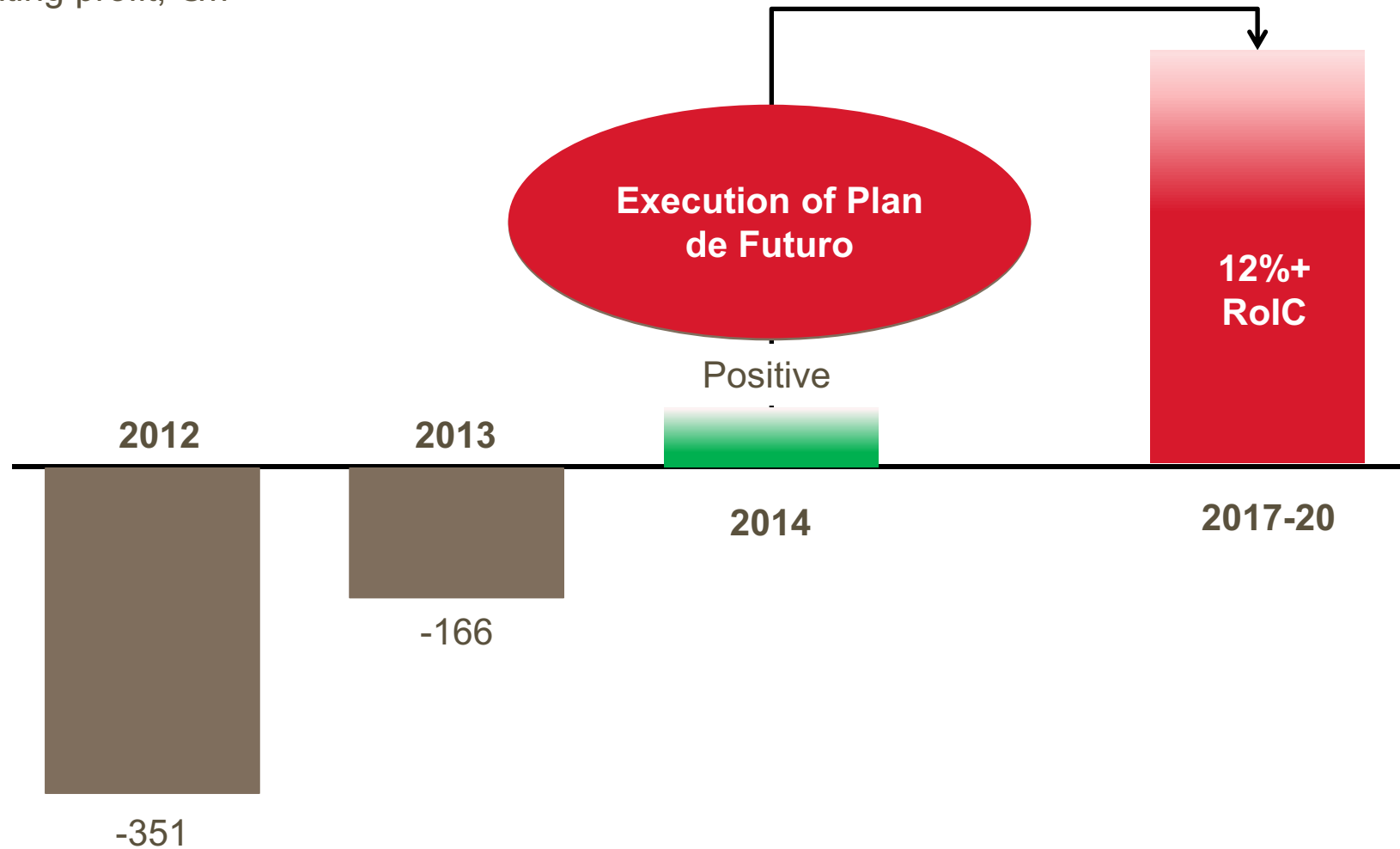
Plan de Futuro

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



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
comple-
mentary
businesses**



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

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

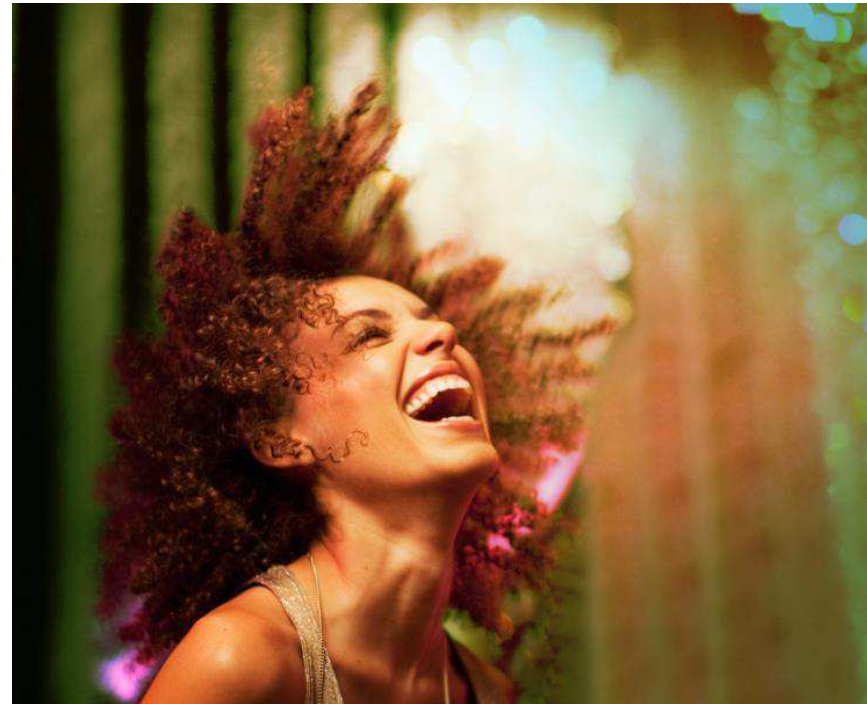
 Today's focus

With a new “style”



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

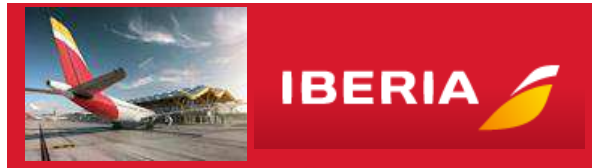
Before the detail, we want to give you an overview of Iberia



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)



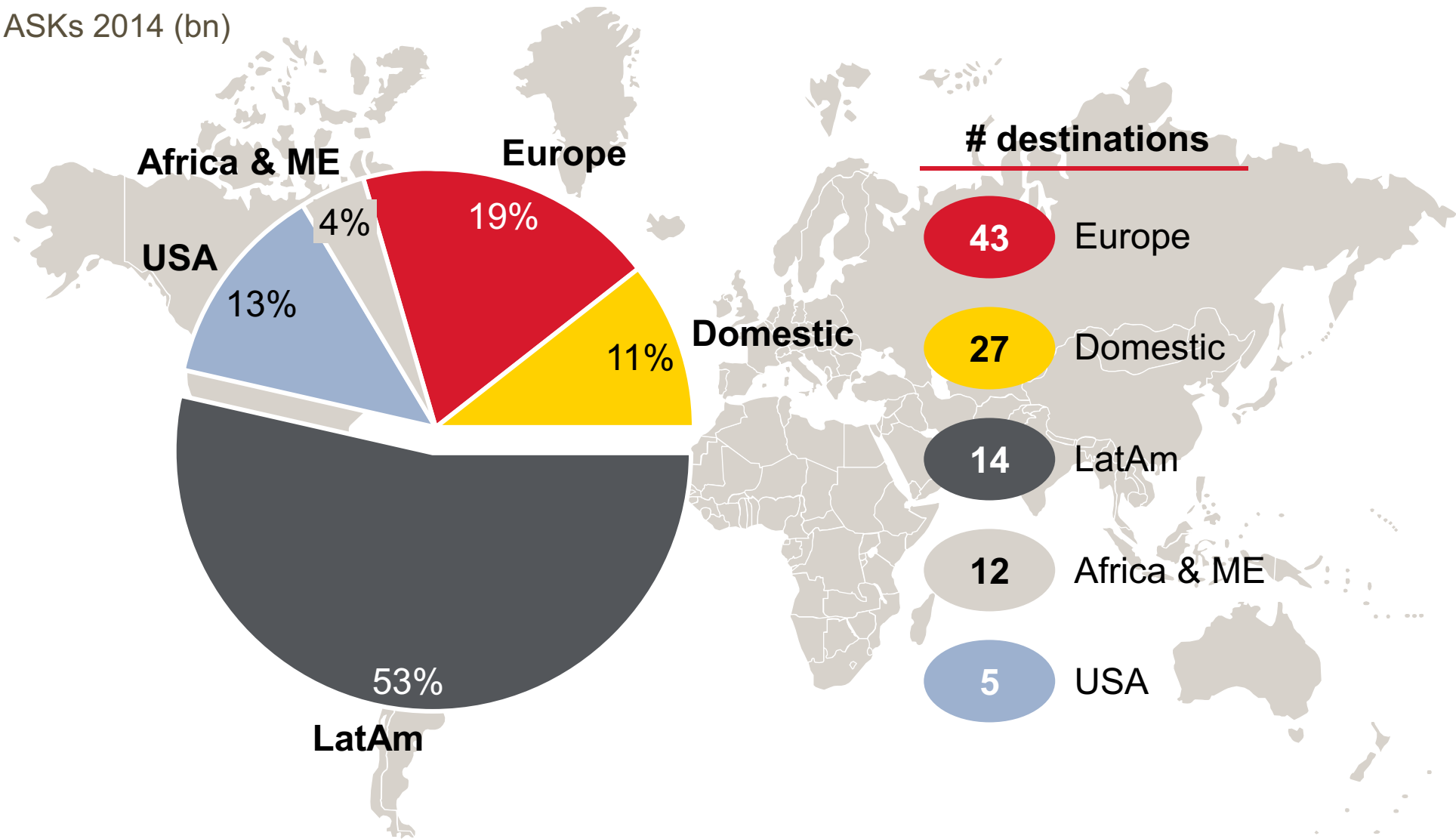
- #1 HDL operator in Spain: 41 airports (incl. MAD & BCN), with 7,000 employees
- Passenger, Ramp, Operation and Cargo to fit all needs for our 200 clients
- Services include 310,000 aircraft movements and 73m pax



- 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 3rd-party customers

Iberia flies to 101 destinations globally with a major LatAm footprint

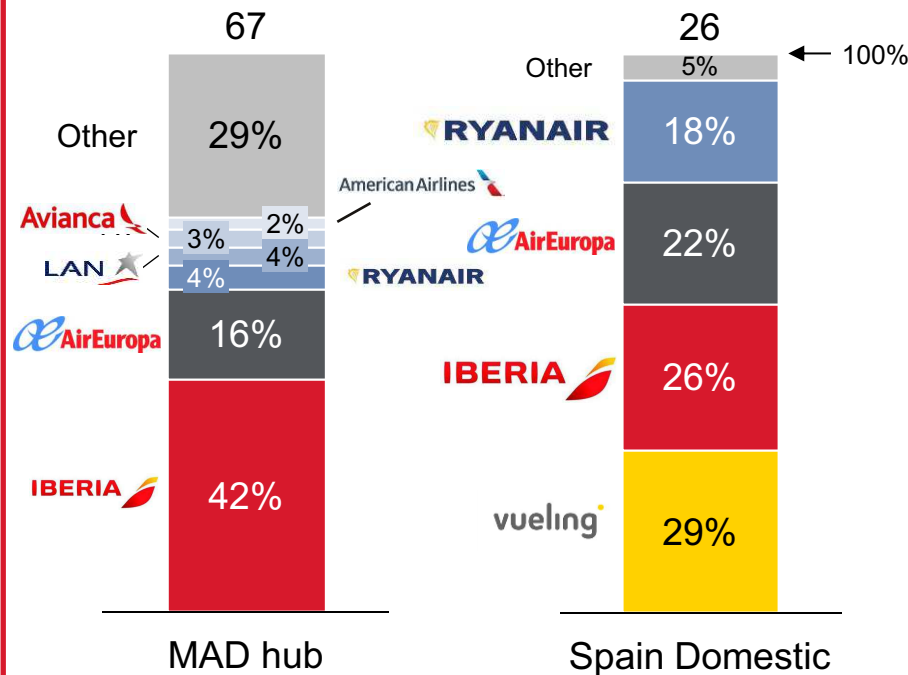
ASKs 2014 (bn)



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...

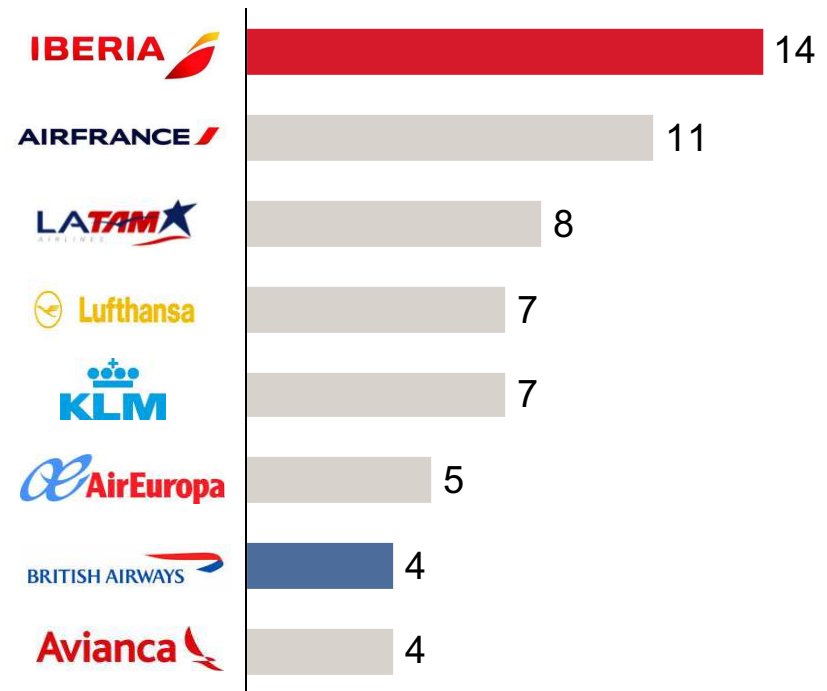
Capacity from MAD & Spain Domestic ASK 2014 (bn)



Source: OAG

... offering the highest daily flights to LatAm

Flights per day to LatAm¹, (#)



¹ Excludes Caribbean

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

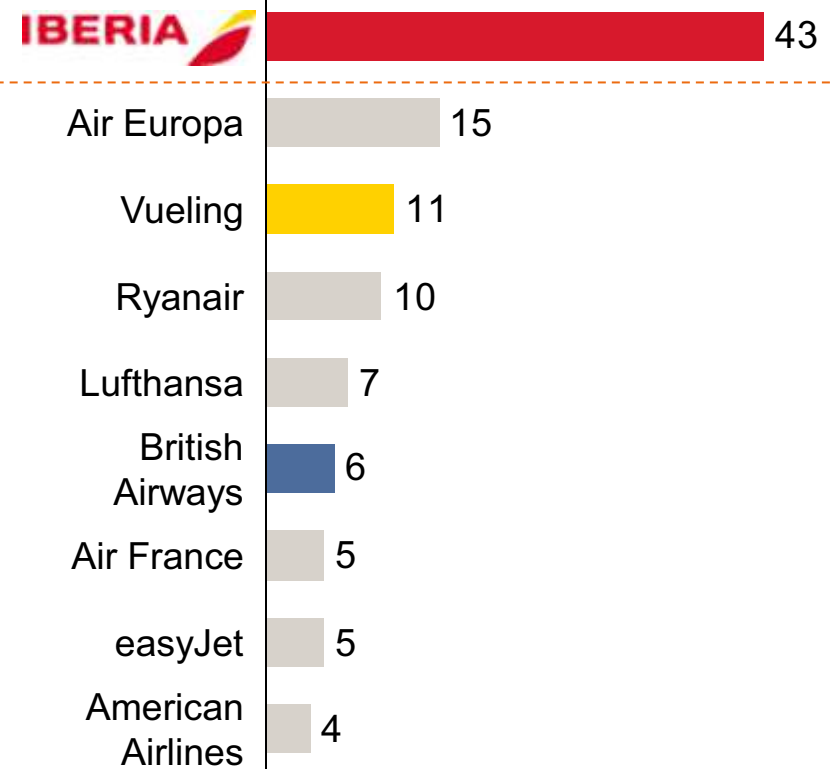
Iberia Plus FFP

5.8 million members

Aprox. 30% revenue



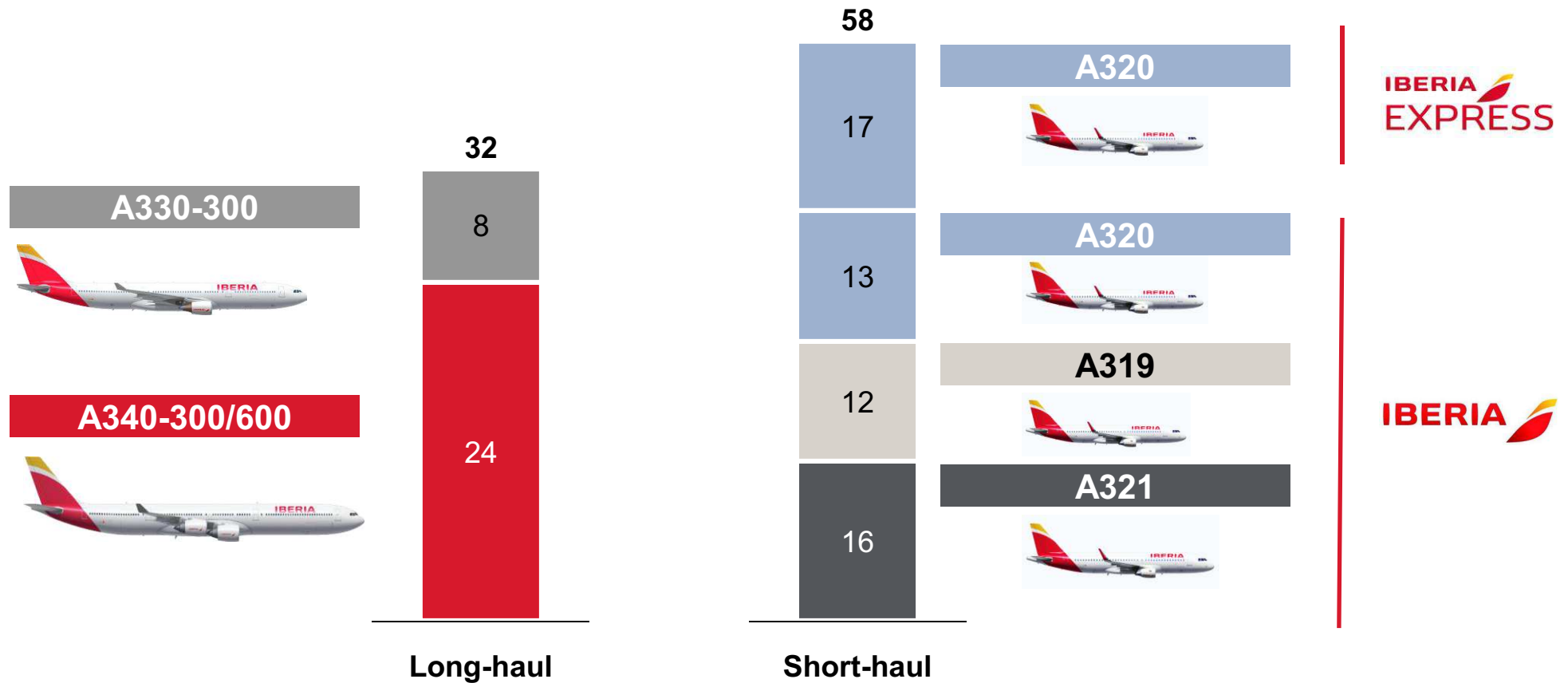
Consideration, 1st choice (%)



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?

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)



**Significant
cooperation
opportunities**



What does Iberia add to IAG?

**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



Strategy Director – J.A. Barrionuevo

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



Alliances Director – A. Pimentel

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



Digital Business Director – M.A. Henales

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



Fleet Planning Director – A. García-Torres

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



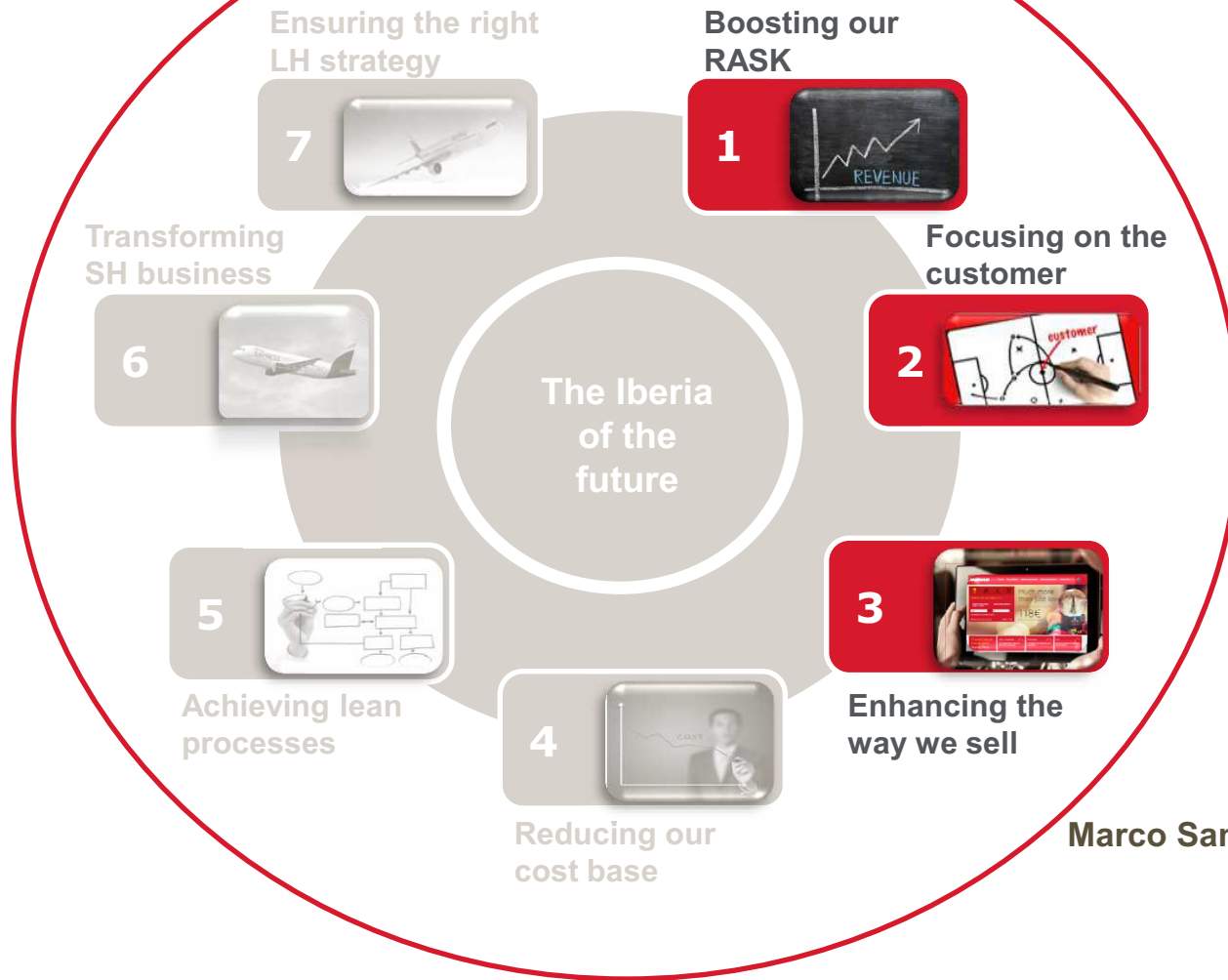
CEO of Iberia Express – F. Candela

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



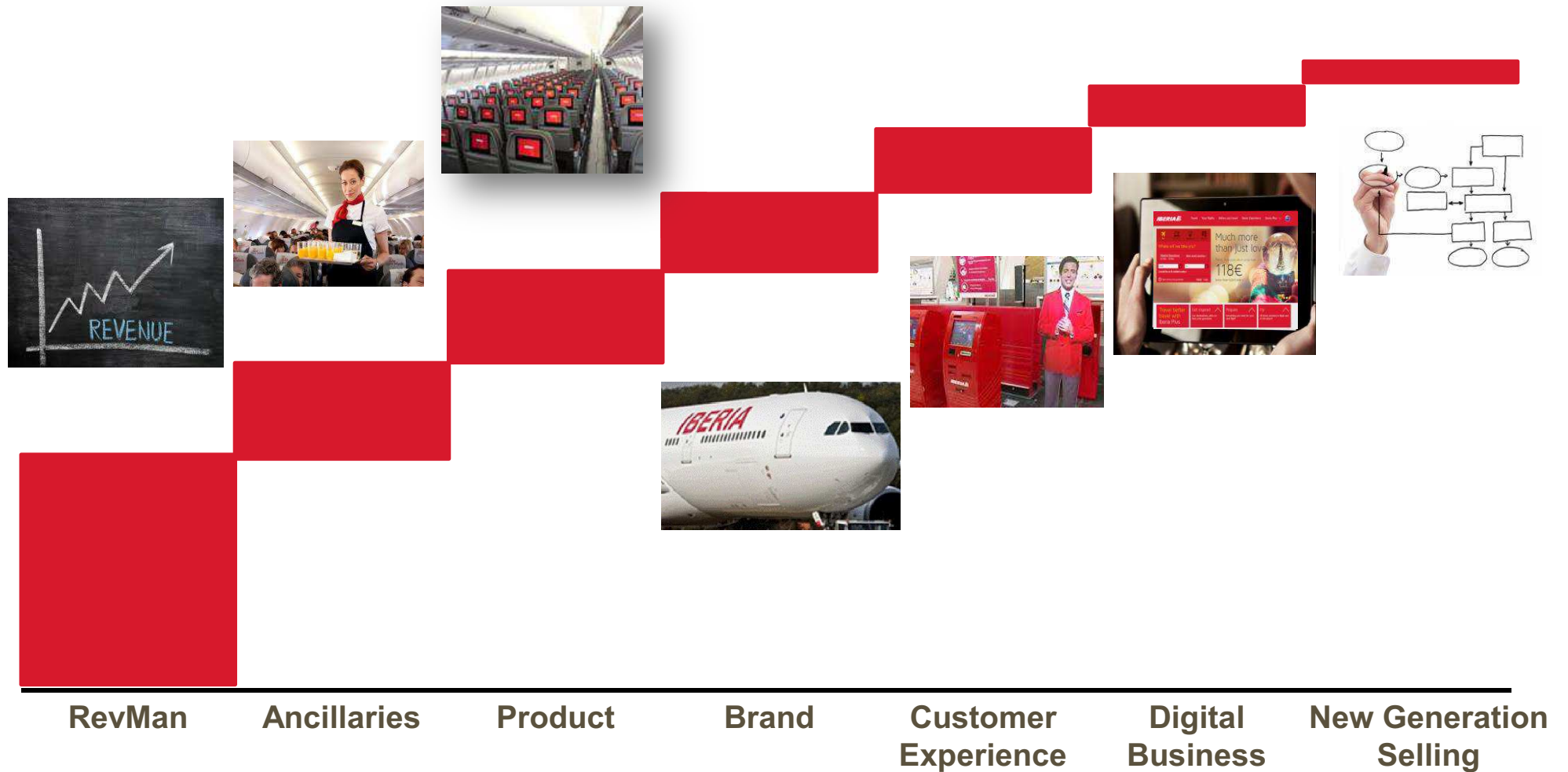
Agenda

Iberia's Plan de Futuro



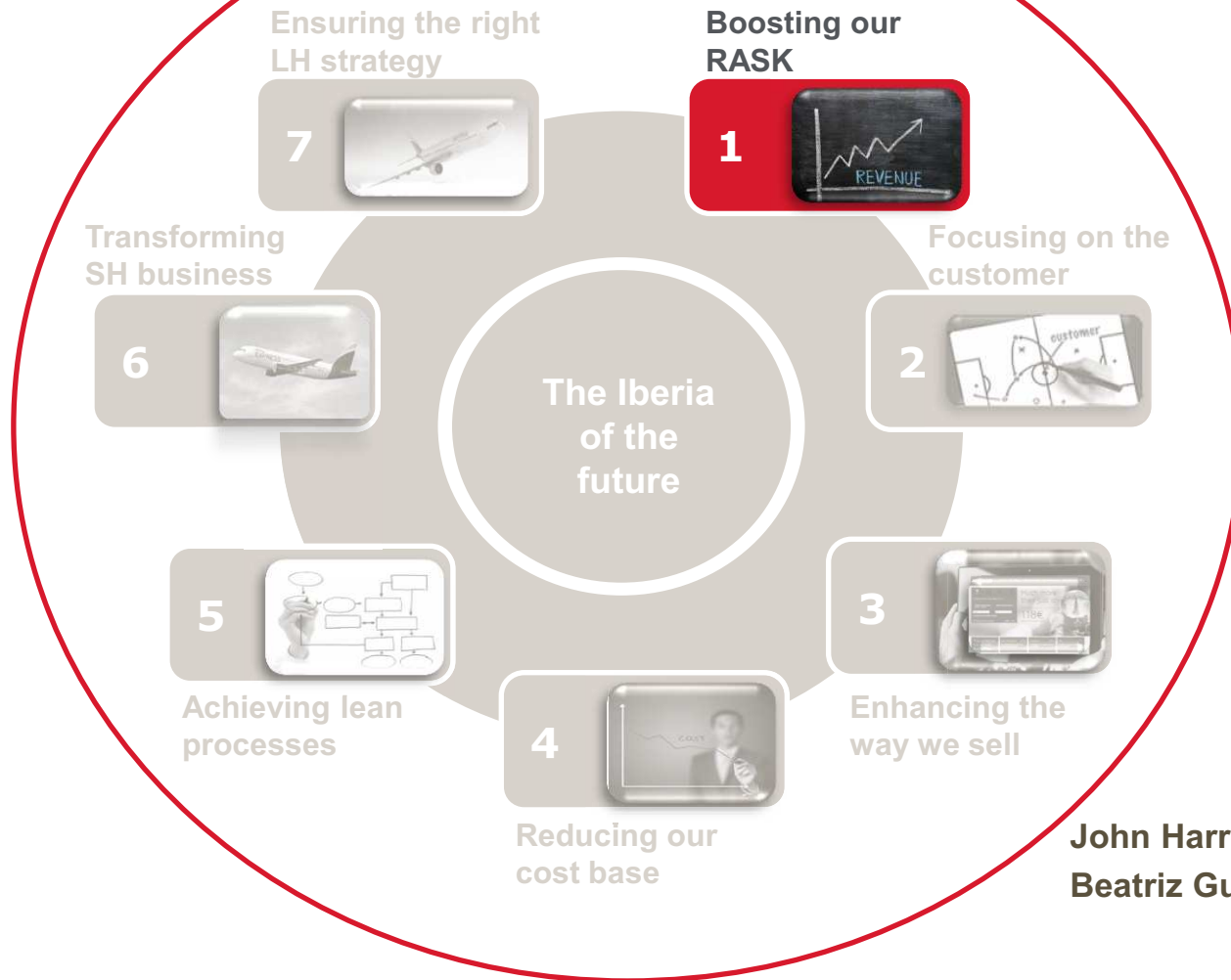
Marco Sansavini – Chief Commercial Officer

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

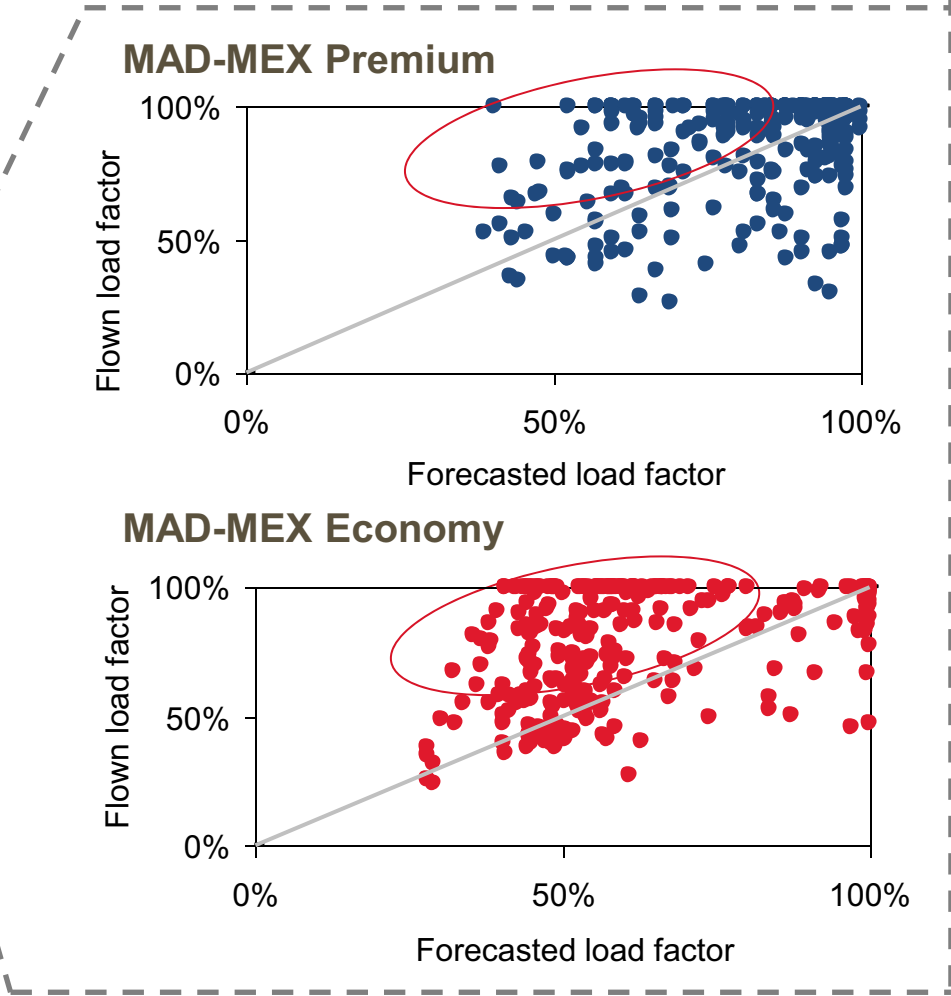
Resources and organisation

Inadequate and inconsistent RevMan processes

RevMan forecast accuracy

Simplistic pricing strategies

Out of data system inputs and parameters



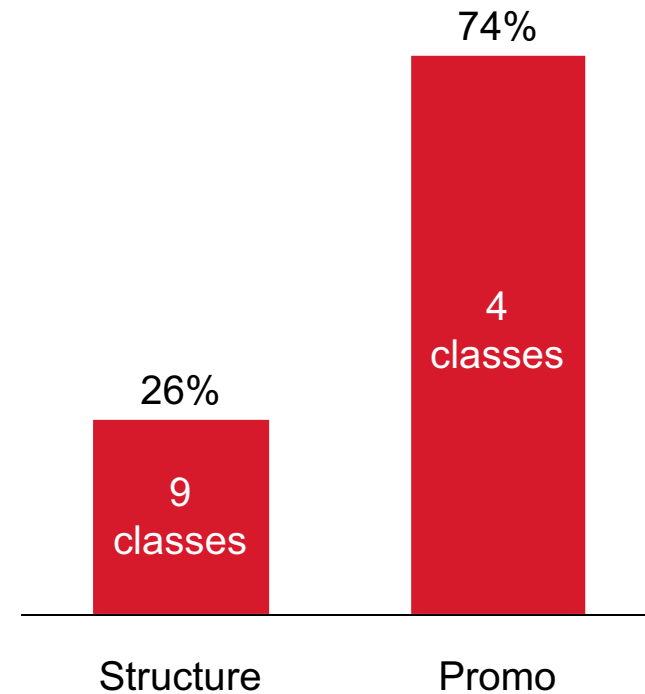
Revenue Management had several issues...(2/3)

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)



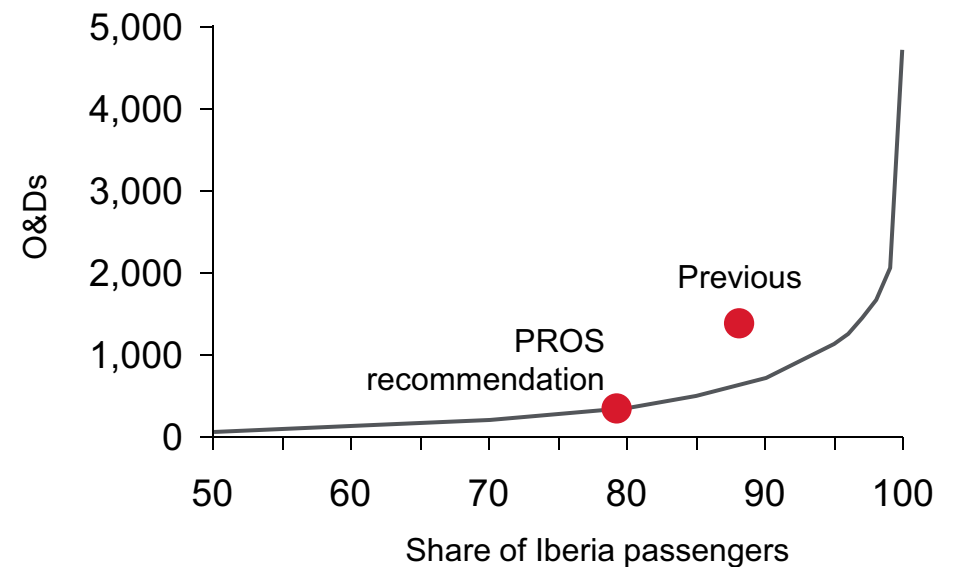
Revenue Management had several issues...(3/3)

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&Ds significant point-of-sale, FY2013



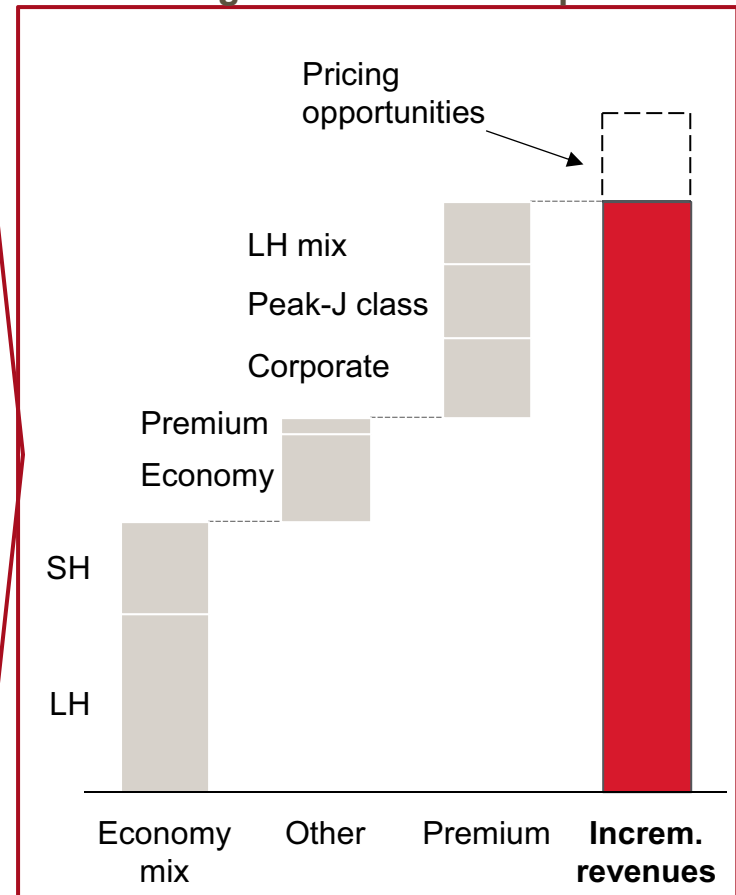
...that we are currently addressing through the implementation of best-practices, with significant upside potential

IAG Joint-effort/
coordination

The revenue management initiatives...

People	<ul style="list-style-type: none"> • Changed 50% of management team • Separation between pricing and demand/inventory • Develop culture of initiative and risk-taking 	IAG
Systems	<ul style="list-style-type: none"> • Rationalise system inputs – significant O&D list • Ensure data integrity • Dedicated support group 	IAG
Processes & policies	<ul style="list-style-type: none"> • KPIs and incentive plan • Analysis and quantification of actions • Standard use of systems across RevMan 	IAG IAG

...have a significant revenue upside

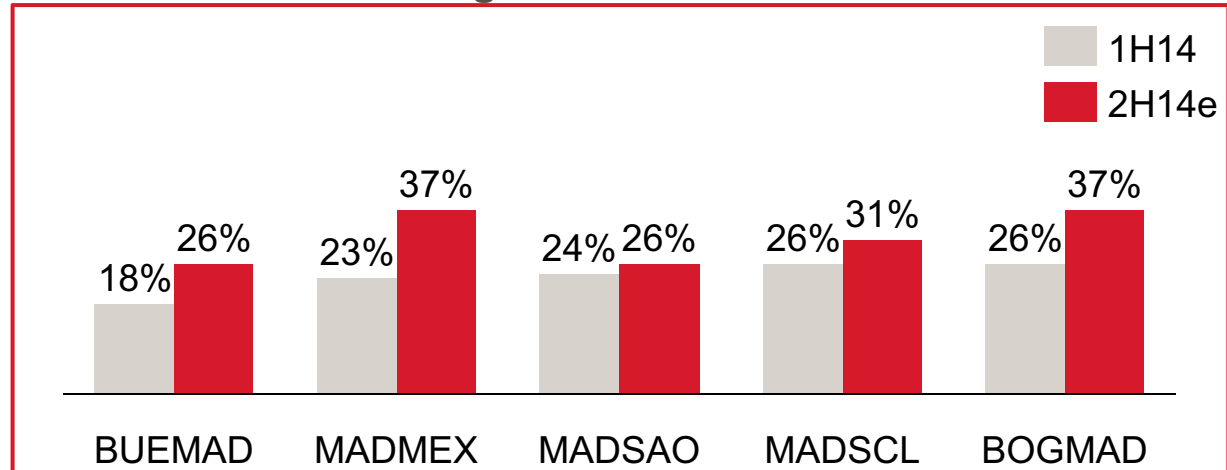


Example: significant increase in LH structure fares usage and premium cabin revenue

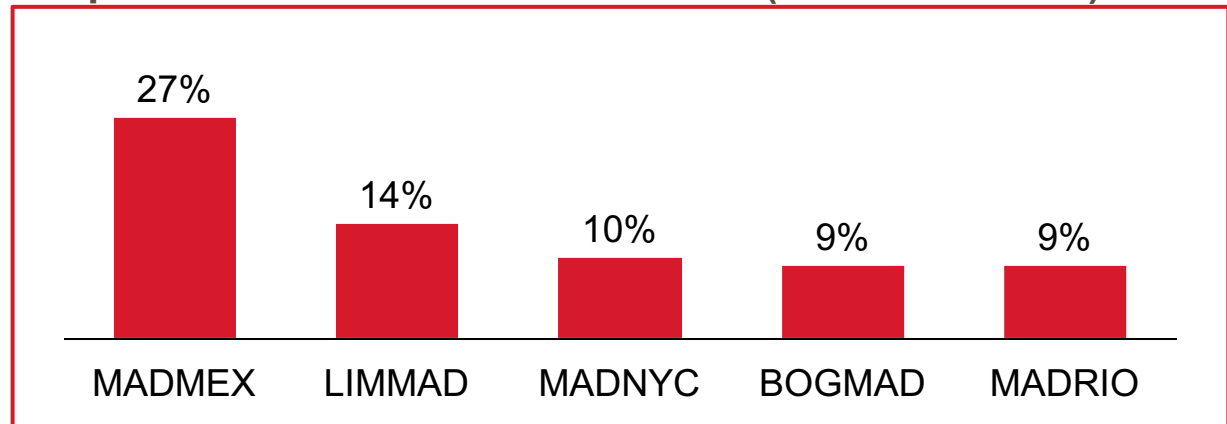
Actions

- 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

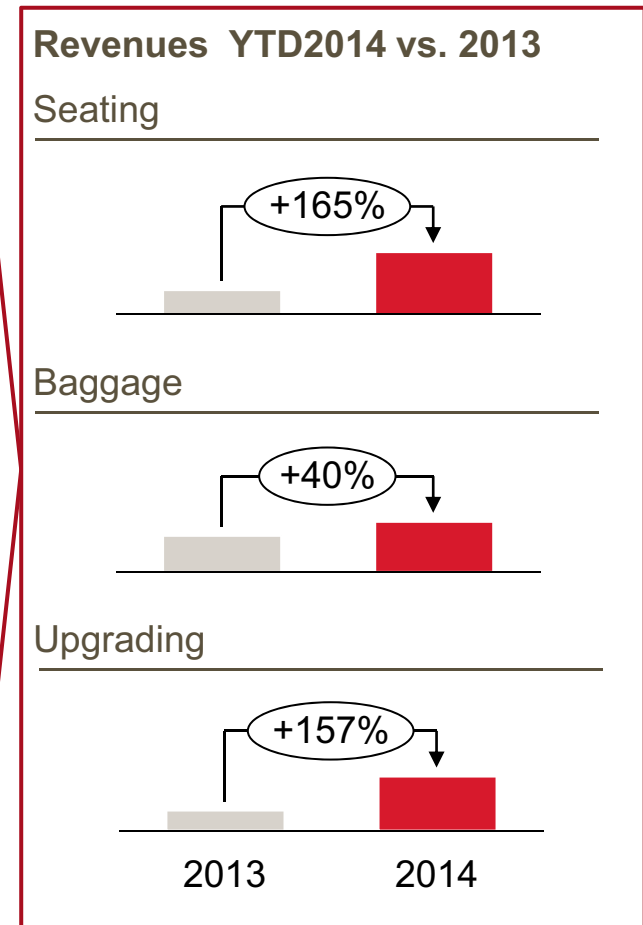
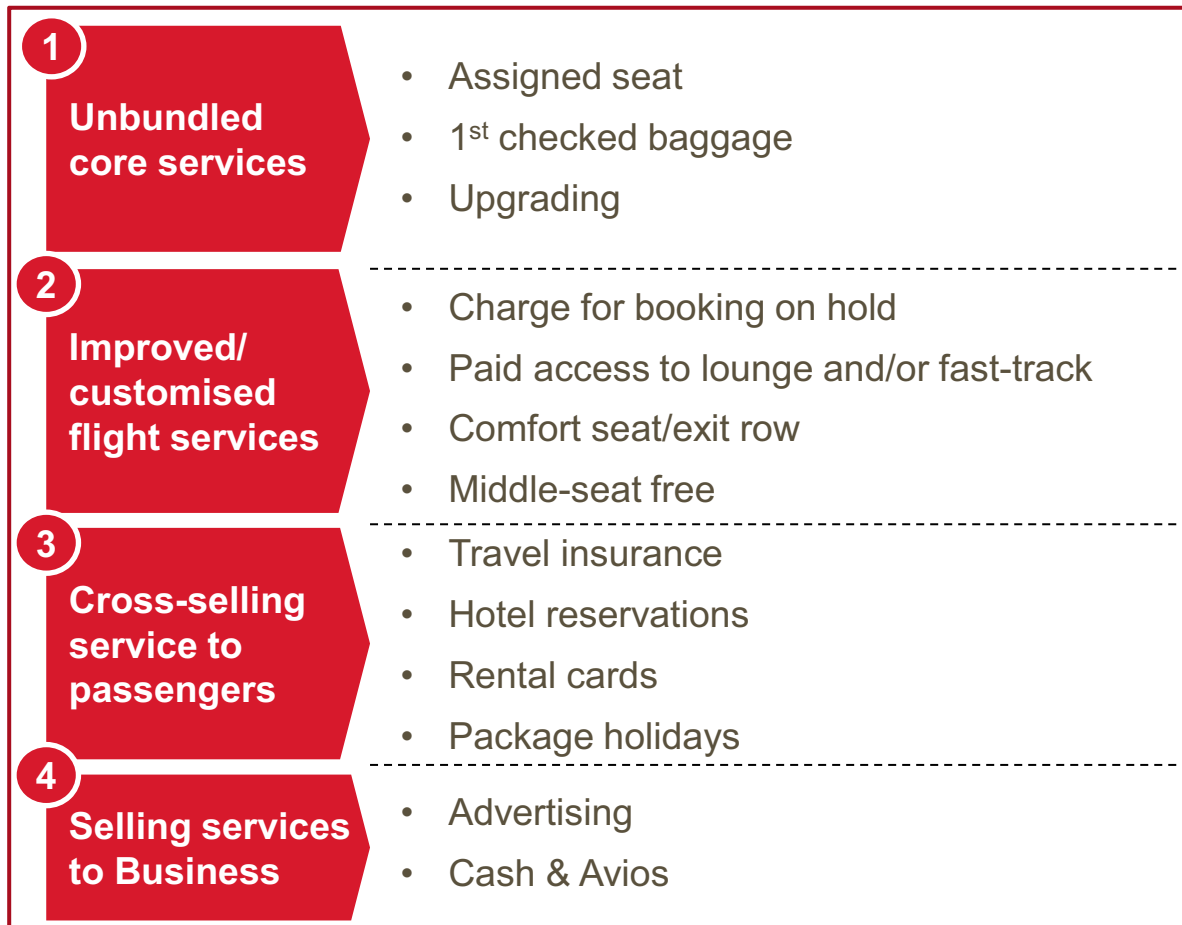
LH structure fares usage



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

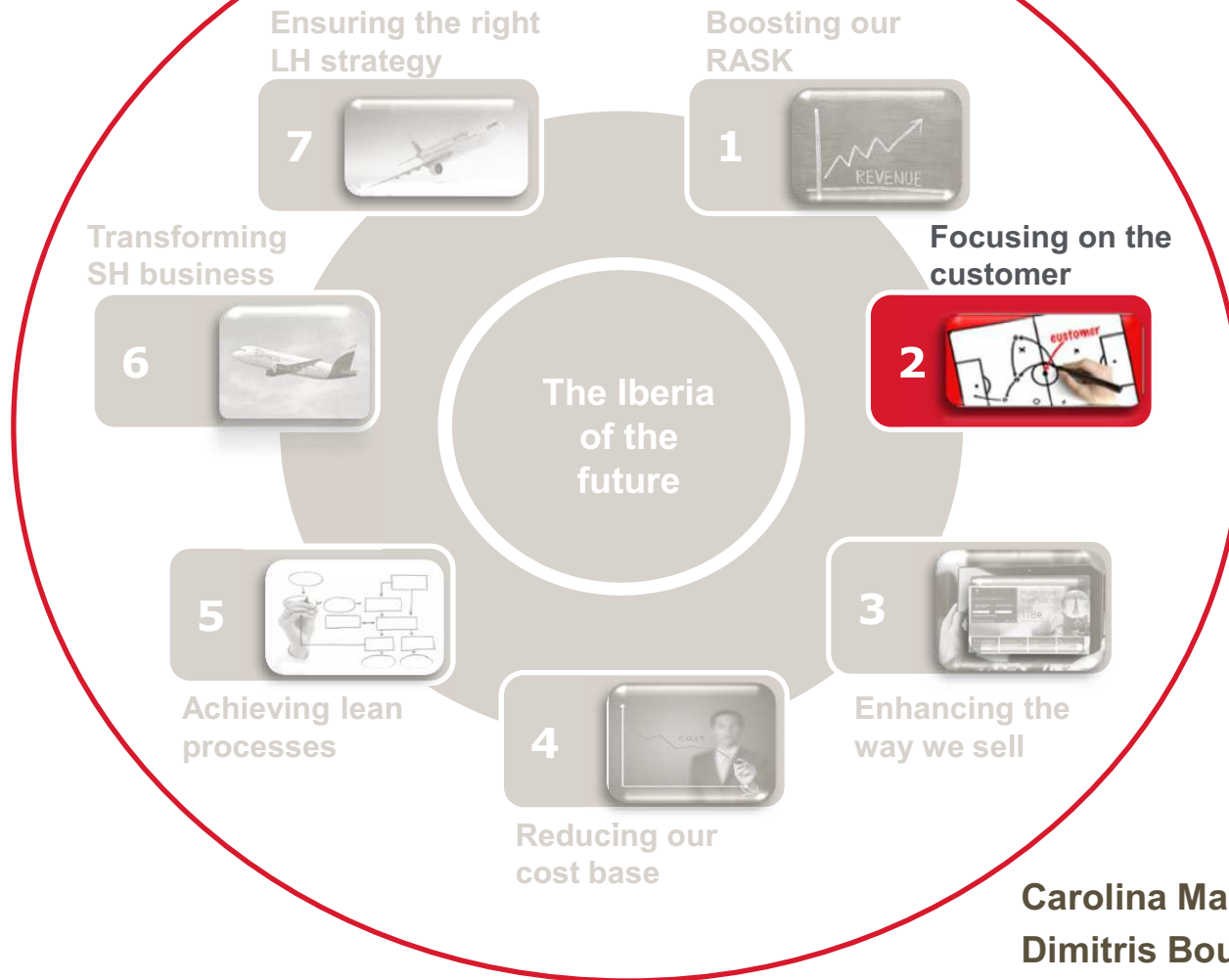


Changes not penalised, refund for a fee and priority in boarding

- 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...

IBERIA



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

En Iberia sabemos que mirar hacia delante es poder disfrutar cada día un servicio excelente, tanto a bordo como en suelo. Por ello, hemos incorporado nuevas medidas 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 reclinables, como en una **diversión cama**. Porque cuando viaja con Iberia su comodidad está por encima de todo.

Plus Como premio para viajar gratis. Oferte de sólo en Iberia.com

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Hola Montevideo. Hola Europa.

Desde el día 3 de septiembre, Iberia te lleva a Europa con 4 vuelos semanales para que disfrutes nuevas experiencias.

iberia.com

IAG

Focusing on the customer

Iberia's image

IBERIA 

... for a new Iberia...



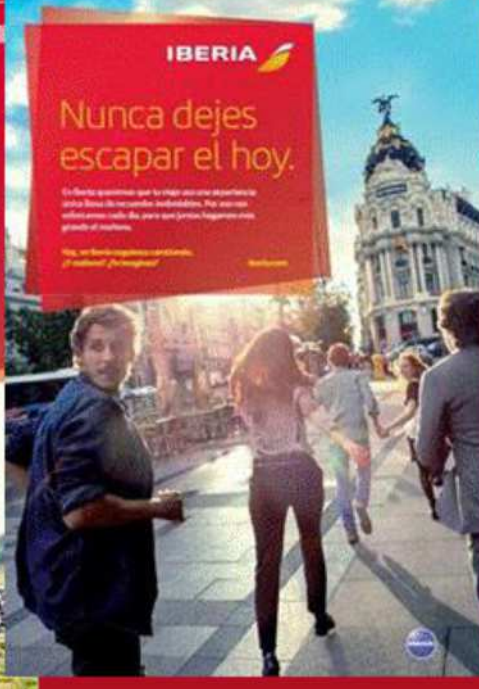
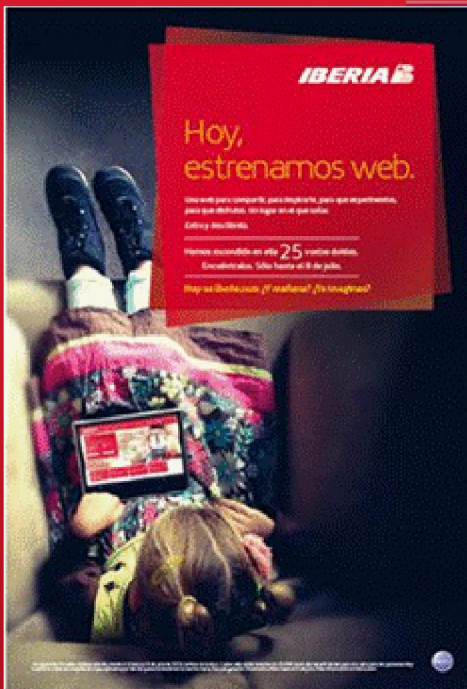
New look & feel



New livery



A new brand platform



A new way to communicate



Drive



Talent



Affinity



... 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



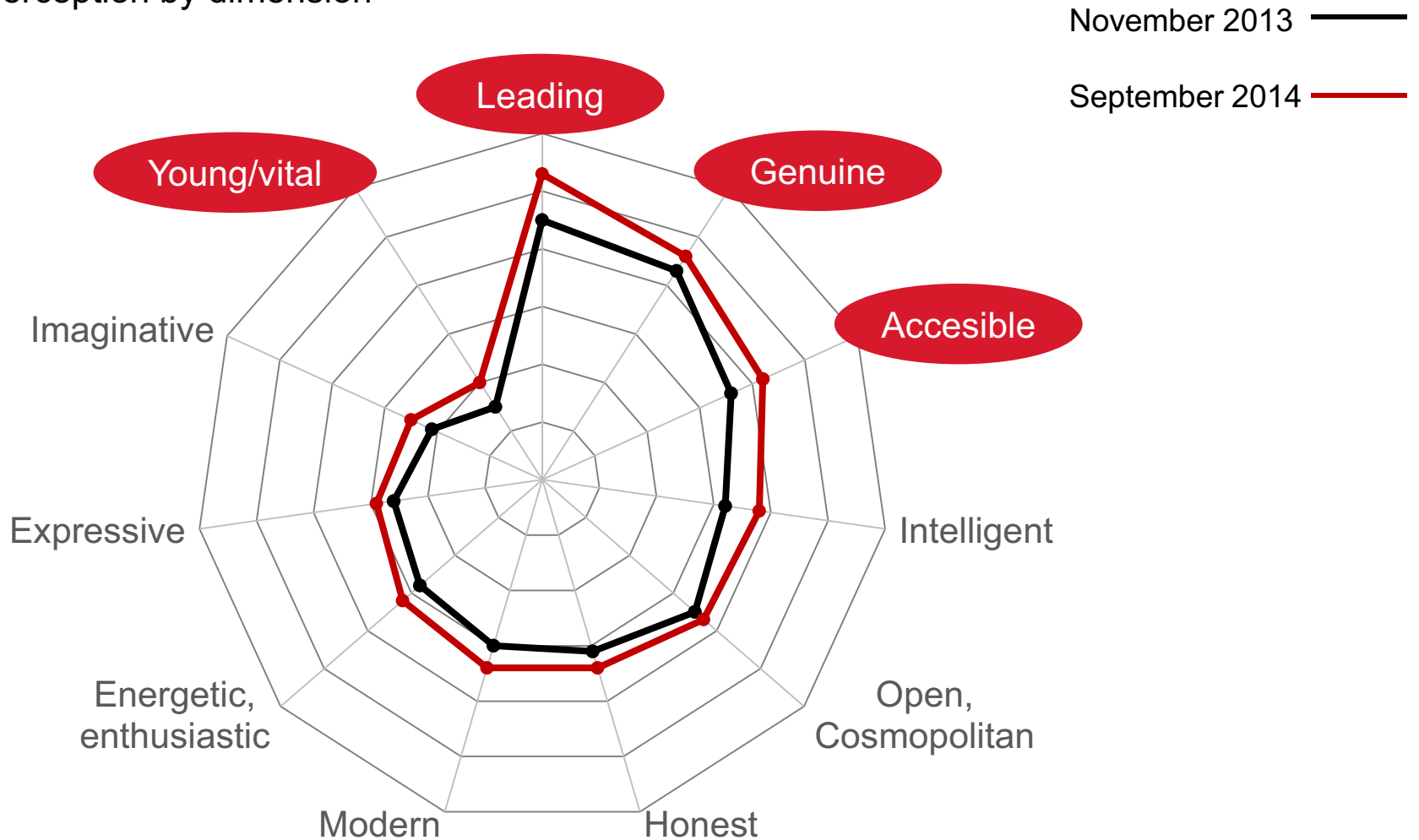
Innovation & mobility



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

Customers perceive the change positively...

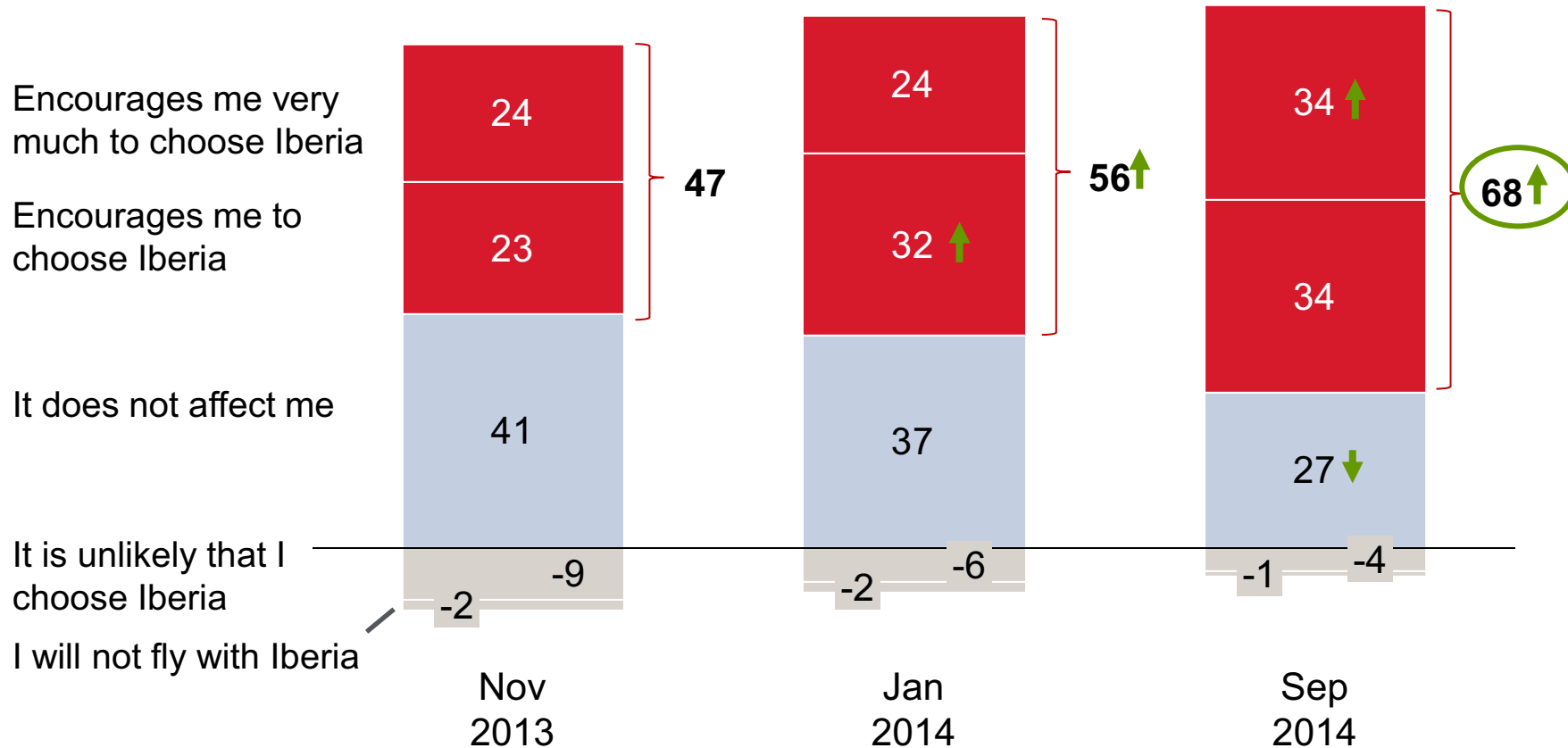
Iberia brand perception by dimension



Source: Brand tracker Millward Brown

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

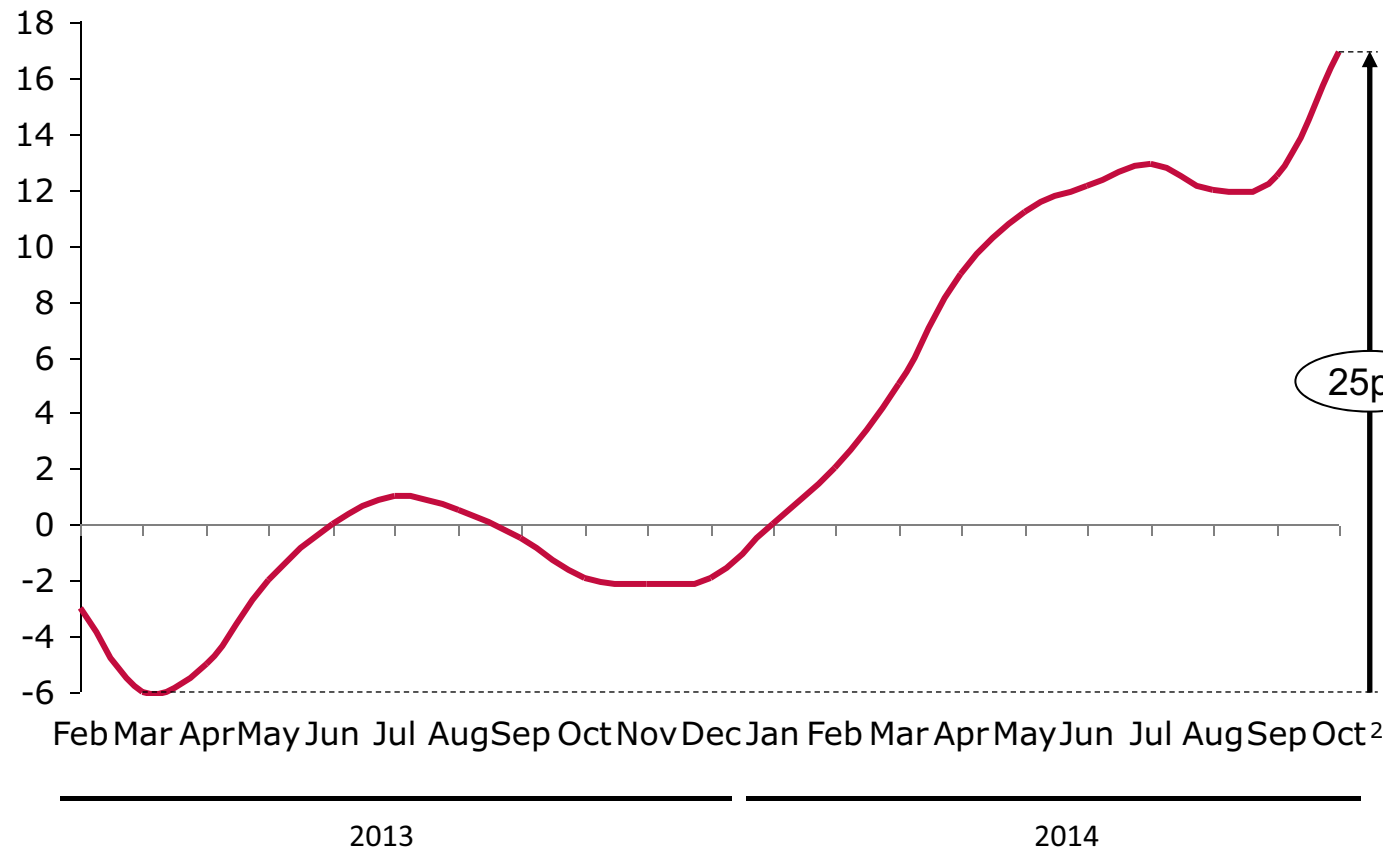
Communication impact on consideration to fly (%)



Source: Brand tracker Millward Brown

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

Iberia Net Promoter Score¹ Feb'13-Oct'14 (%)



Spend & loyalty

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

Recommendation

x4 recommendation propensity (vs. "neutral" customer)

¹ Net Promoter Scores measures difference between promoters (9-10 grade) and detractors (0-6 grade)
² Last four weeks average (21/10 – 11/11)
 Source: Iberia Customer Experience; BCG market survey to Spanish consumers

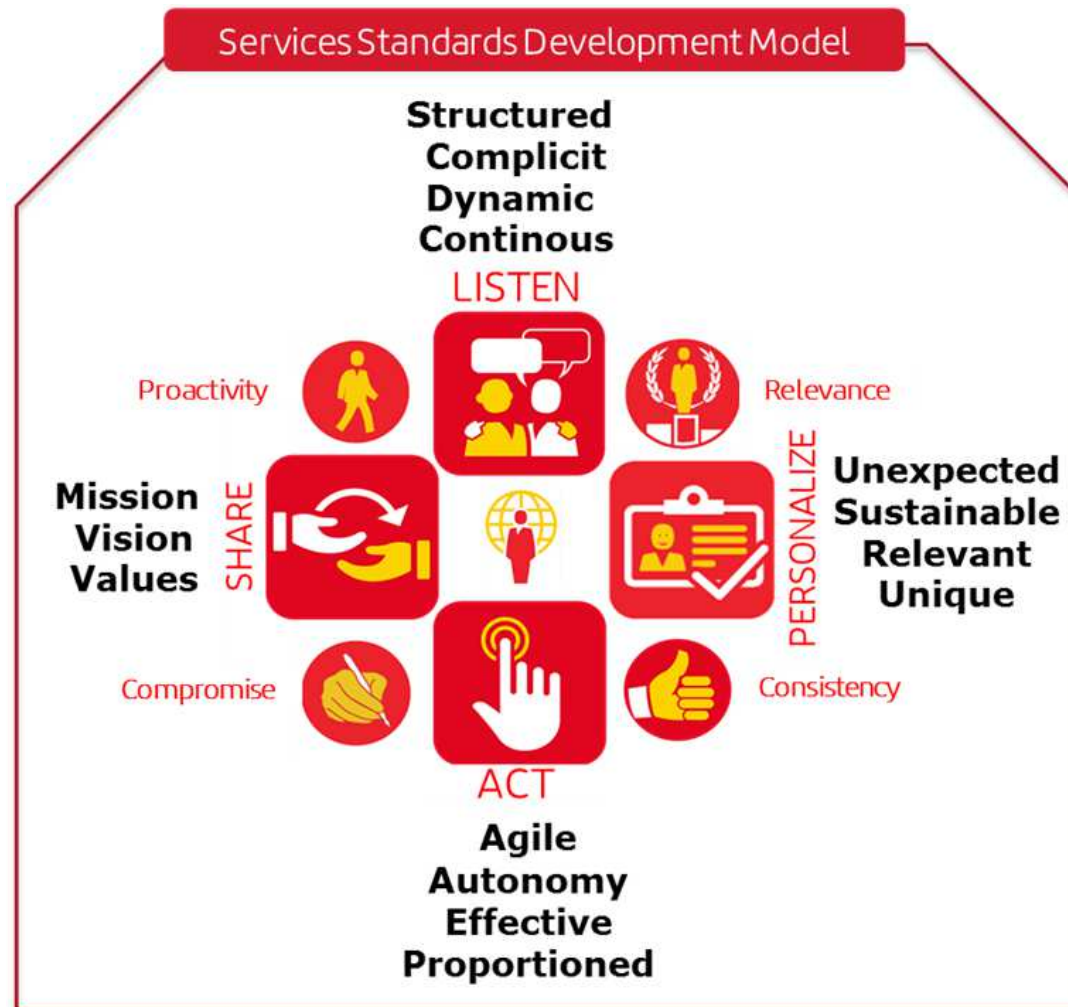
In addition we are introducing profound “customer experience management”: *Definition & delivery are our main pillars*

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 01/01/2000 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.

Share your thoughts with us!
We'd love to hear about how your recent journey went.

Servicio a bordo.

"Una Buena tripulación sabe cómo hacer las cosas de manera eficaz, interactuando amablemente con los pasajeros y trabajando como un equipo".

Valora tu satisfacción global con nuestra tripulación de cabina.

Muy satisfecho Poca satisfacción

anterior siguiente

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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 dinoslo. Nos pondrá muy contentos.

Nuestro equipo de tierra



Nuestra tripulación



← anterior siguiente →

Online warnings & red flags - newsletters

IBERIA **BANDERA ROJA**

Cuestionario: 7954843

1) Comentarios de cliente:
"La actitud del personal no fue correcta. Habla mucha gente en cola de embarque y se pusieron nerviosos."

2) Nombre del cliente:
Marcel

3) Apellidos del cliente:
Blotix

4) Teléfono:
600 000 000

5) Email:
marcel@ejemplo.com

6) Código postal:
49600

7) Rango de edad:
25-30

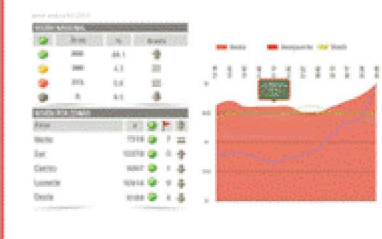
8) Encargado:
Laura Ferris

IBERIA ¡Esto es lo que los clientes dicen de nosotros!


Buenos días, Javier

En los últimos 30 días, terminando el 11/08/2014 se han obtenido 42007 respuestas.


- Estás en su Cuadro de Mando para ver más detalles - incluyendo las modificaciones.
- Ha recibido 241 Bandera Roja desde 04/02/2014. [Ver detalles](#)
- Hay un Total de 24 Bandera Roja no resueltas en más de 72 horas




Online Qualitative & Quantitative of each touch-point




15 de 38 preguntas contestadas




19 de 38 preguntas contestadas



24 de 38 preguntas contestadas



24 de 38 preguntas contestadas




¿El tiempo de espera hasta ser atendido es menos o igual a 3 min si vas en Business y/o 10 minutos si vas en Turista?

No Sí

02:06

Cronometrar



Valora el trato recibido

6

1.0

5

0



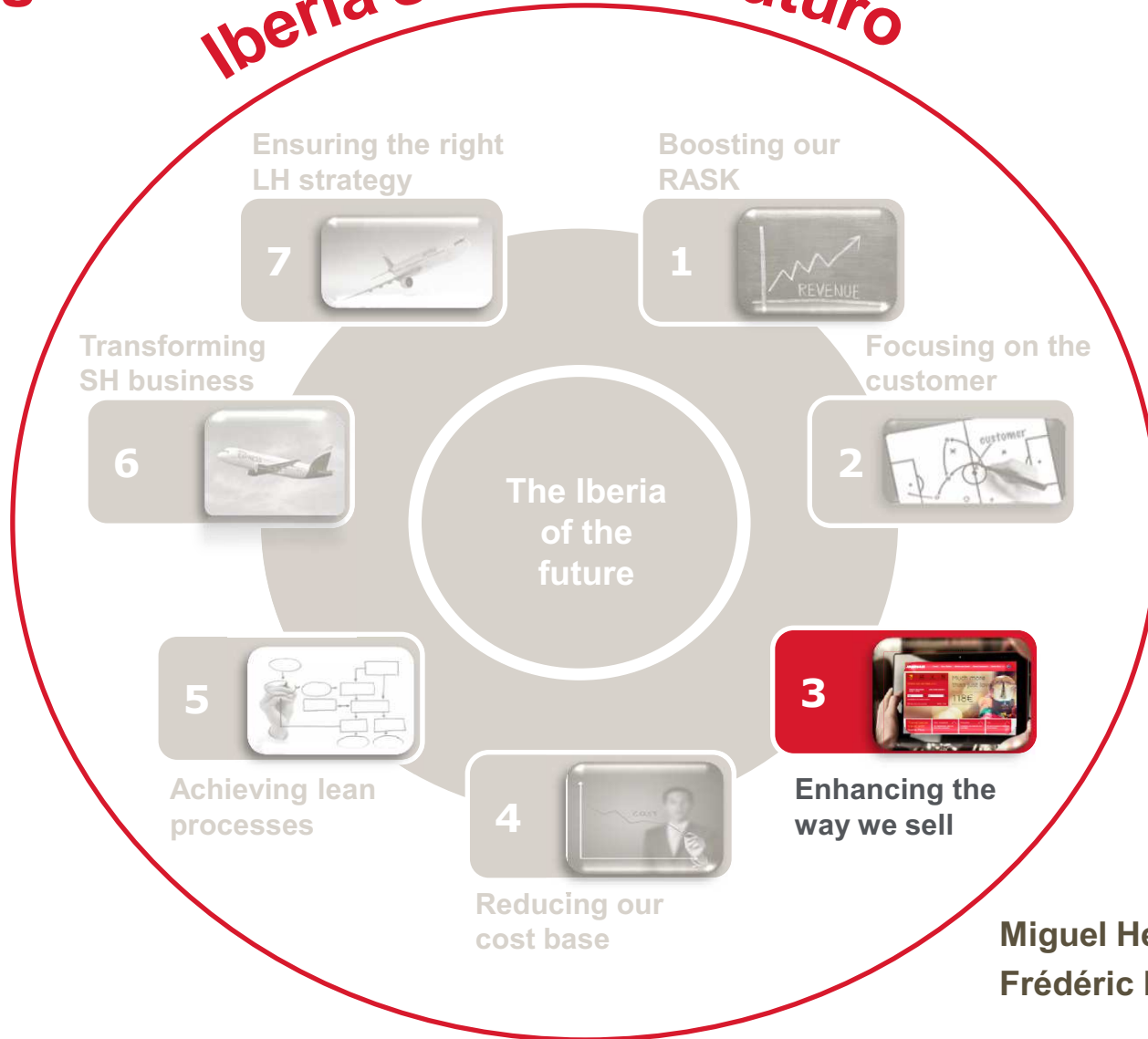
Voice of the customer



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

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