

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

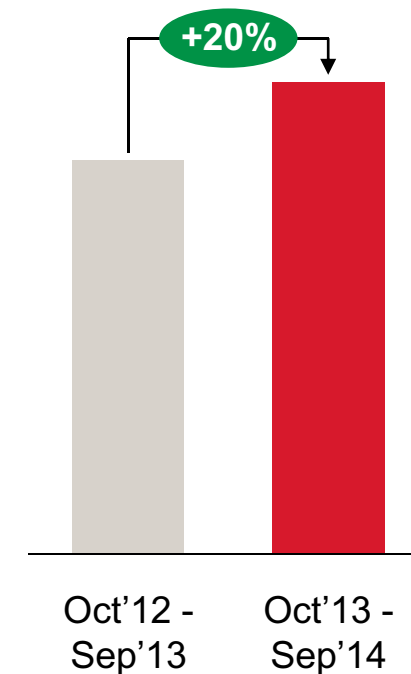
- Increased presence in new markets: from 4 in 2013 to 18 in 2014 (weight increase +17pp)

Growth in new channels

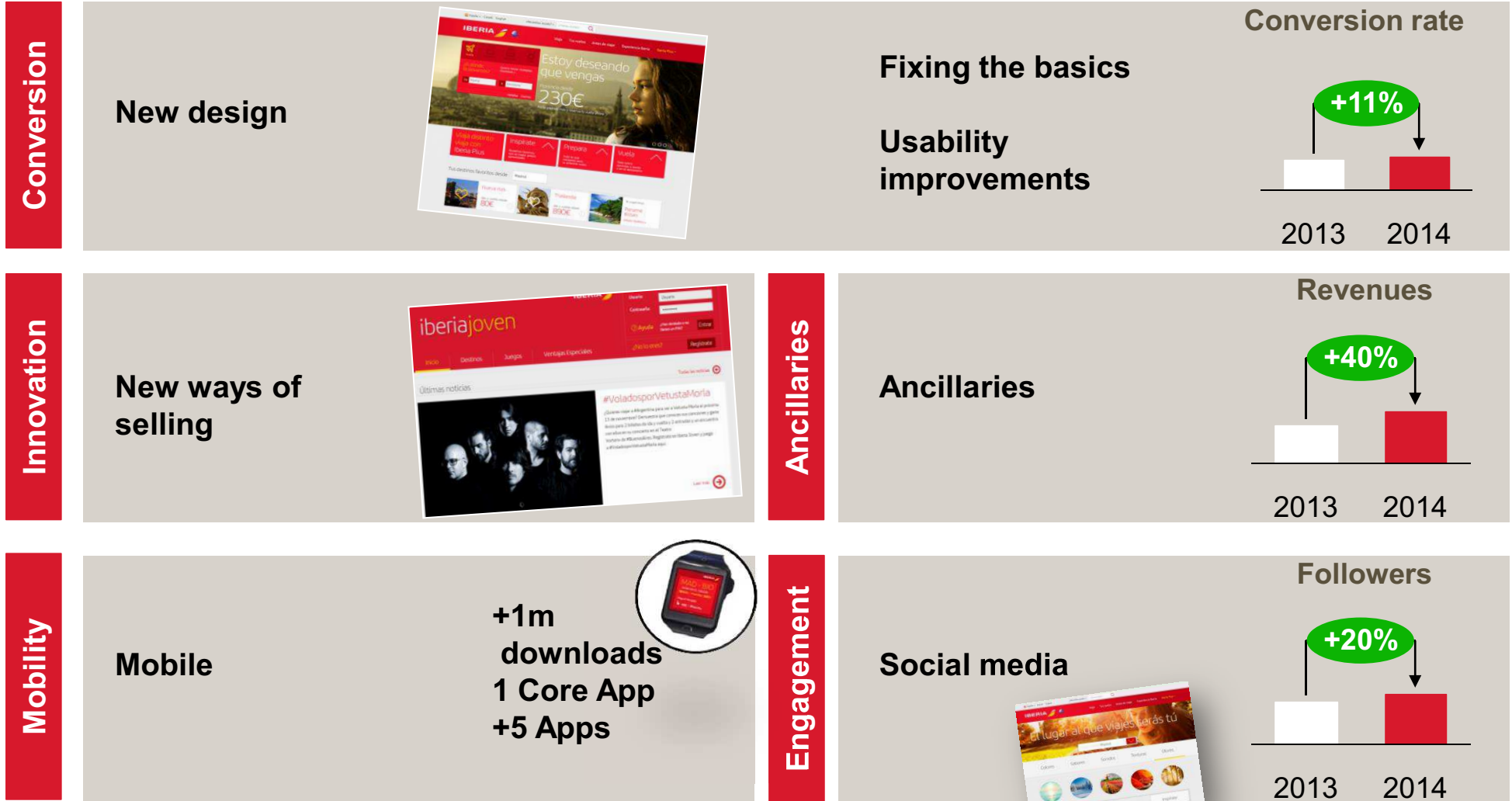
- Increased presence in new channels such as retargeting and RTB/Display

Significant traffic increase

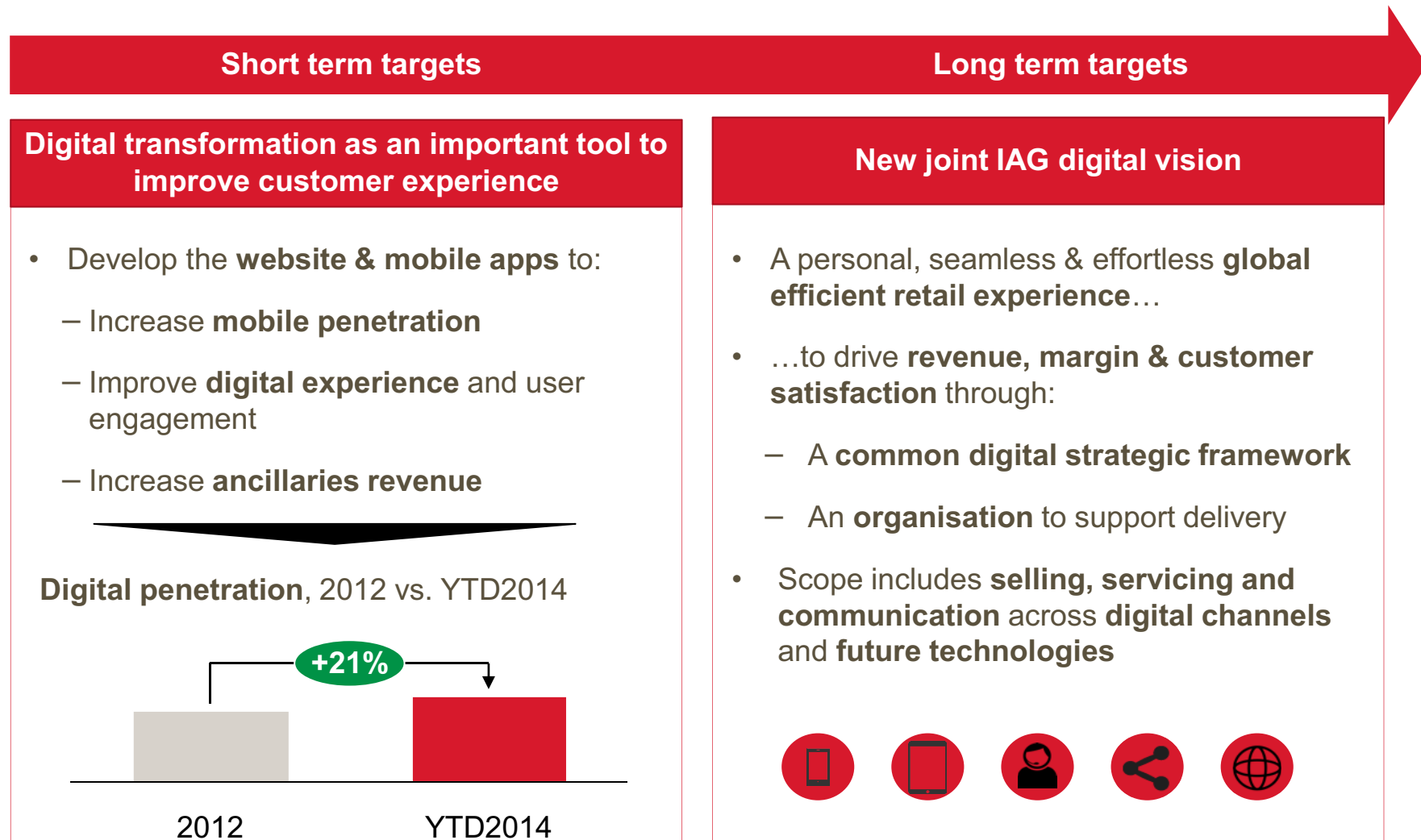
Web visits
million



Global user experience improved



Iberia's digital transformation aims to foster the online channel



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 (2nd 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



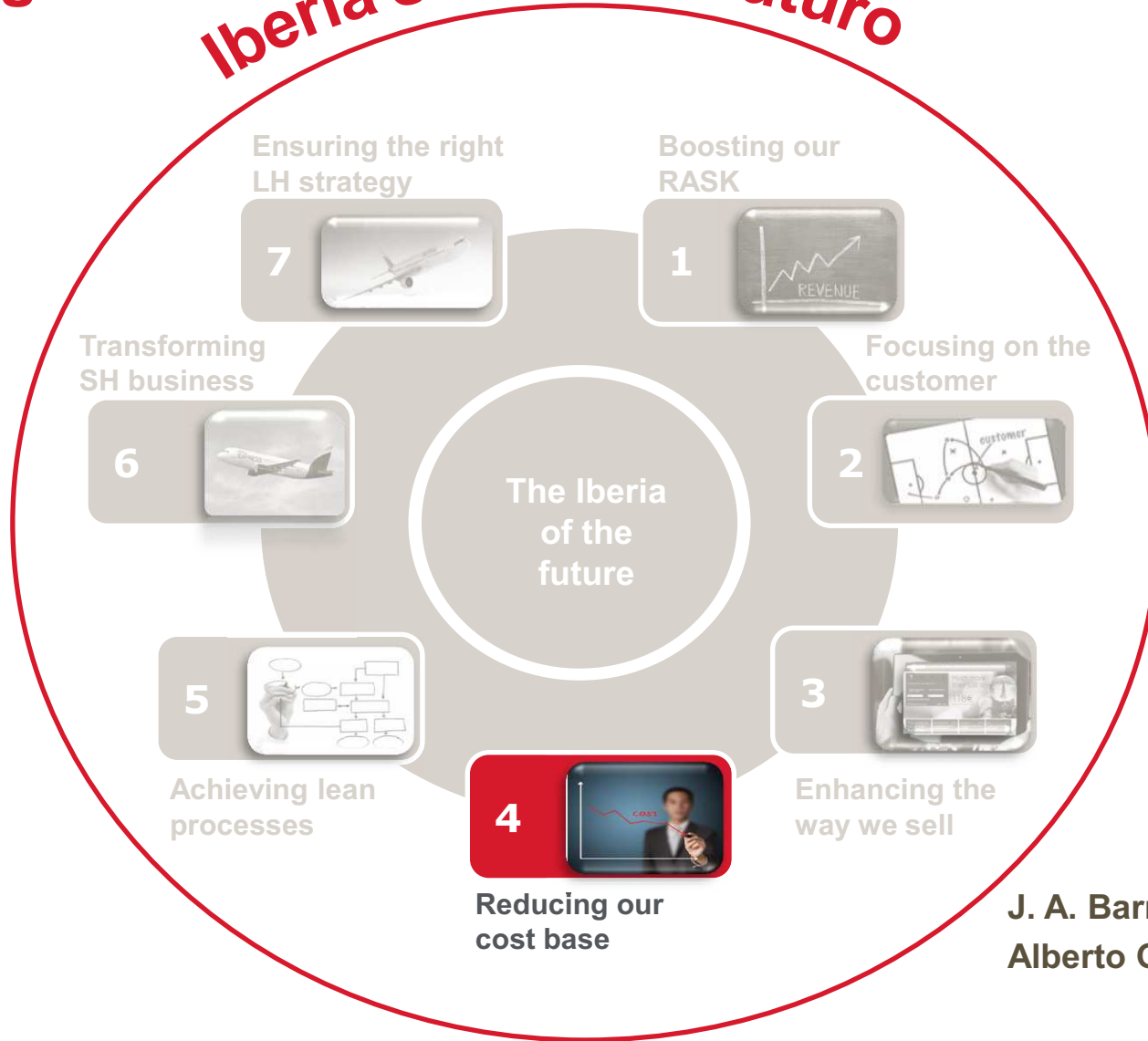
Enhance sales incentives

- 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



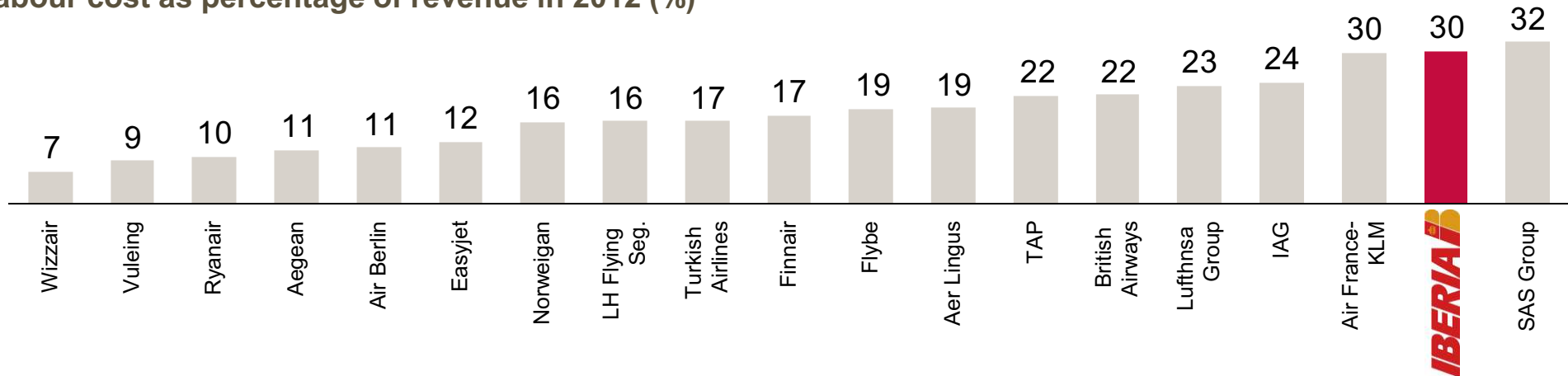
4

Long-haul fleet configuration

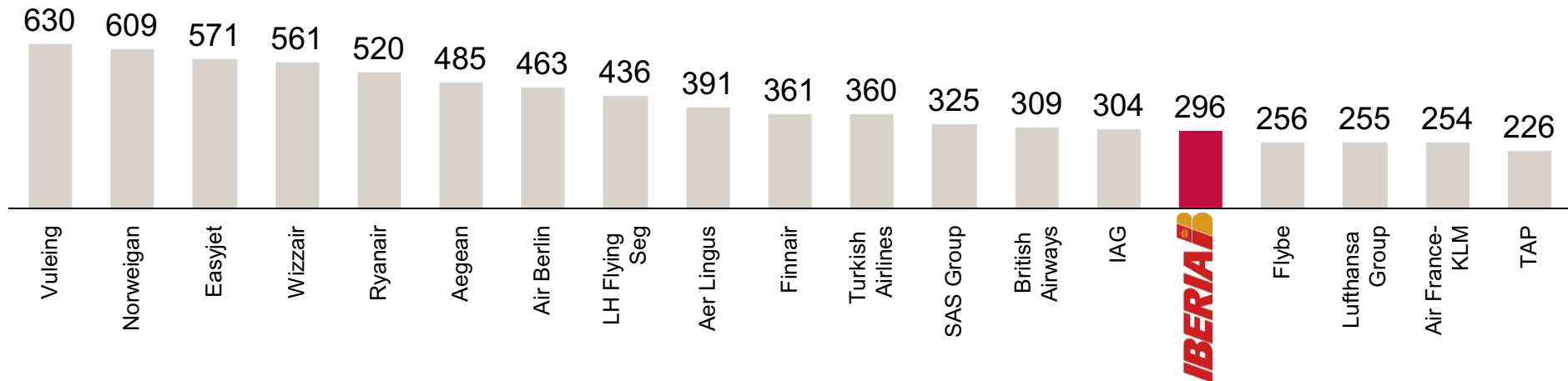


1 Back in 2012 Iberia had a very uncompetitive cost base, predominantly due to extremely high labour costs

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

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

	<u>Main labour issues</u>	<u>Key measures of labour agreements</u>	
Size	<ul style="list-style-type: none"> • Oversized labour structure (among the worst in Europe) 	<ul style="list-style-type: none"> • Potential reduction of 5,471 people through Mediation Agreement and new ERE (Jul '14) 	✓
Productivity	<ul style="list-style-type: none"> • Low productivity (among the worst in Europe) 	<ul style="list-style-type: none"> • Flying hours in line with competitors • More flexibility in shifts/schedules • Increase in the number of duty days 	✓
Unit cost	<ul style="list-style-type: none"> • High unit cost and rapidly growing pay-scale 	<ul style="list-style-type: none"> • Salary reduction (14% crew, 7% ground staff) • Salaries freeze until 2015 (later subject to EBIT margin) • Establishment of caps in seniority scales 	✓
Entry levels	<ul style="list-style-type: none"> • High entry levels 	<ul style="list-style-type: none"> • New entry levels at market conditions (€35K for SH pilots, €20K for cabin crew) 	✓

Stable labour environment since 2014



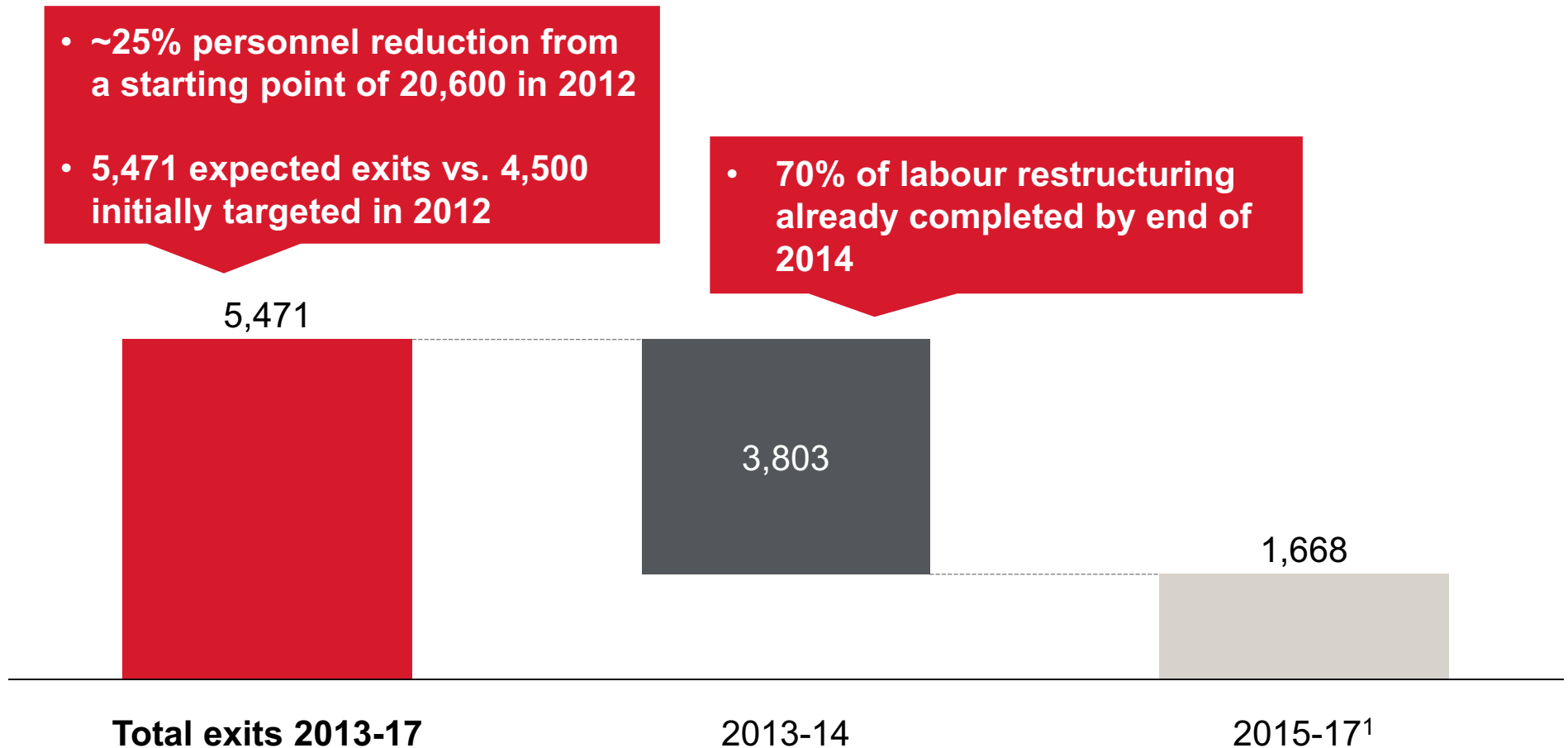
Reducing our cost base

Labour agreements



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

Total personnel exits (# headcount)



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

IAG

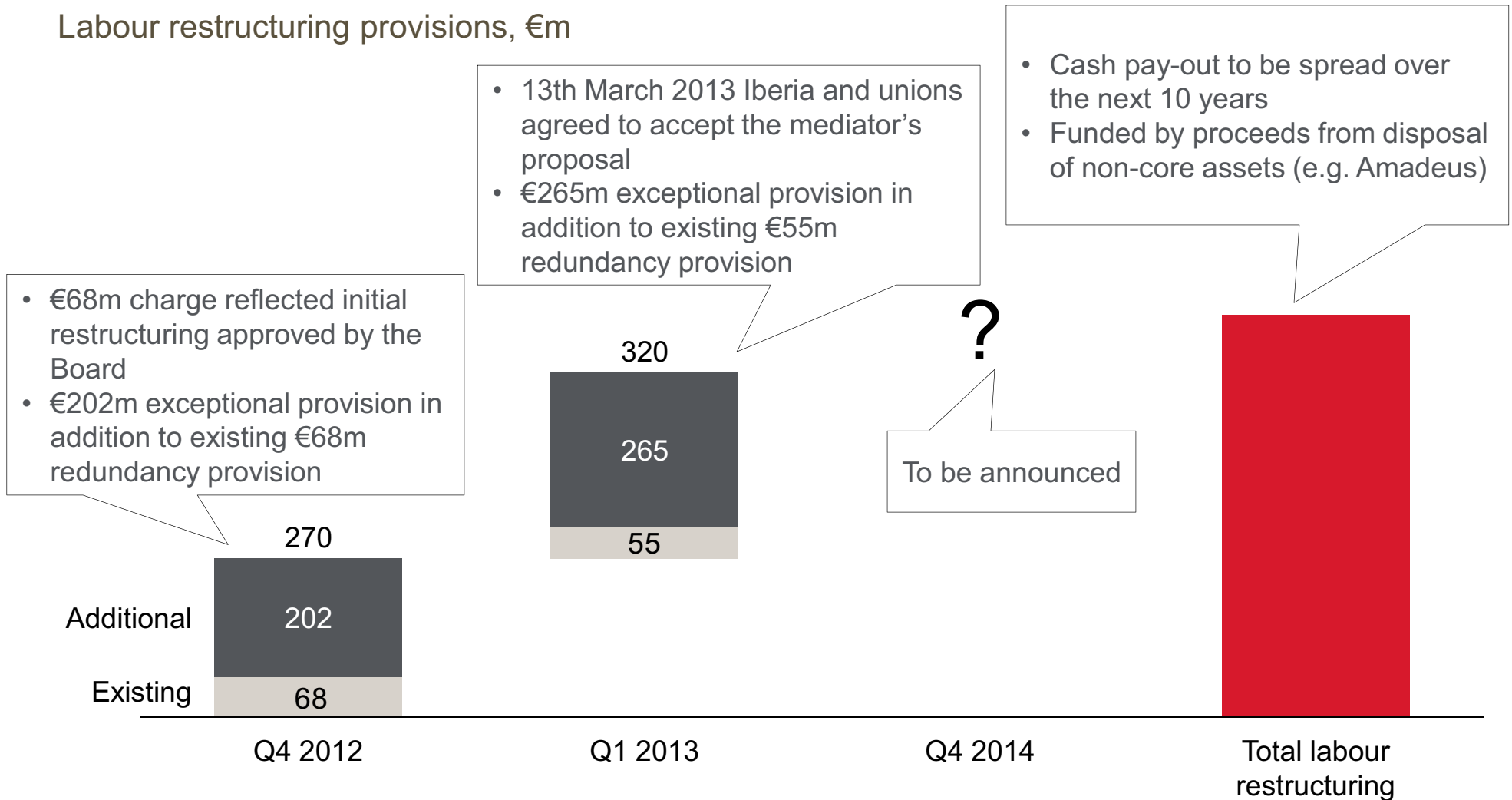
Reducing our cost base

Labour restructuring progress

IBERIA

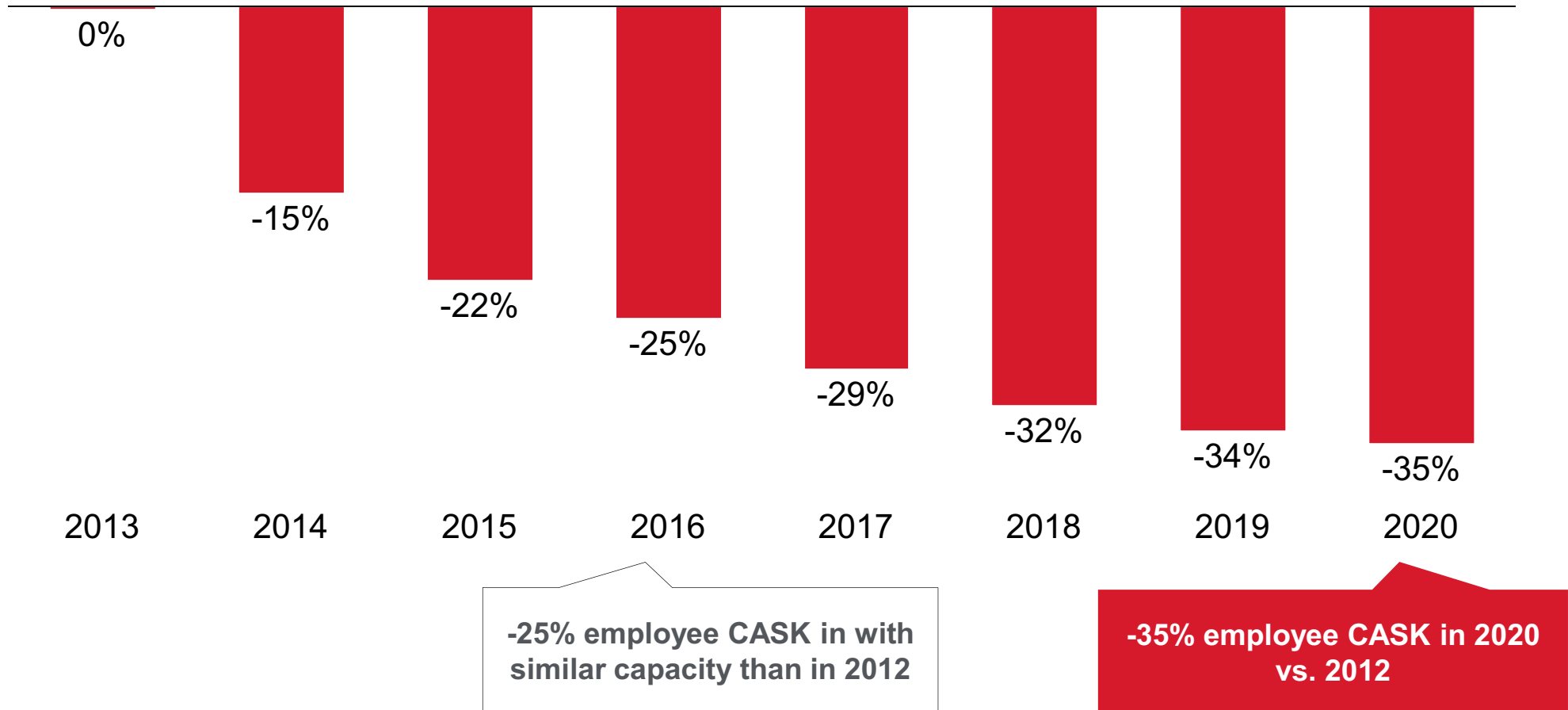
1 ...that has already been provisioned, with a payback ~2 years

Labour restructuring provisions, €m



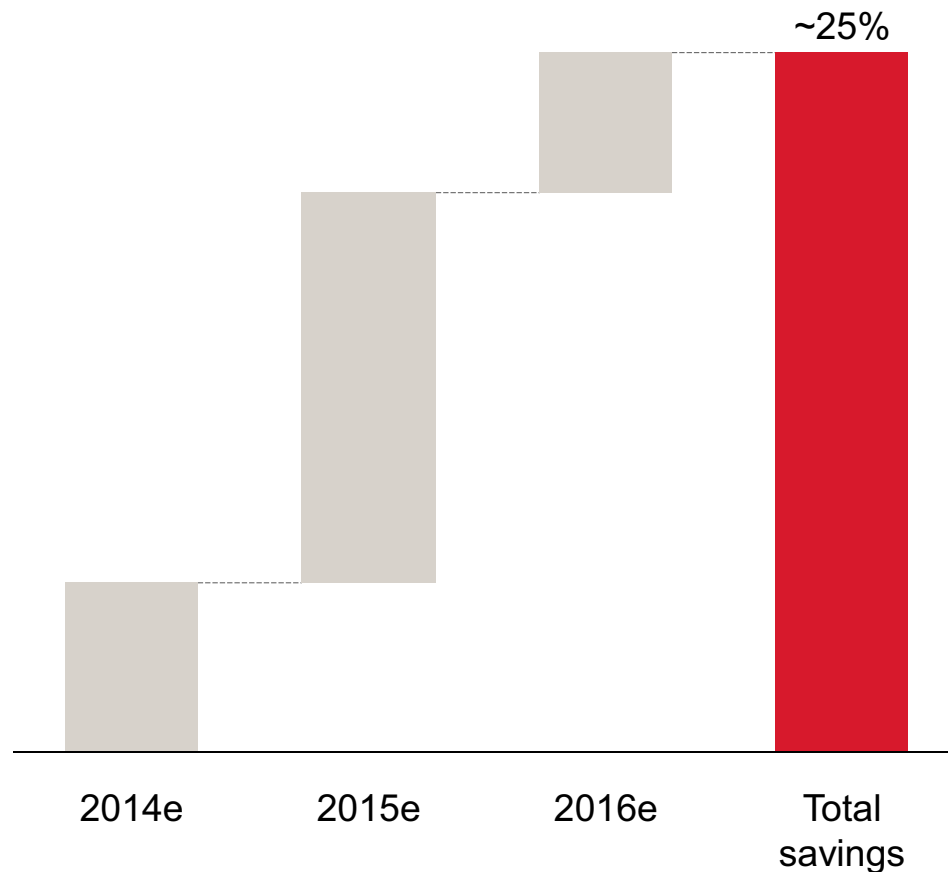
1 The labour restructuring program will reduce overall employee CASK by ~35% in 2020

Expected employee CASK savings versus 2012 (%)



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, %



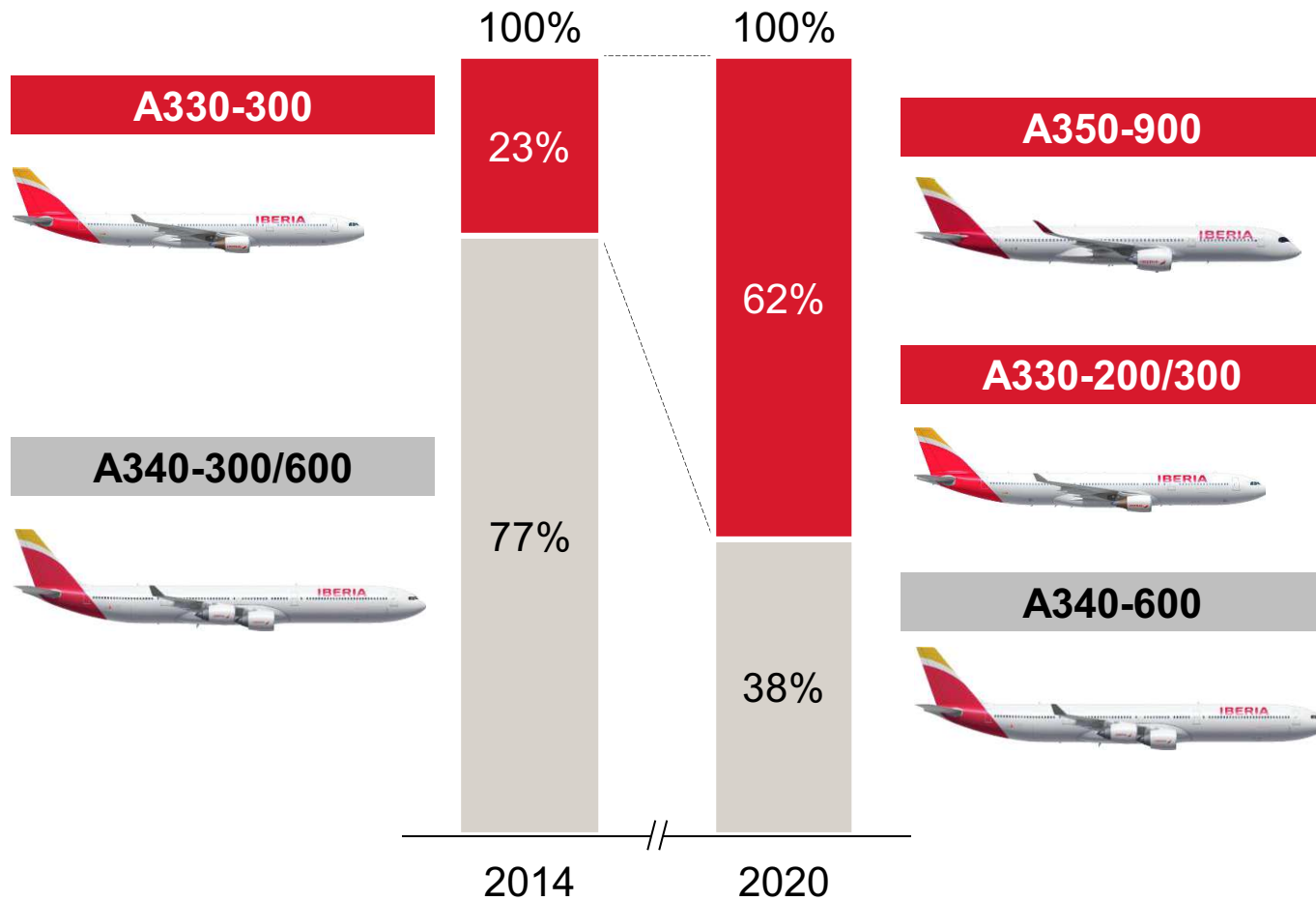
Examples of savings initiatives

- 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



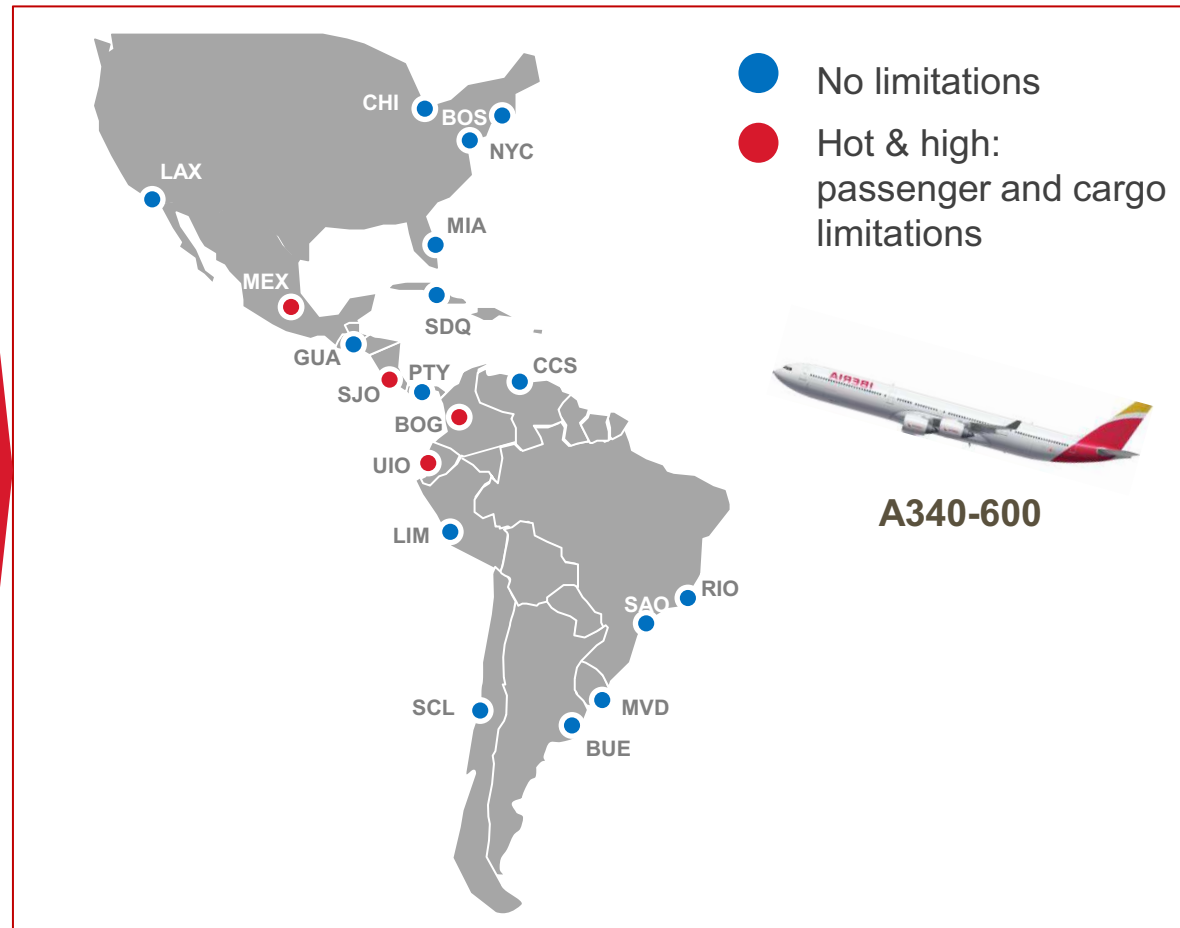
- ~10% fuel savings by 2020 due to new generation fleet (>€100m)
- Additional fuel savings ~10% expected in the long-term

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

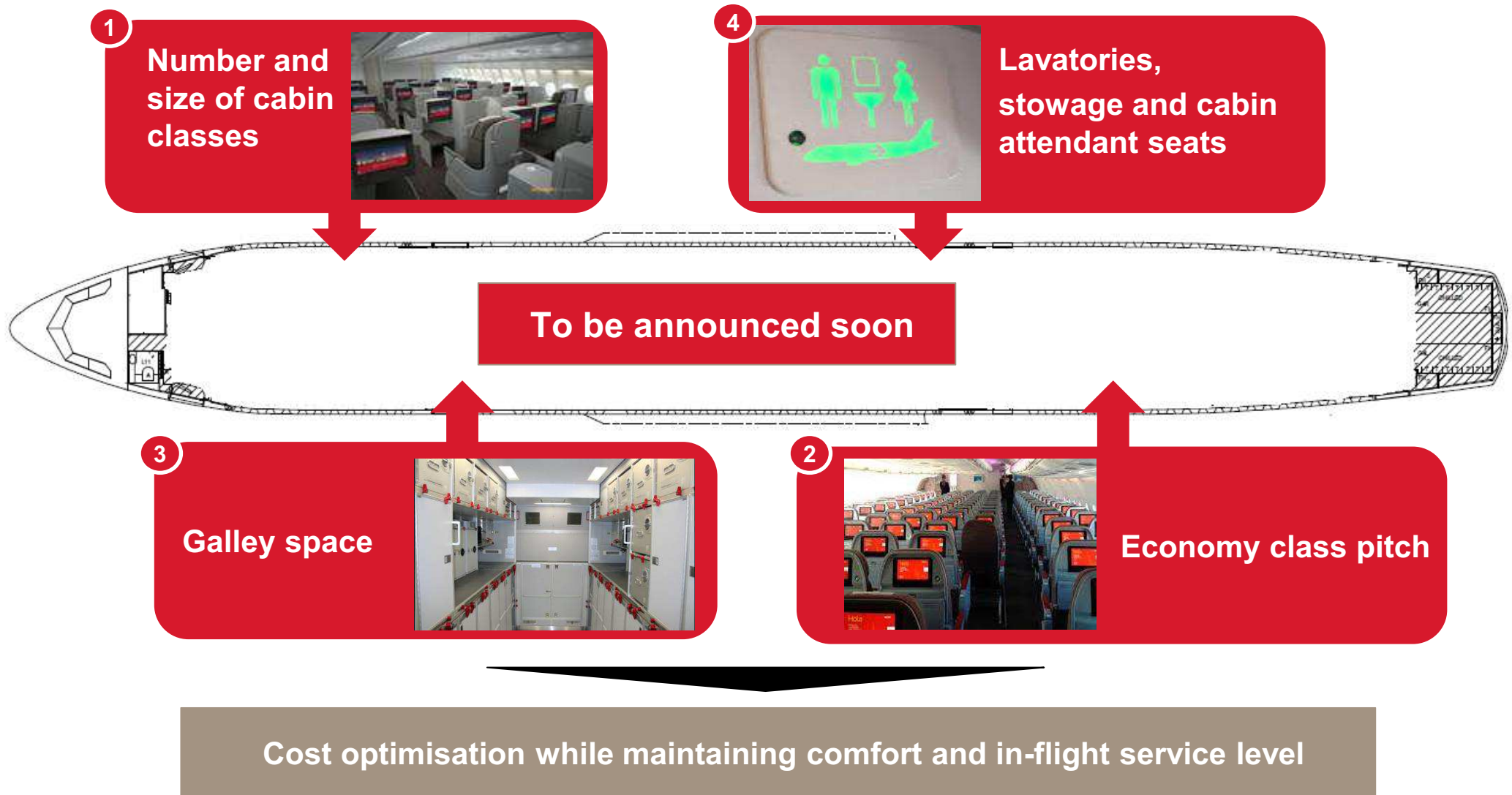
Description of H&H

- **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

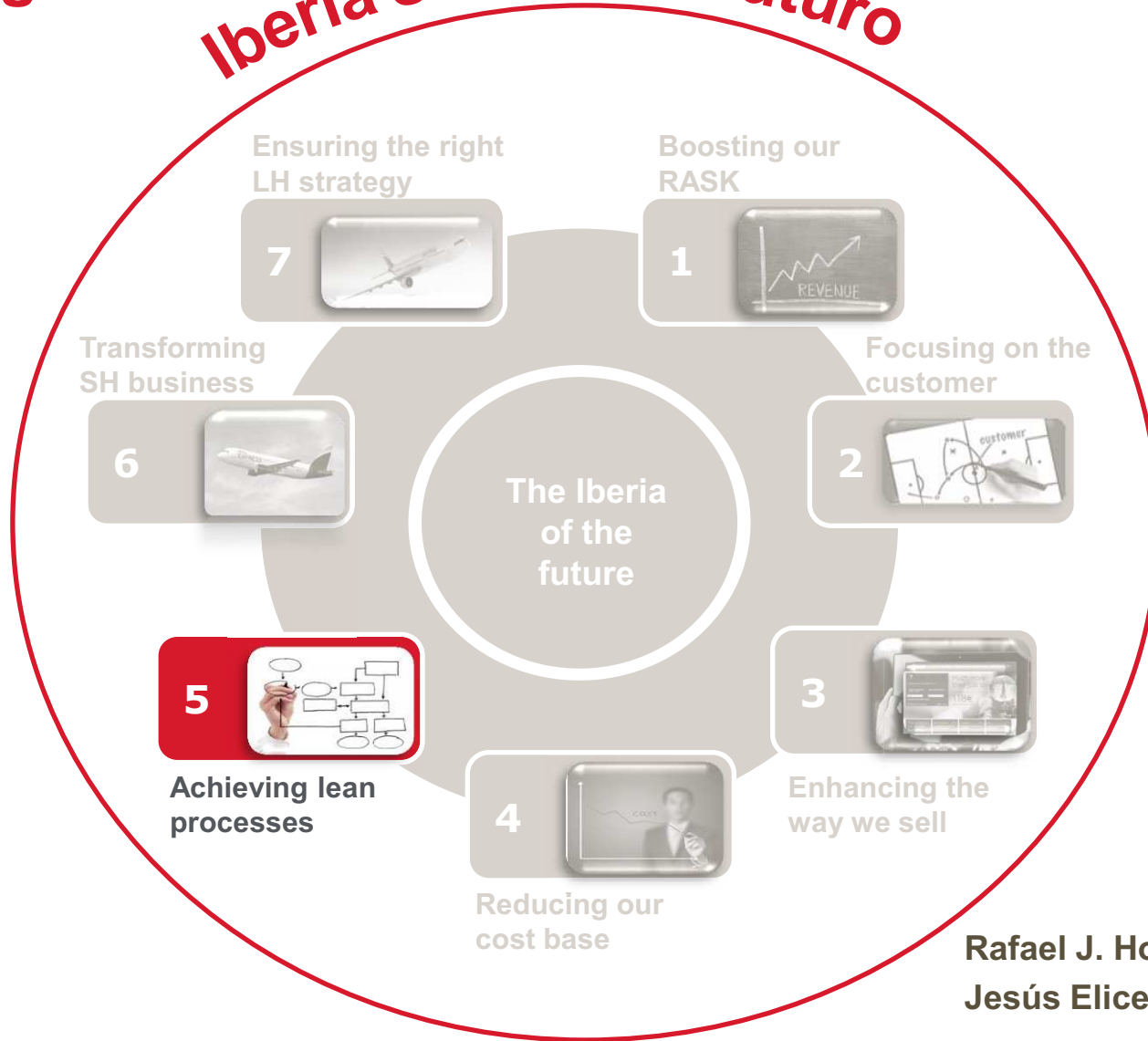


4 Optimising “selling space”



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



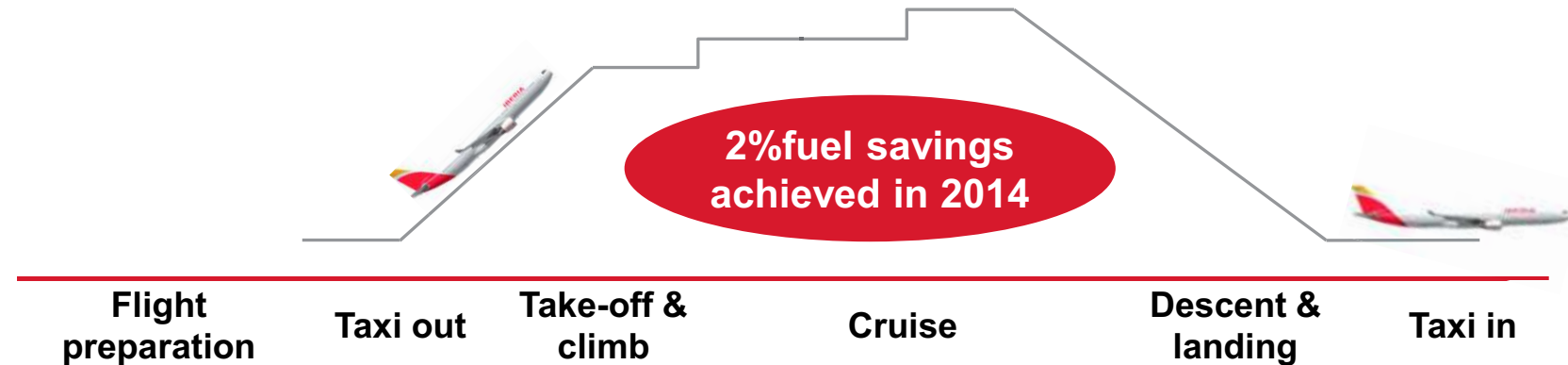
A key factor on passenger satisfaction... and passenger comeback

Efficiency



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

Focus on fuel efficiency



Flight 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

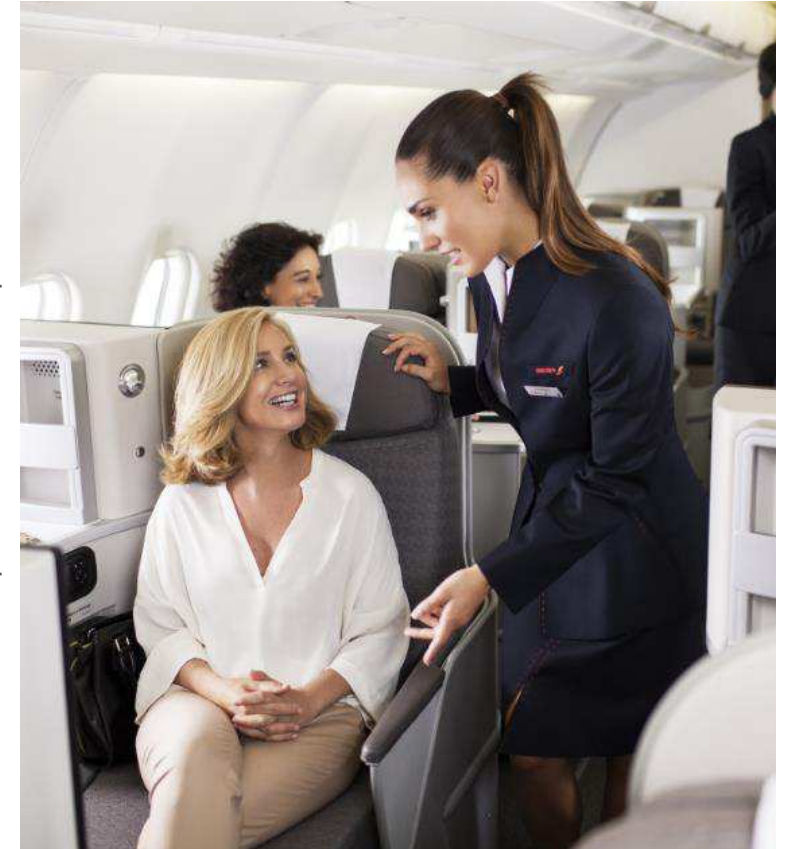
- **Revision of all indirect costs** associated with the day-to-day operation and systems
 - Removal of a daily standby crew at Hotel
 - Reduction & integration of IT systems in place

Productivity

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

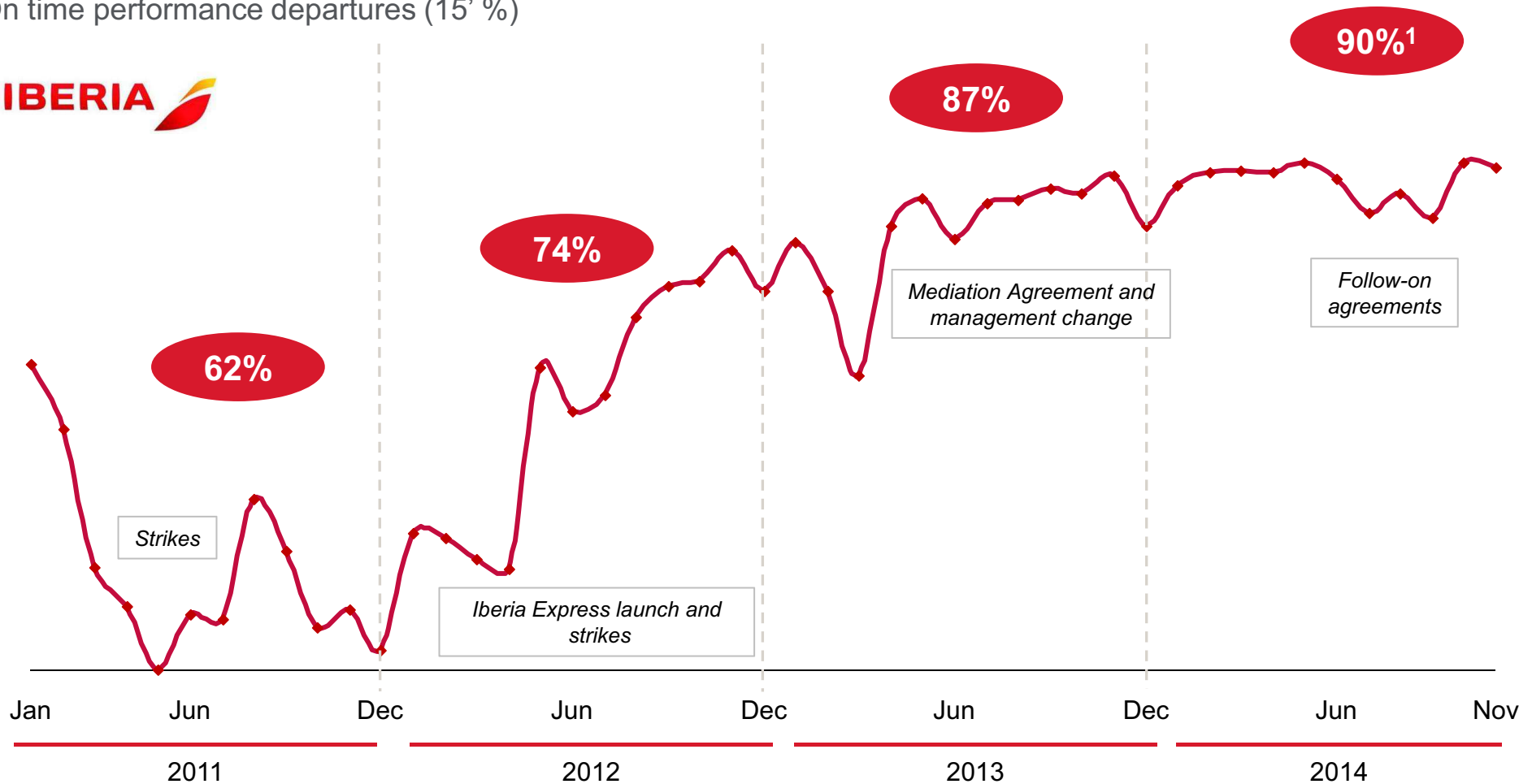
Continuous bidirectional feedback

- **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

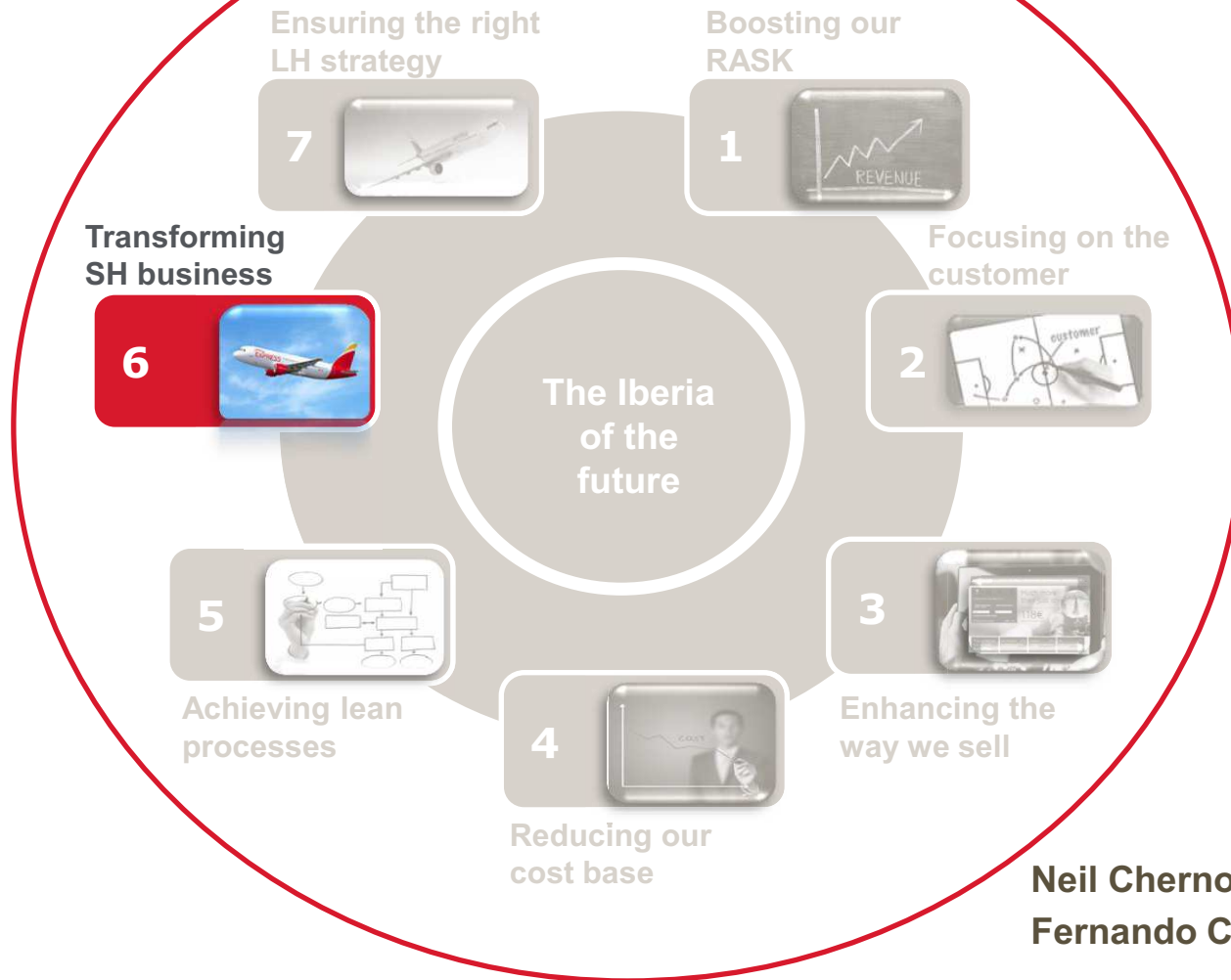
On time performance departures (15' %)



¹ January-November 2014

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

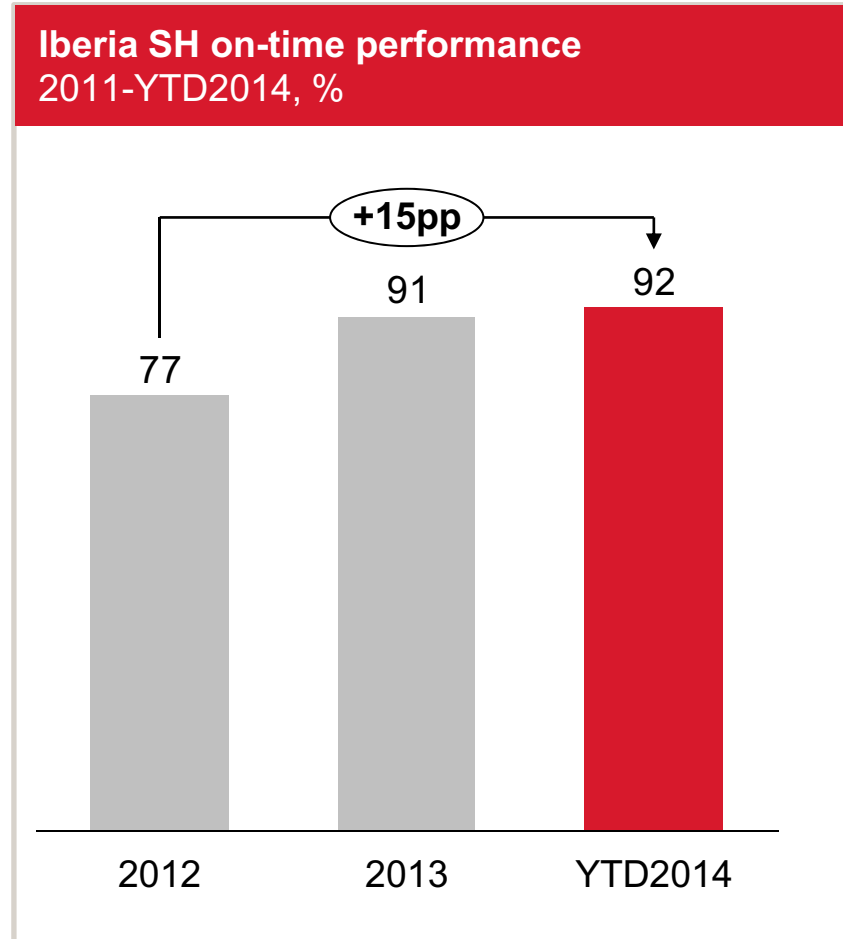
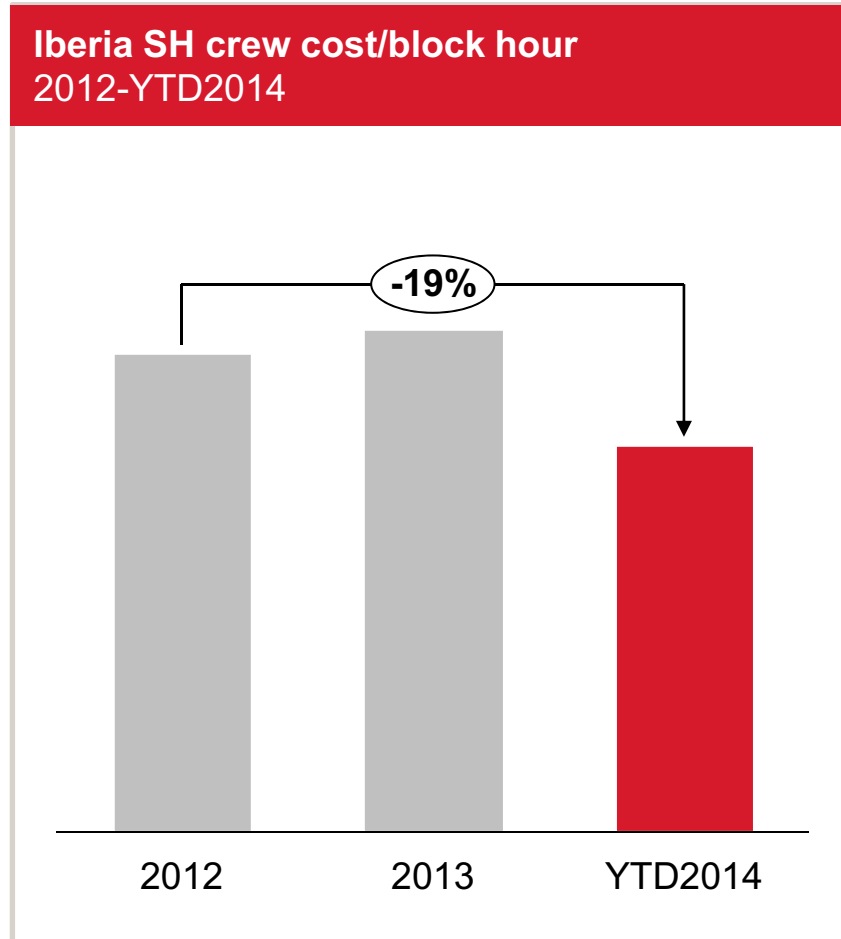


Strong brand

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

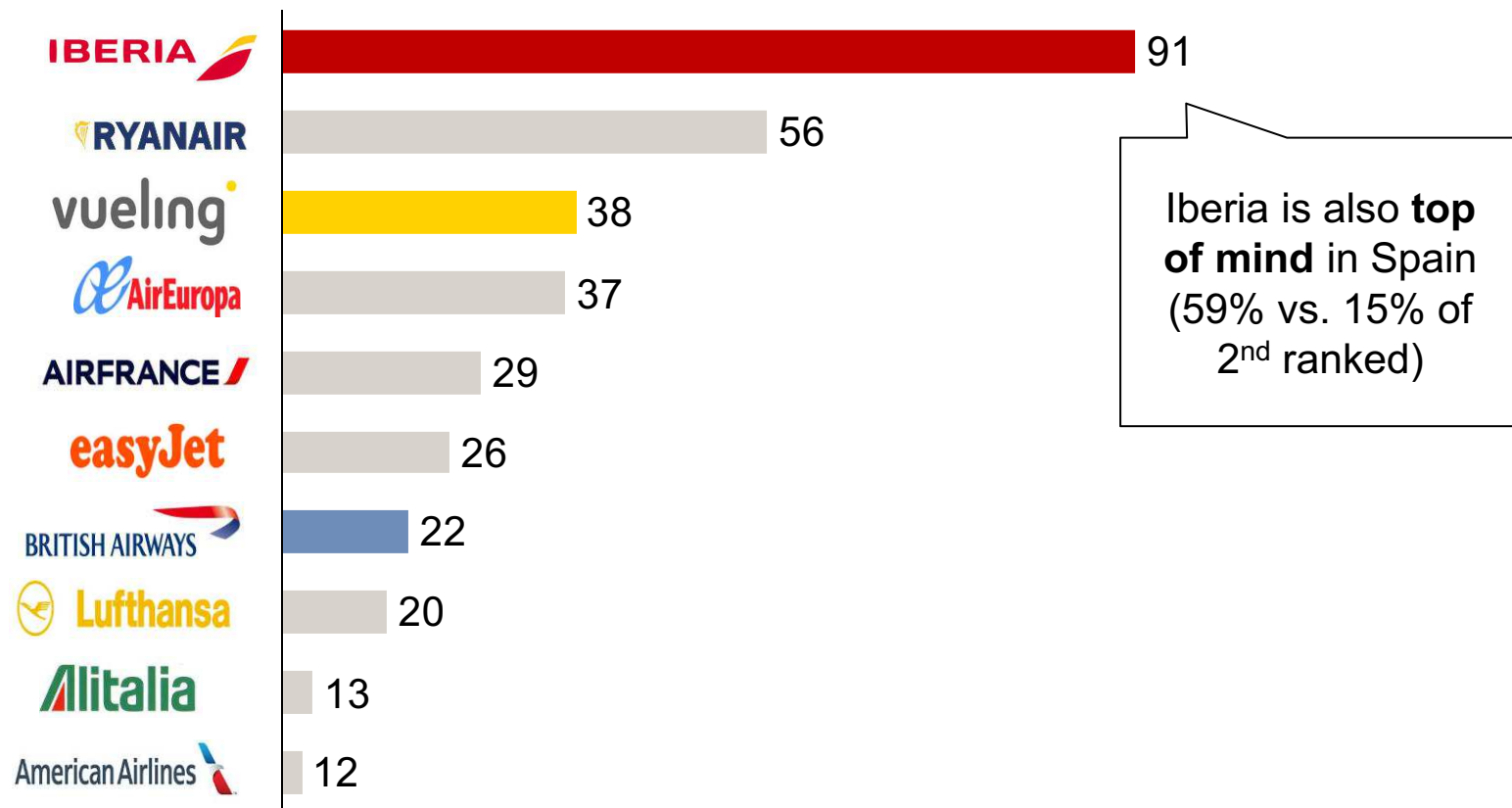


We have been able to drastically reduce our costs while improving operations



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)

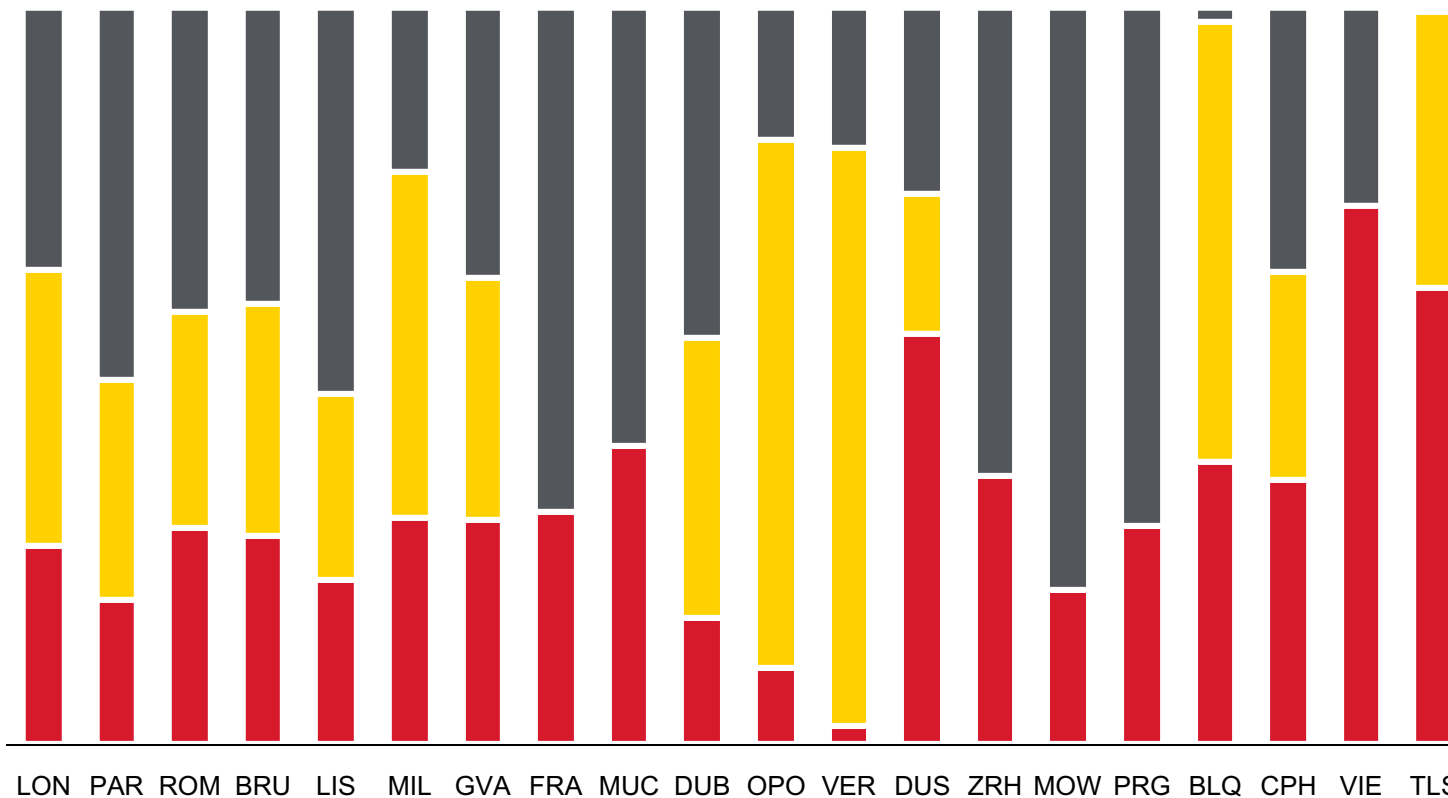


Source: Tracking de marca España Millward Brown (Jan 2014)

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

Others LCC IB



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

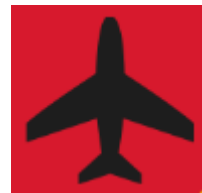
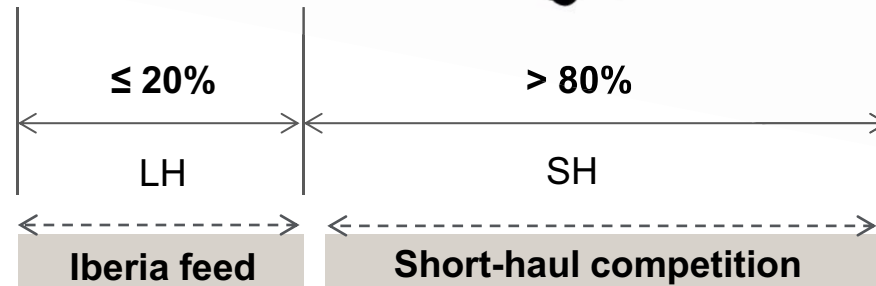
Source: Coupons, OAG and MIDT

IAG Transforming SH business Low-cost carrier presence in Madrid

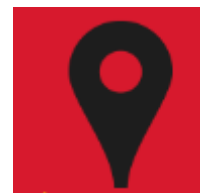


Iberia Express: the LCC of Madrid

- 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

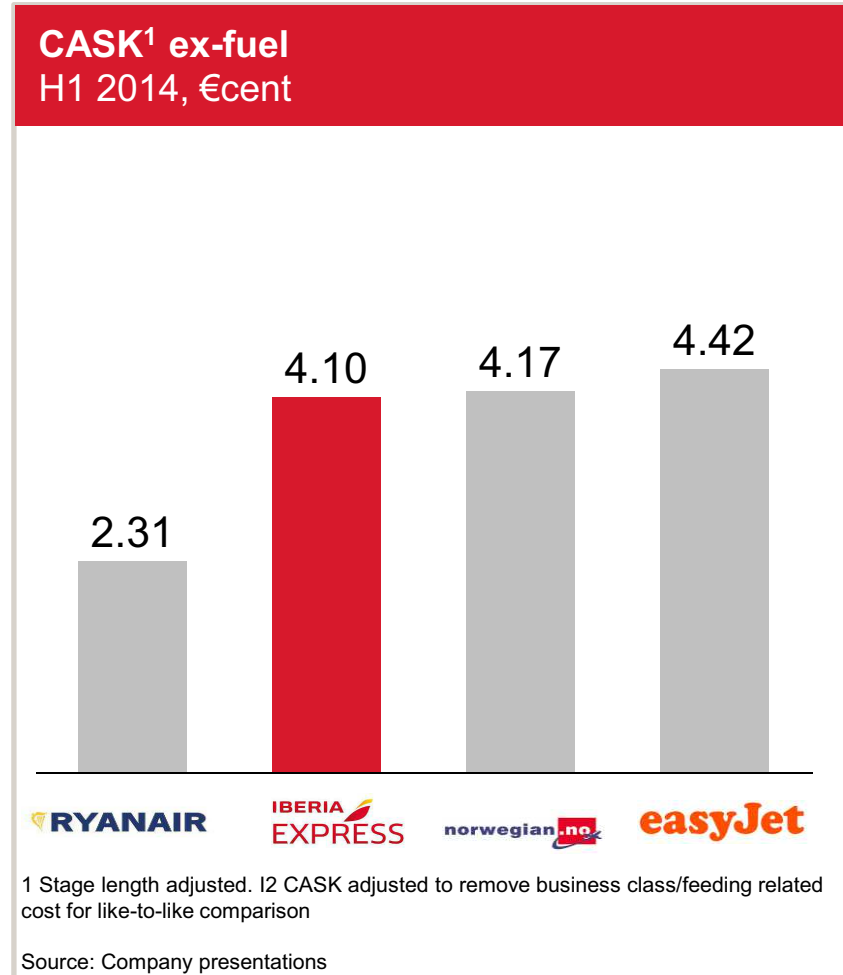
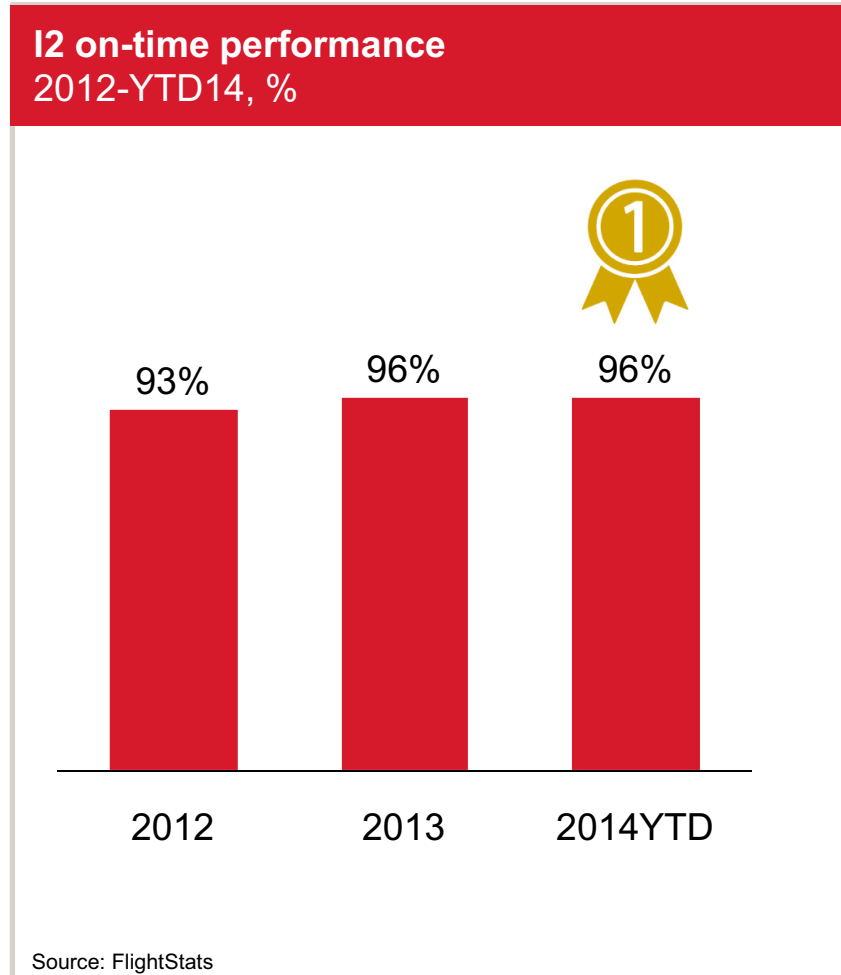


3.5m annual
pax



410 staff

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



...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**



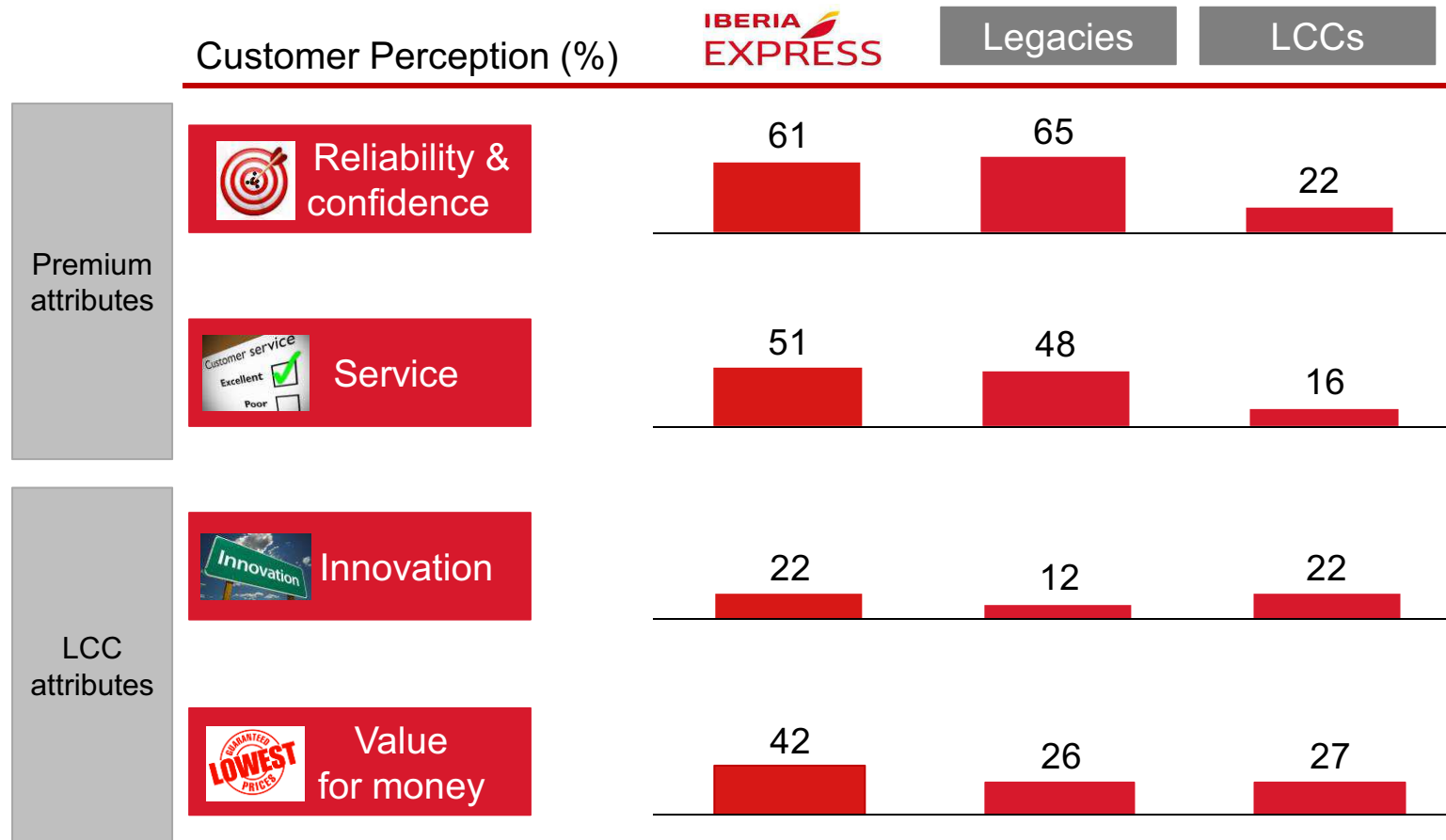
IAG

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...?

... 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	29€ → 23€
CANARIAS DESDE	75€ → 60€
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Acceder al Club Express >>

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Ida y vuelta | Origen | Destino | Salir | Pasajes | Preselección | Buscar Vuelo

IBERIA EXPRESS

Ida y vuelta

Origen | Destino

Salida | Regreso

1 Pasajero

¿Eres residente y/o familia numerosa?

Buscar Vuelo

Access to young, new generation, and price sensitive customers

IAG

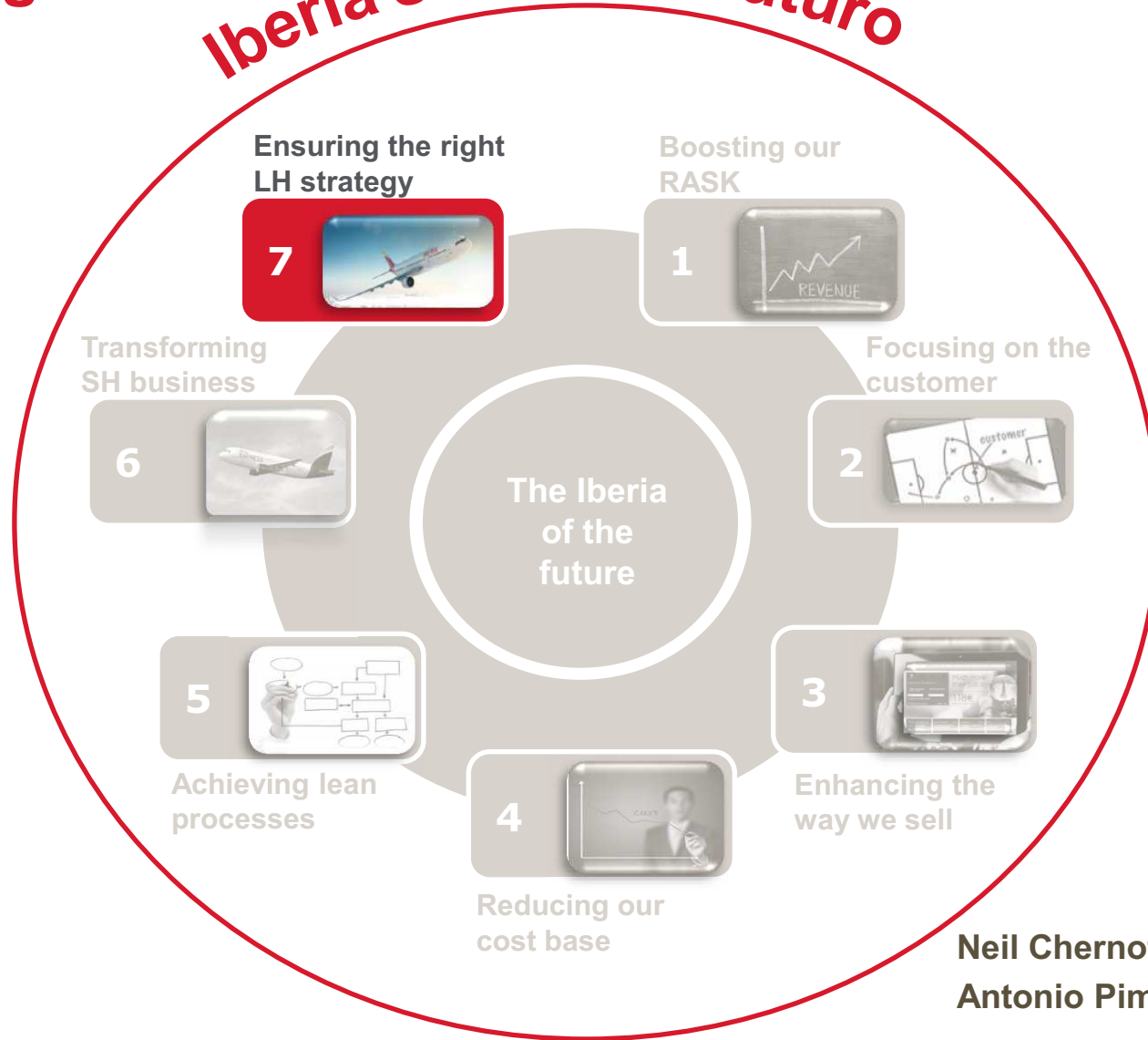
Transforming SH business

Iberia Express value proposition

IBERIA EXPRESS

Agenda

Iberia's Plan de Futuro

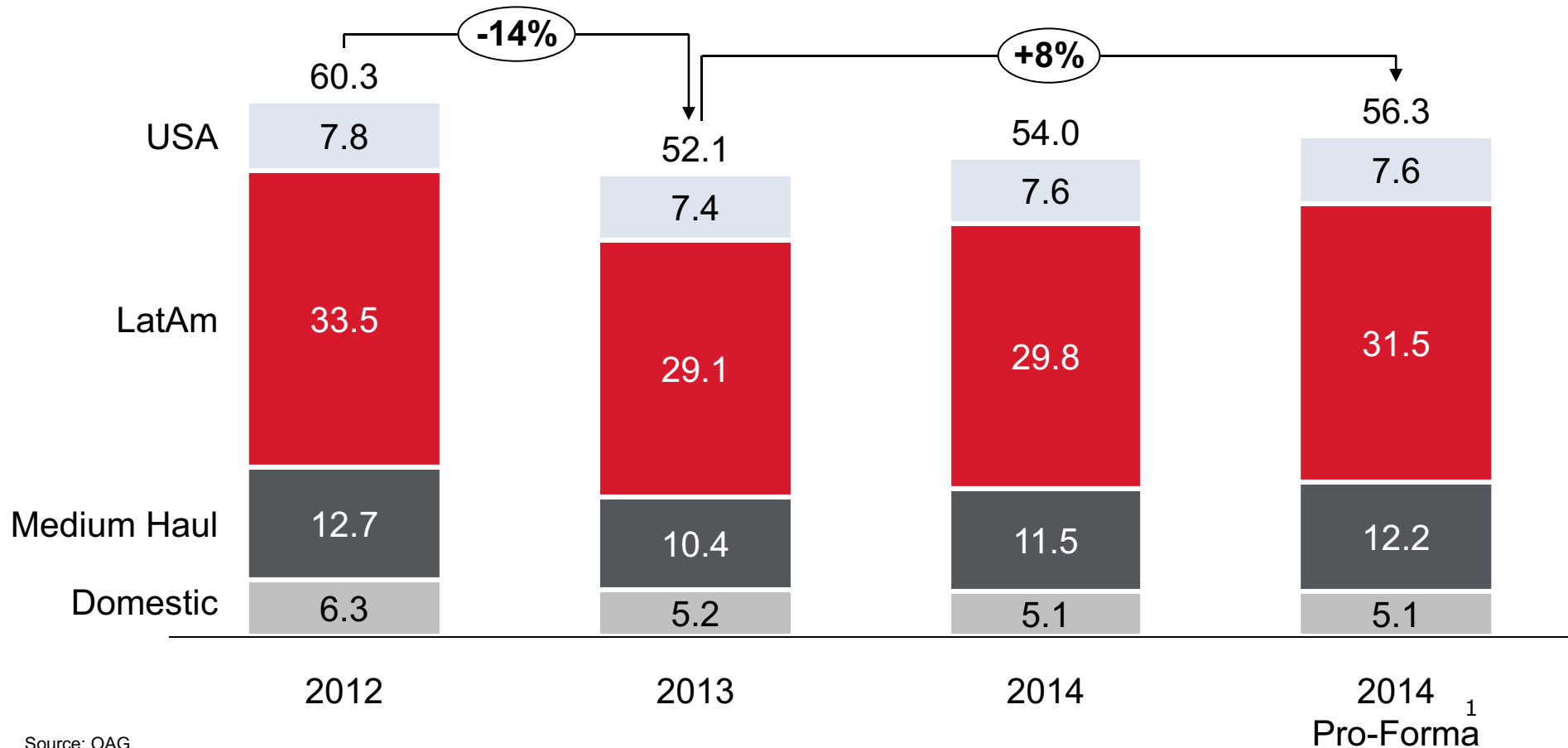


Neil Chernoff – Network Planning & Alliances Director
Antonio Pimentel – Alliances Director



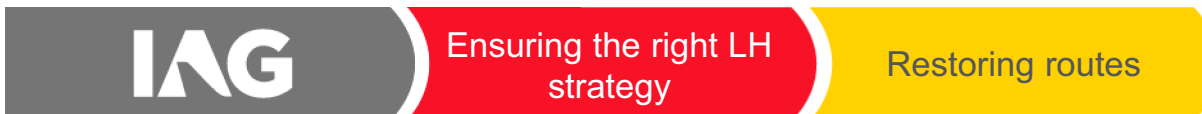
Plan de Futuro has allowed Iberia to start restoring routes after the reduction of non-profitable capacity...

Iberia capacity evolution
ASK (bn)



Source: OAG

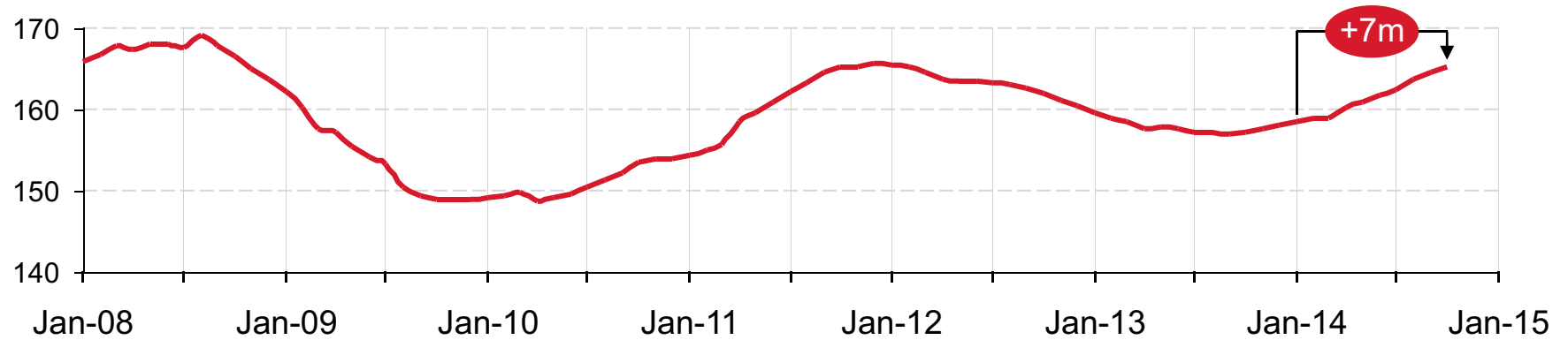
¹ AMS, IST, ATH, STO, SDQ, MVD & PTY whole year simulation



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

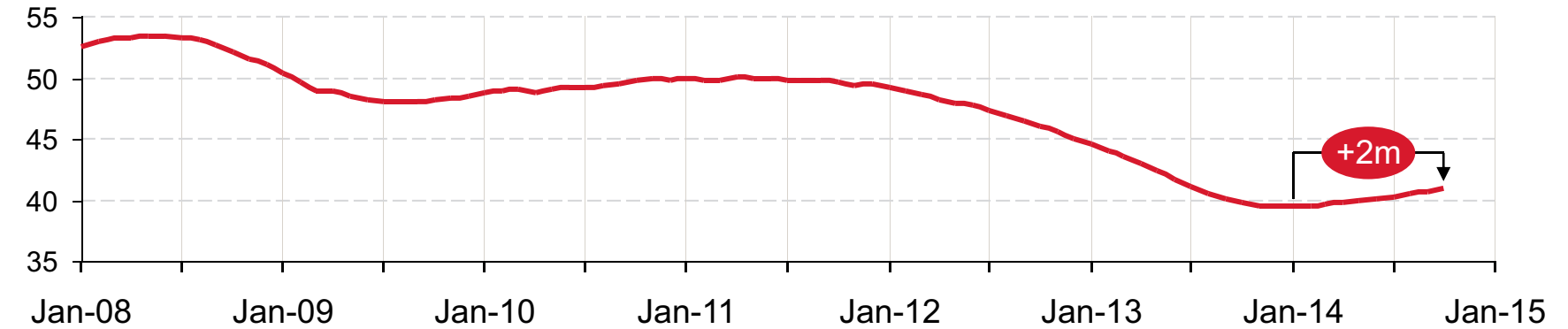
Spain

Total passengers to/from (m)



MAD

Total passengers to/from (m)



Source: AENA



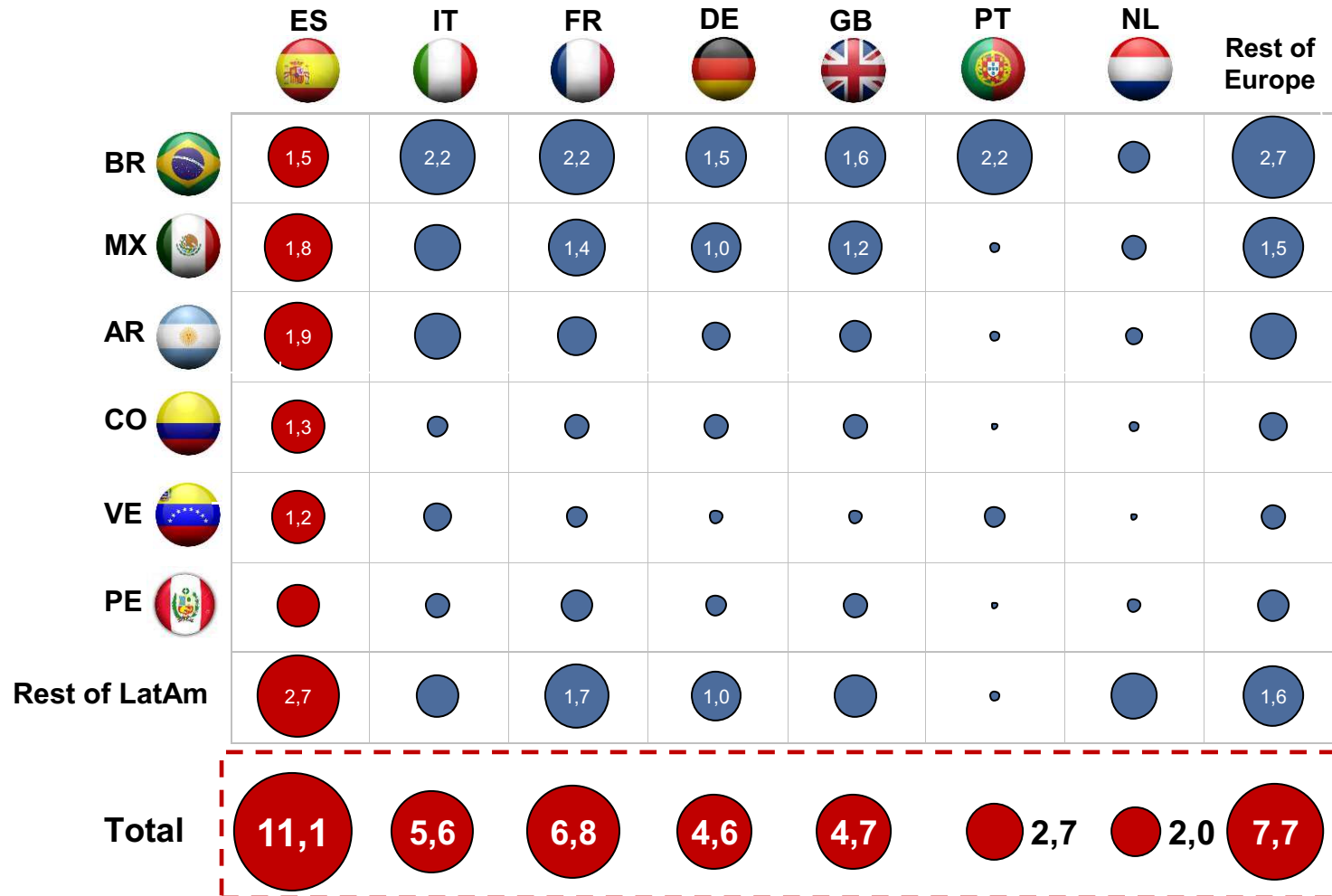
Ensuring the right LH strategy

Market environment



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

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



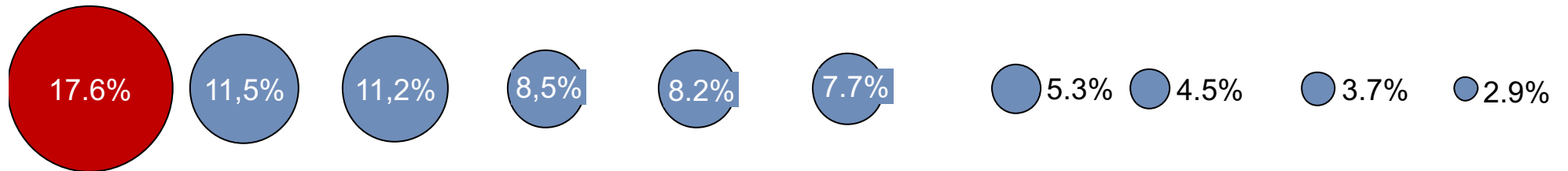
Source: Internal analysis, LatAm excludes Caribbean

IAG Ensuring the right LH strategy LatAm advantage



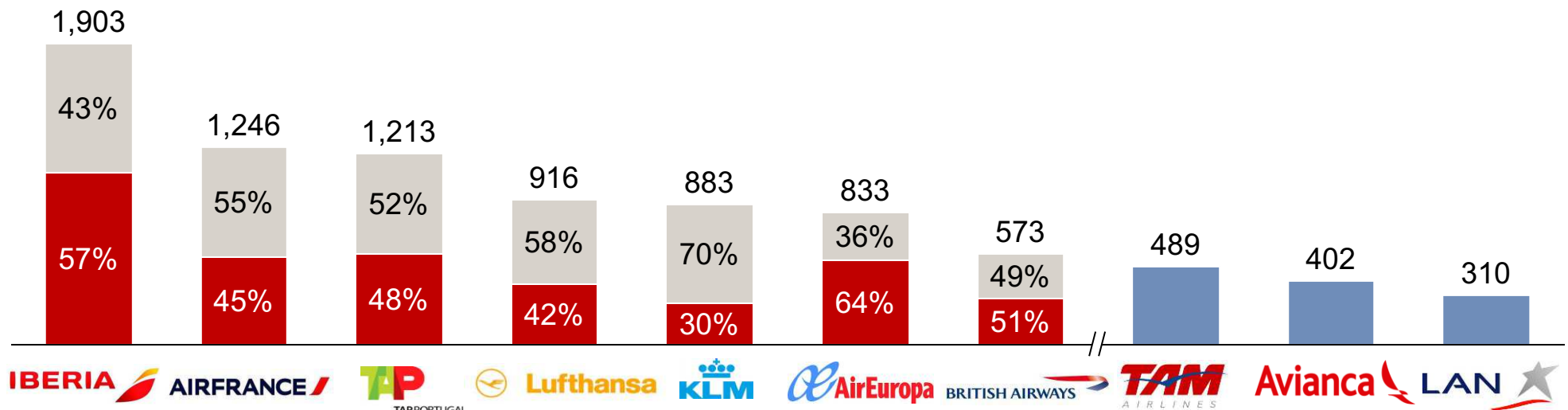
...continuing to build on its position as the leading carrier to Latin America...

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



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

Europe Home market

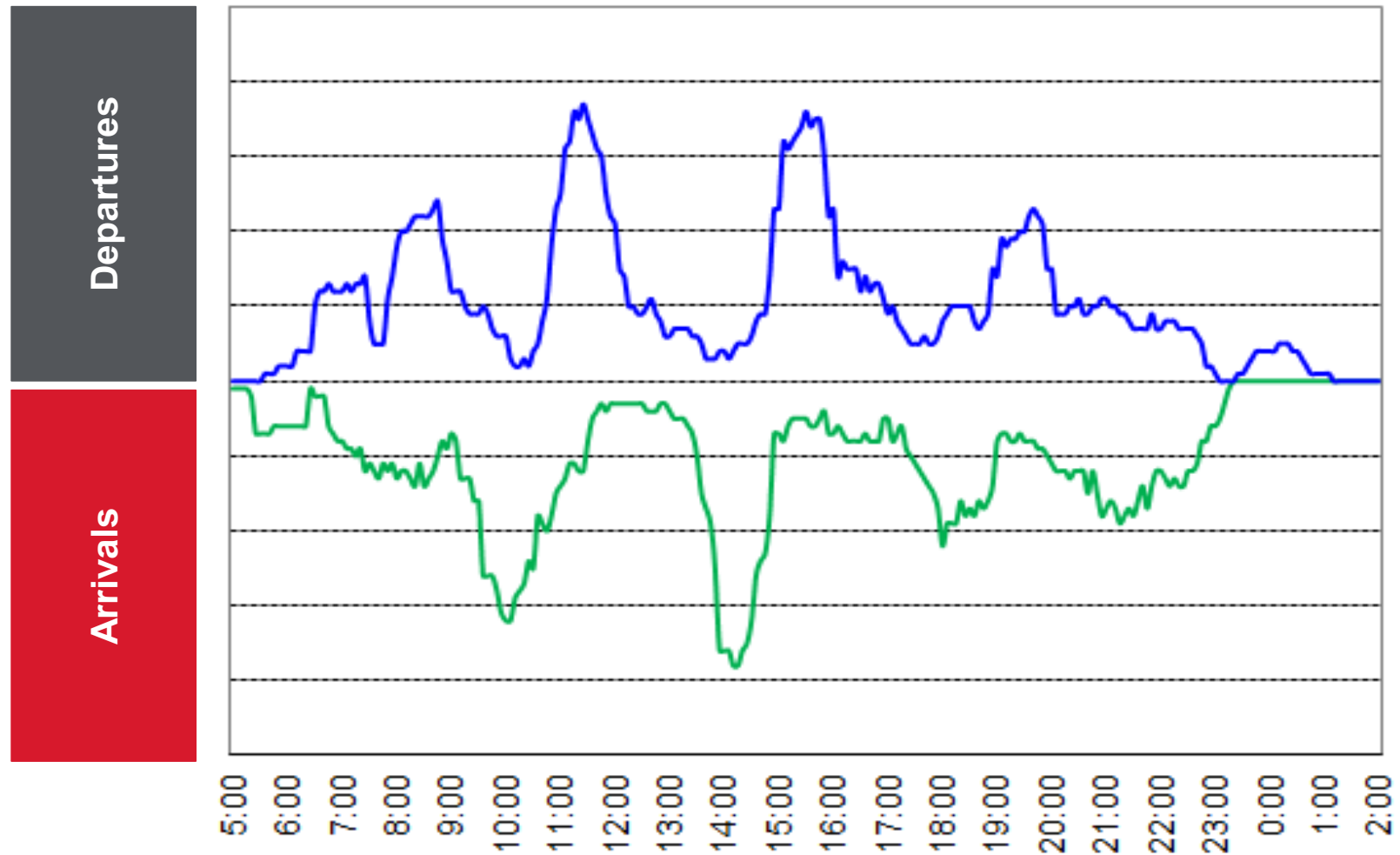


Source: CRS (Latin America excluding Caribbean)

IAG Ensuring the right LH strategy LatAm leadership



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



IAG

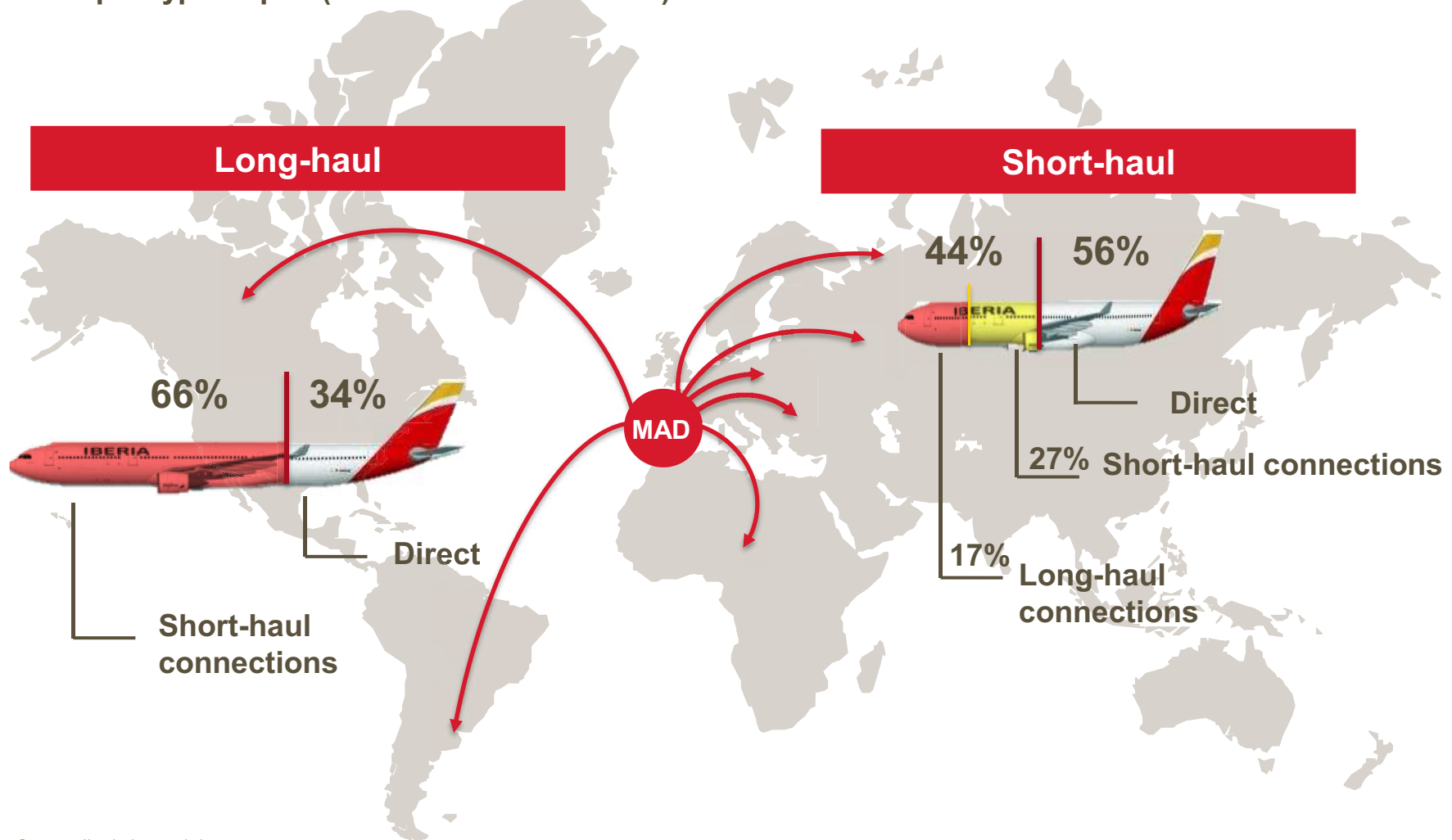
Ensuring the right LH strategy

Madrid hub

IBERIA

... 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



Ensuring the right LH strategy

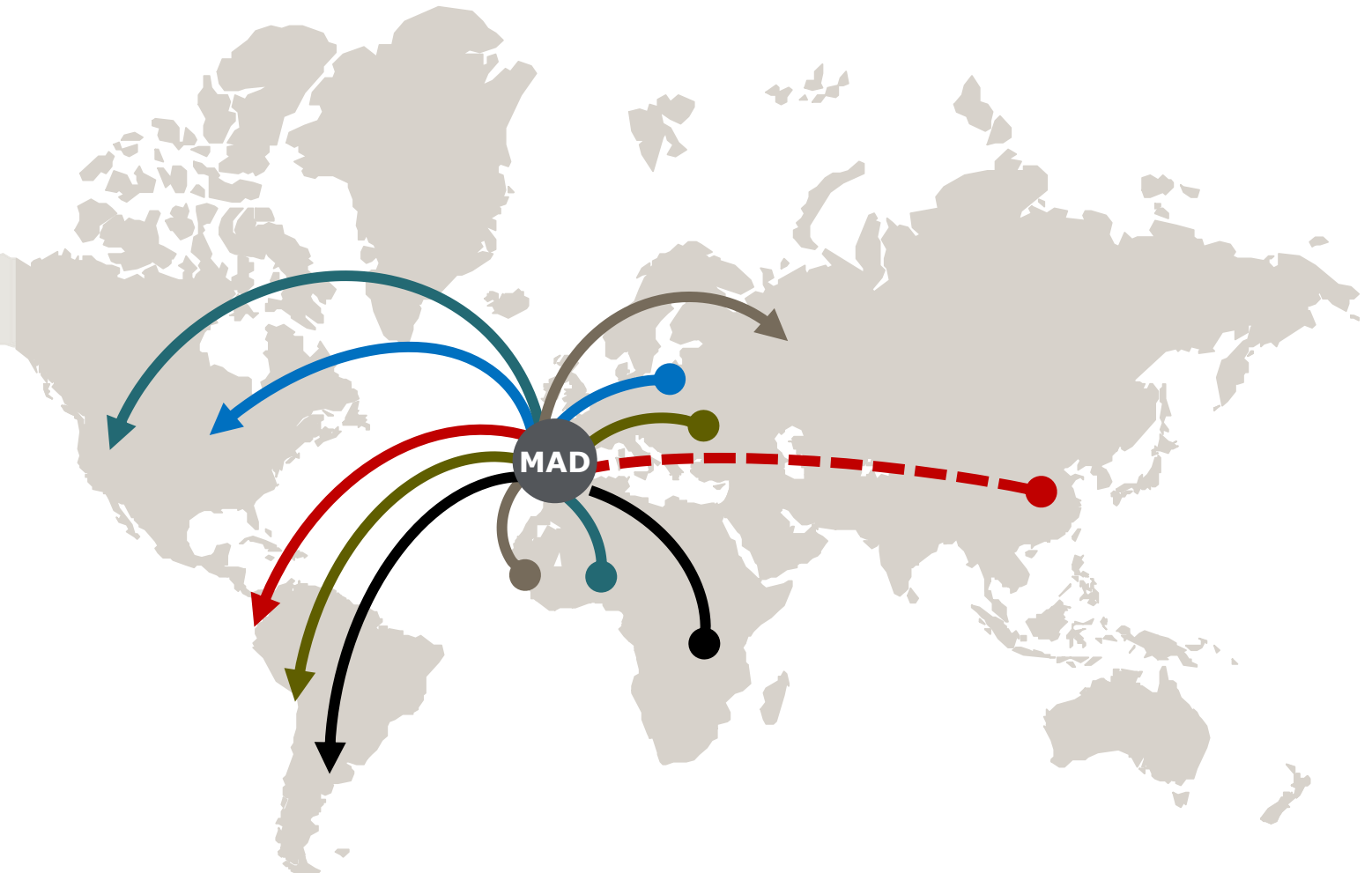
Passenger flows



... 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

IAG

Ensuring the right LH strategy

Regional growth

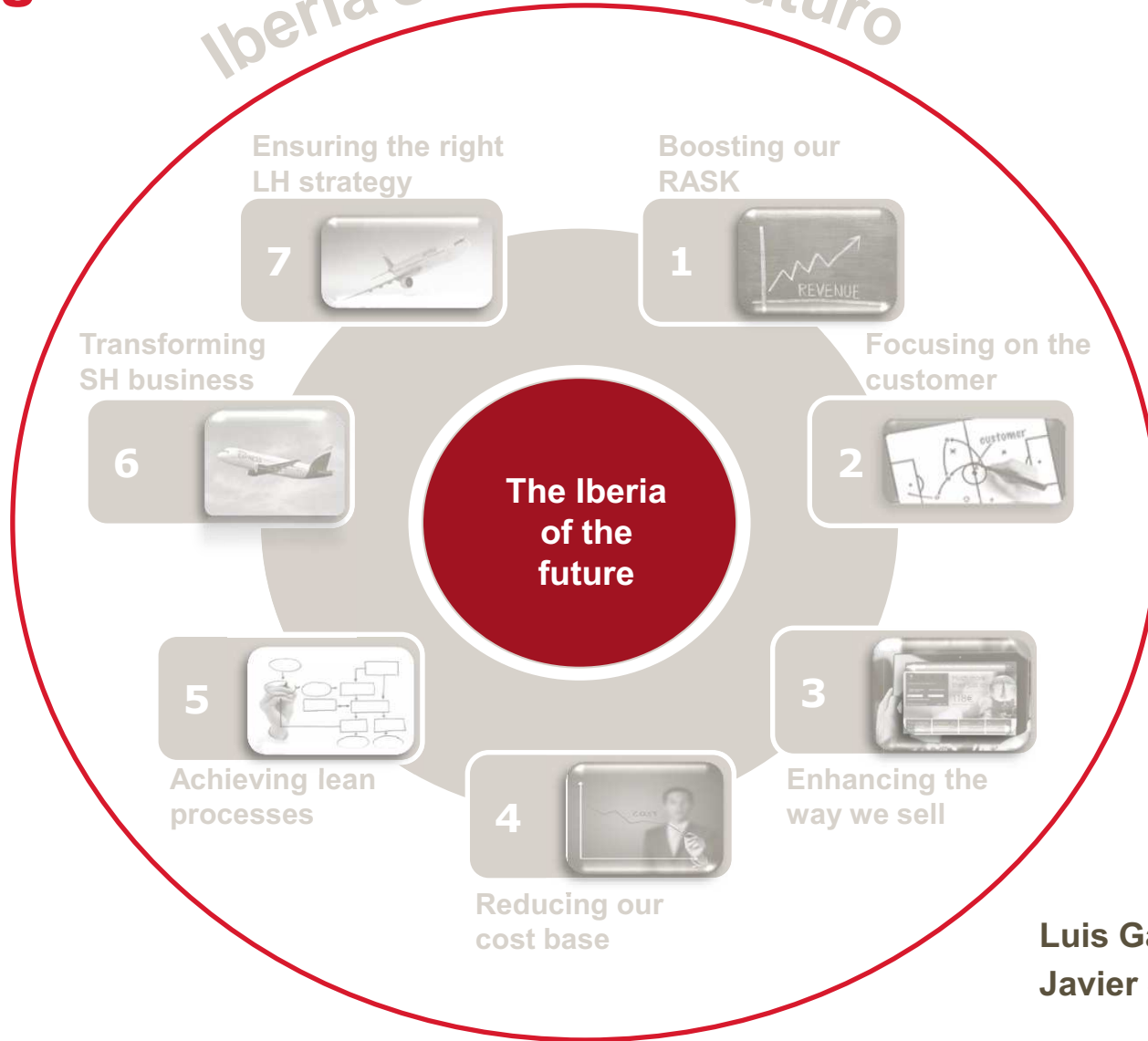
IBERIA

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



Agenda

Iberia's Plan de Futuro



Luis Gallego – CEO
Javier Sánchez-Prieto – CFO



Plan de Futuro defines a major turnaround for the company

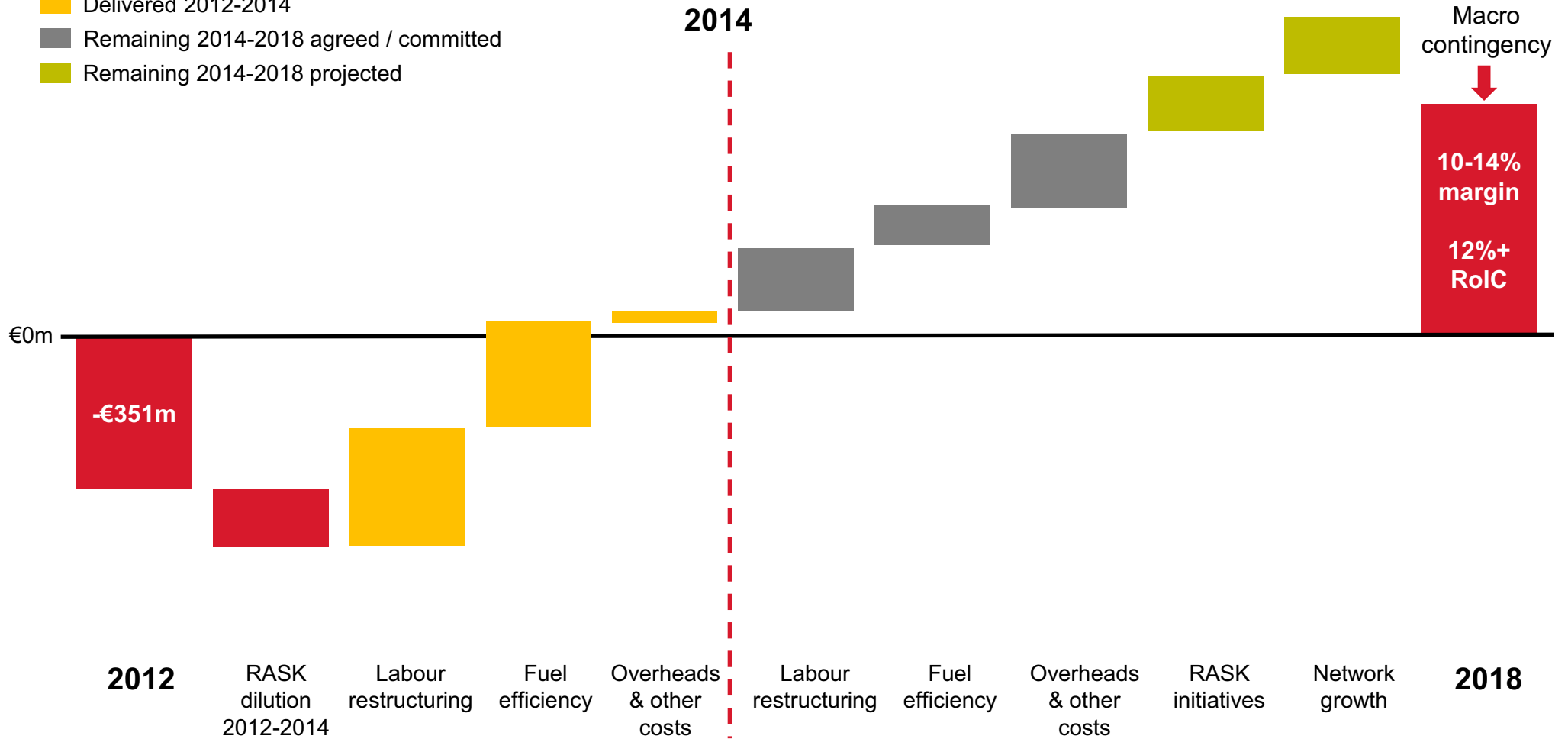
EBIT (€m)

Indicative average numbers, not to scale

Delivered 2012-2014

Remaining 2014-2018 agreed / committed

Remaining 2014-2018 projected



IAG

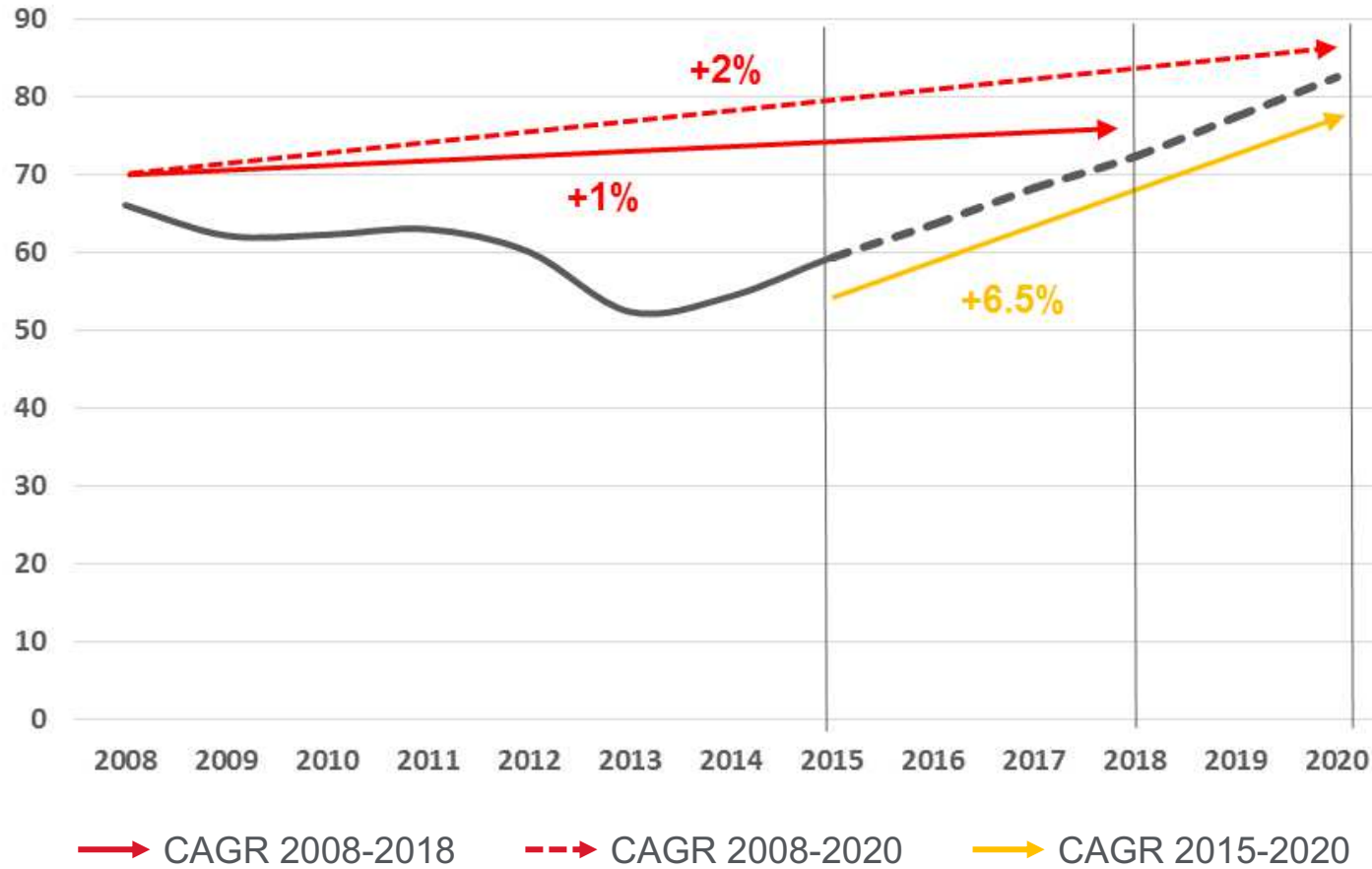
The Iberia of the future

2012-18 EBIT bridge

IBERIA

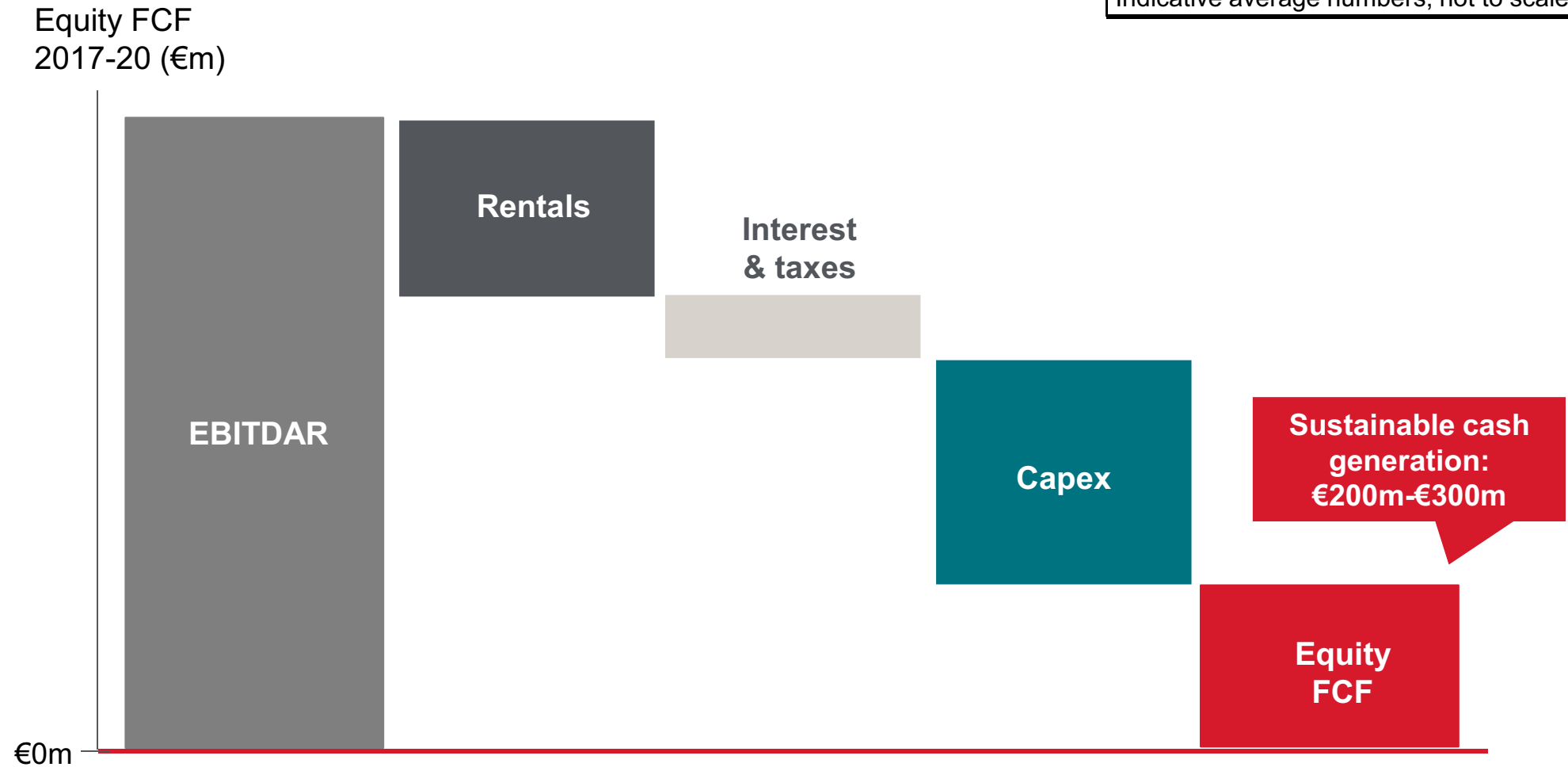
ASKs plan long-term growth

Iberia capacity
ASK (bn)

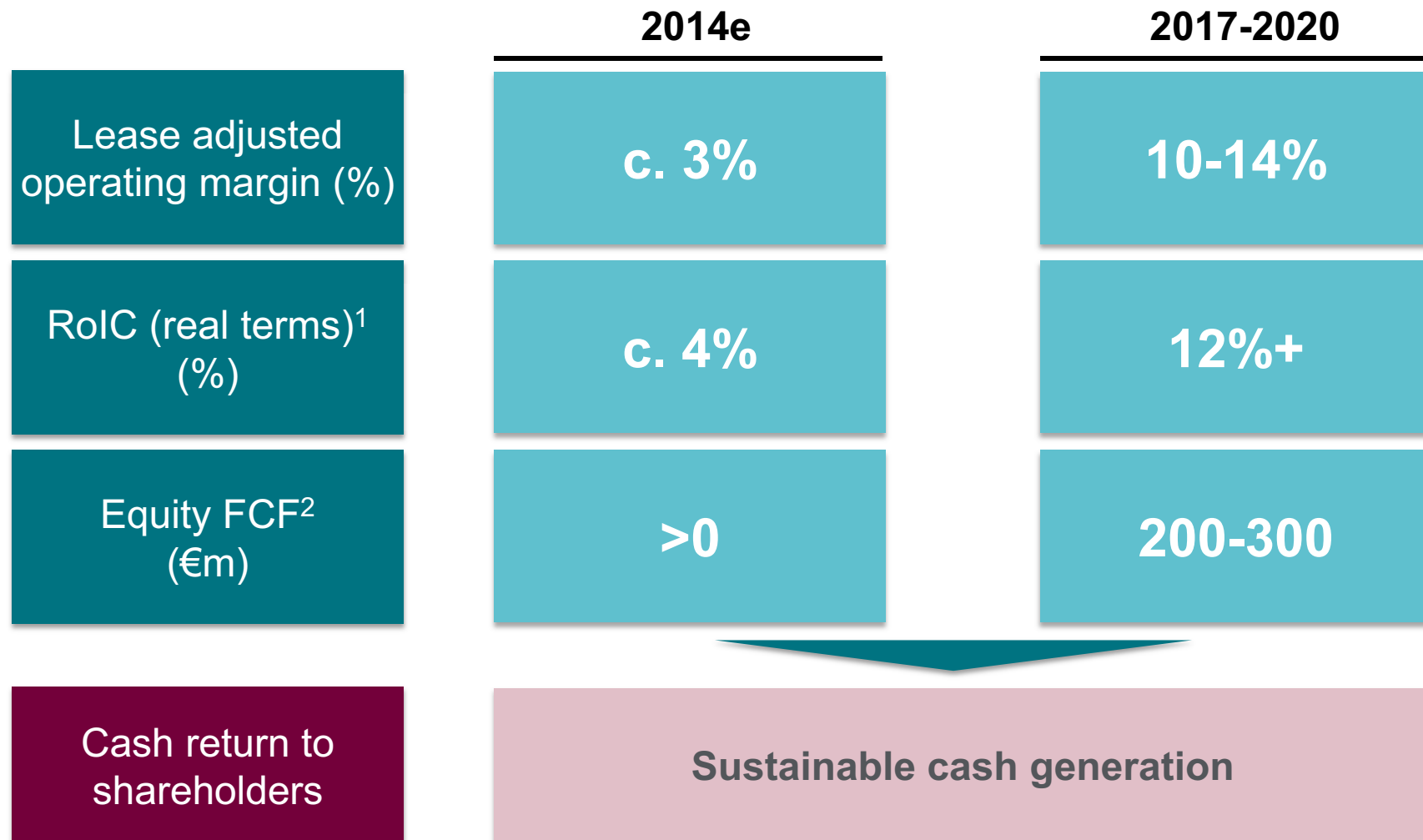


In the medium-term Iberia will consistently generate cash

Indicative average numbers, not to scale



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

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...

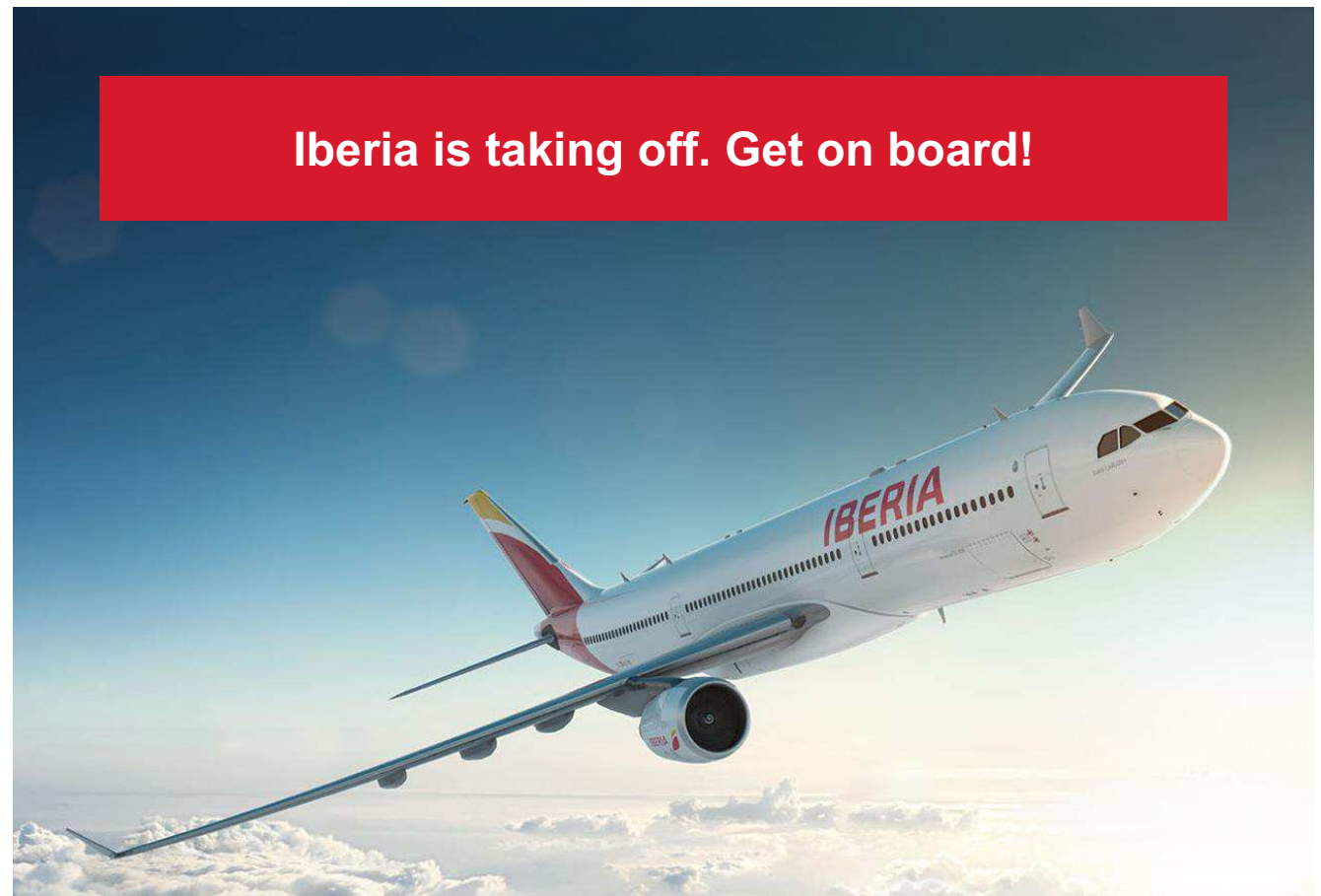
- Comprehensive plan aimed to **radically change** the company
- **30 initiatives** across all key areas of the company
- Continuous monitoring by **top management**
- Full **commitment to delivery**

... 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

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IBERIA



IAG

