



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

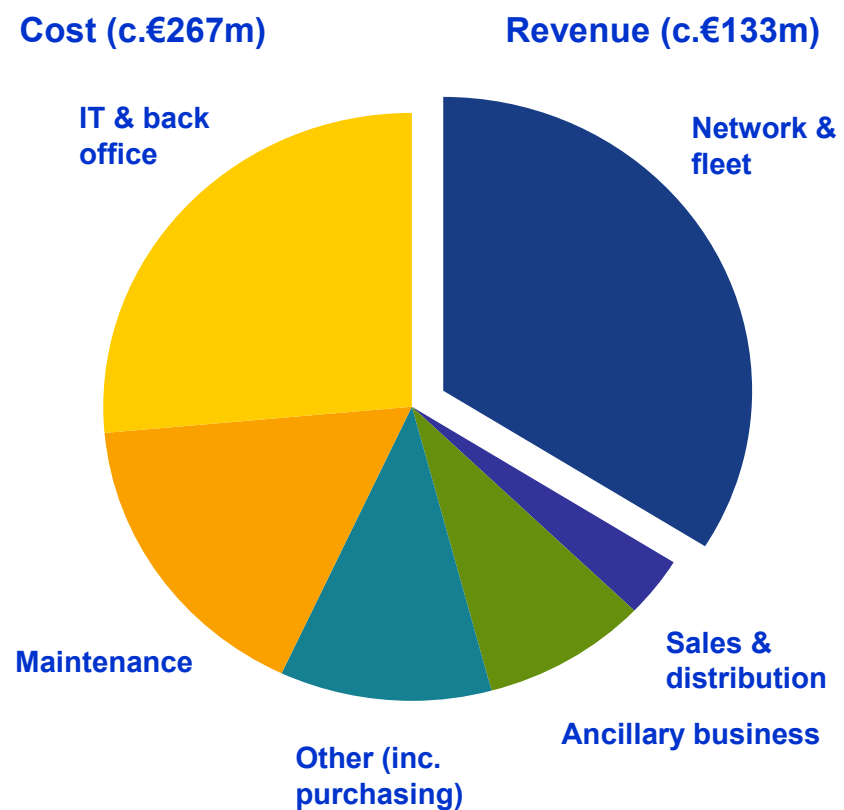


- **Merger of equals with British Airways and Iberia shareholders to own 55% and 45%, respectively.**
  - **BA shareholders to receive 1 share in TopCo for every BA share**
  - **Iberia shareholders to receive 1.0205 shares in TopCo for every Iberia share**
- **New TopCo to be incorporated and tax resident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

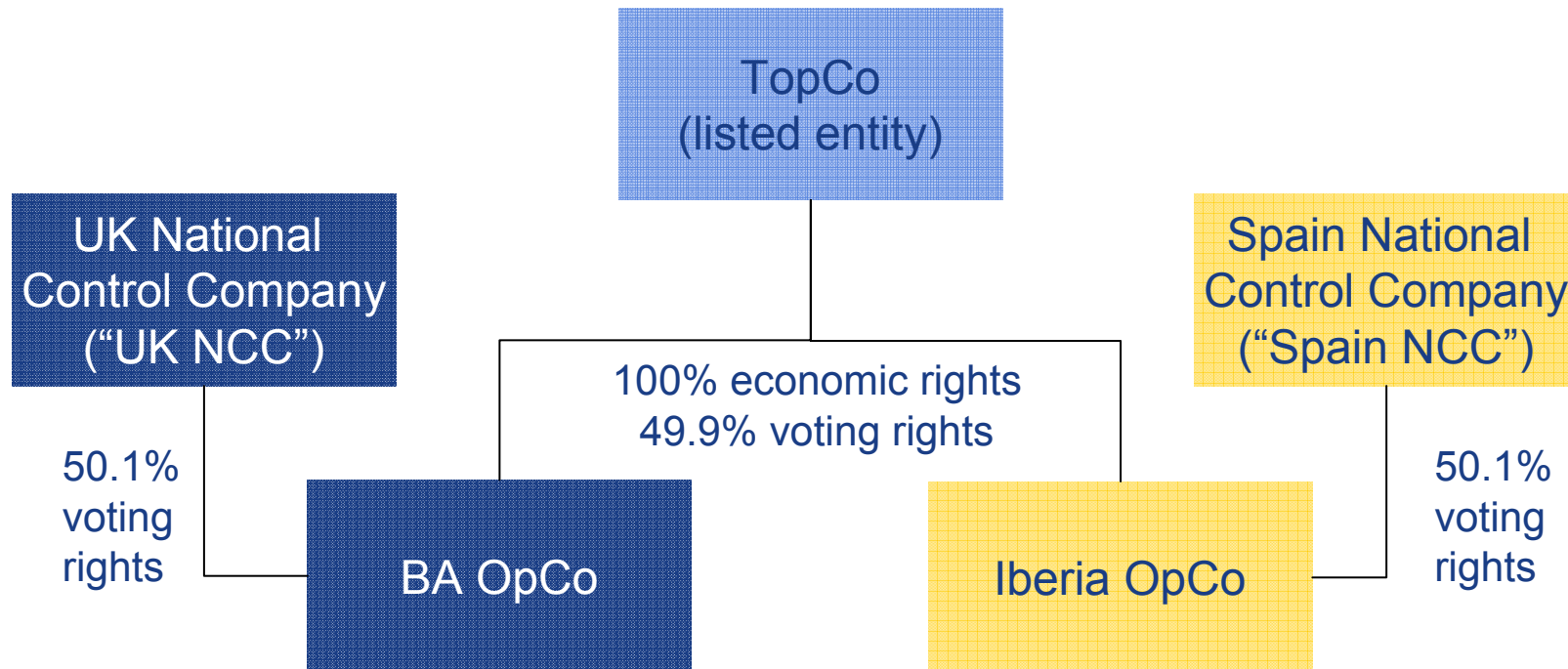
# Synergies of €400m/year to be delivered at EBITDA level



## Synergy breakdown



# 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**

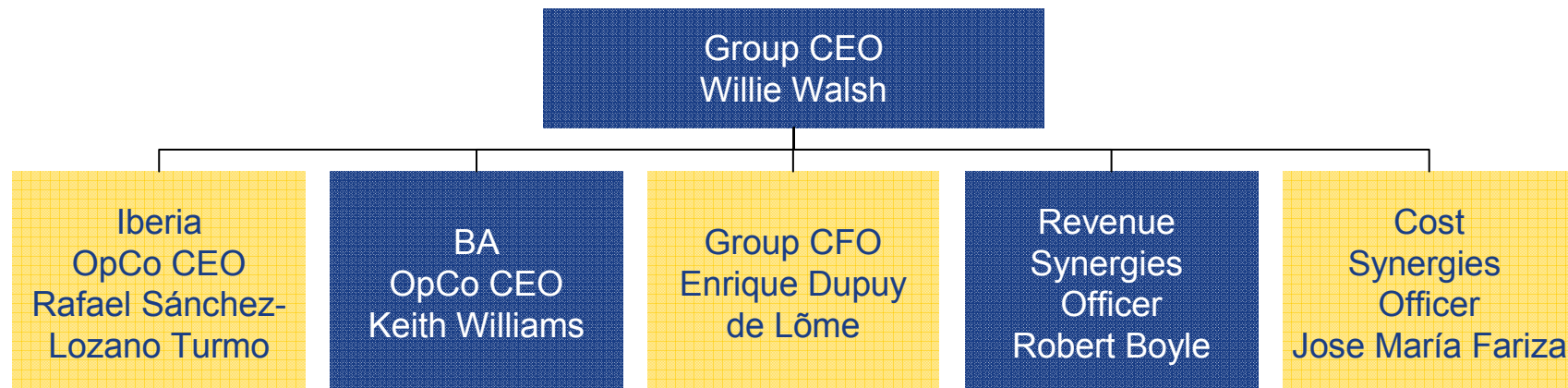
### Iberia to provide 5 members

- 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



### **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 3<sup>rd</sup> 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
<i>Adjusted EBIT</i>	-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

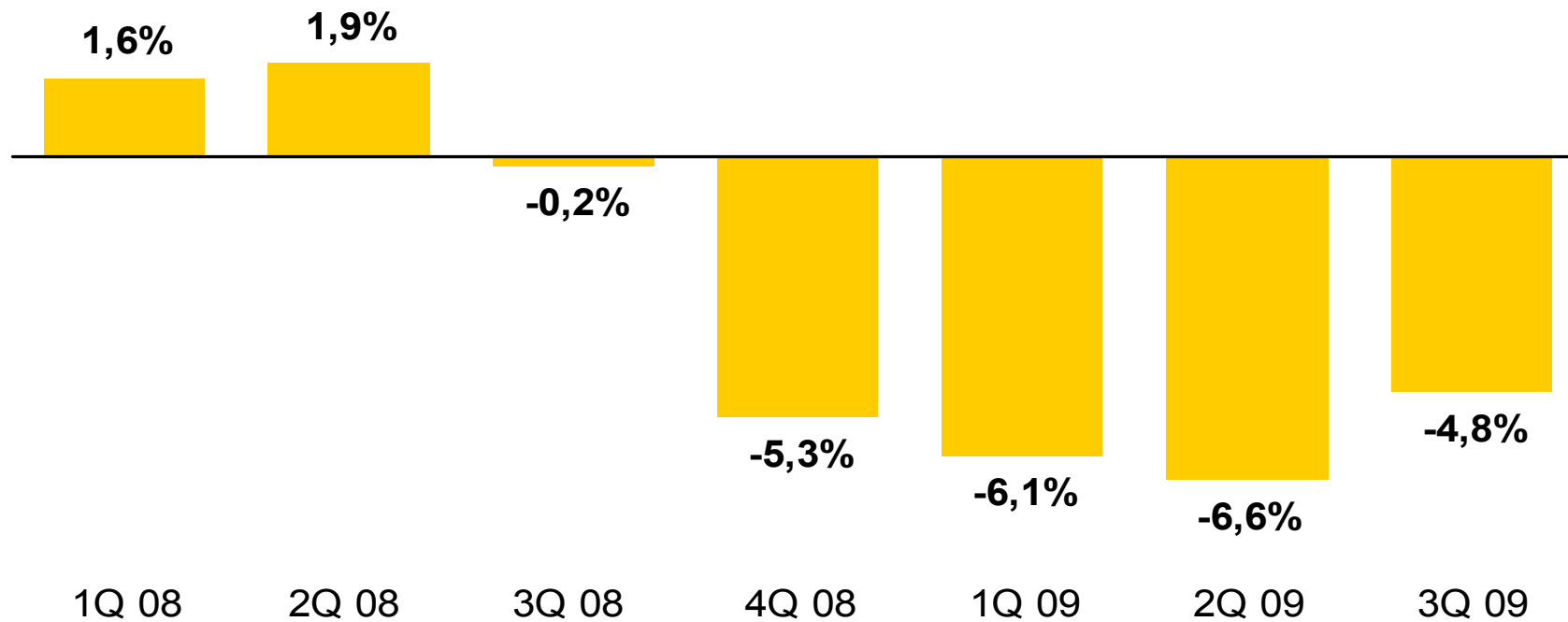


% Q3 09/08	ASK	RPK	LF
Domestic	-5.0	-1.6	2.7 pp
Europe	-9.2	-6.5	2.3 pp
Other Int. Medium haul	4.1	2.8	-1.0 pp
Long Haul	-3.5	-7.0	-3.2 pp
Total	-4.8	-6.0	-1.1 pp

## Capacity reductions in accordance with market conditions and traffic



% Capacity YoY



## 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.

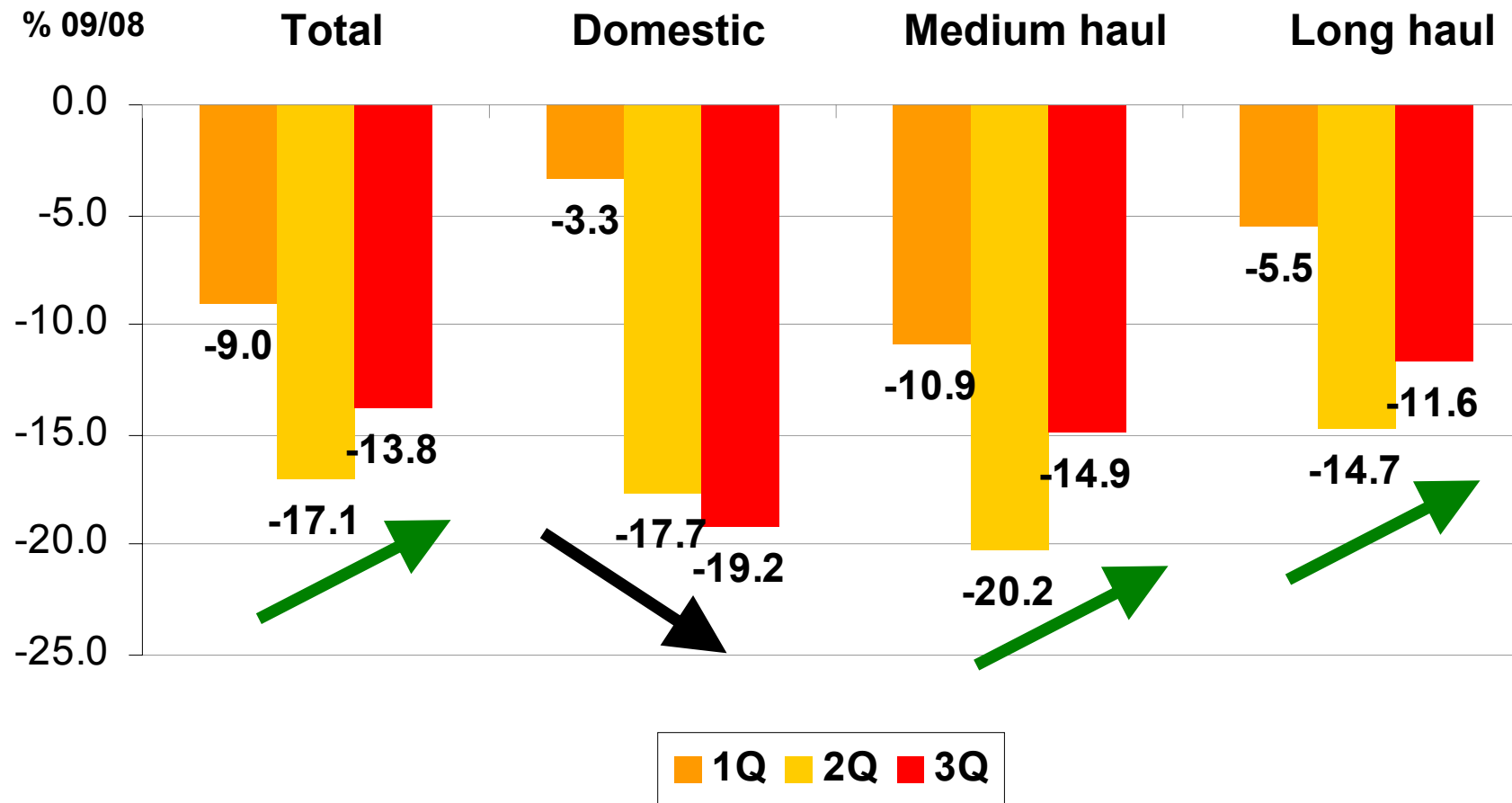
Business traffic			
Europe – Latin America	-25.3%	23.8%	+0.5%

## Deterioration of Operating Revenue



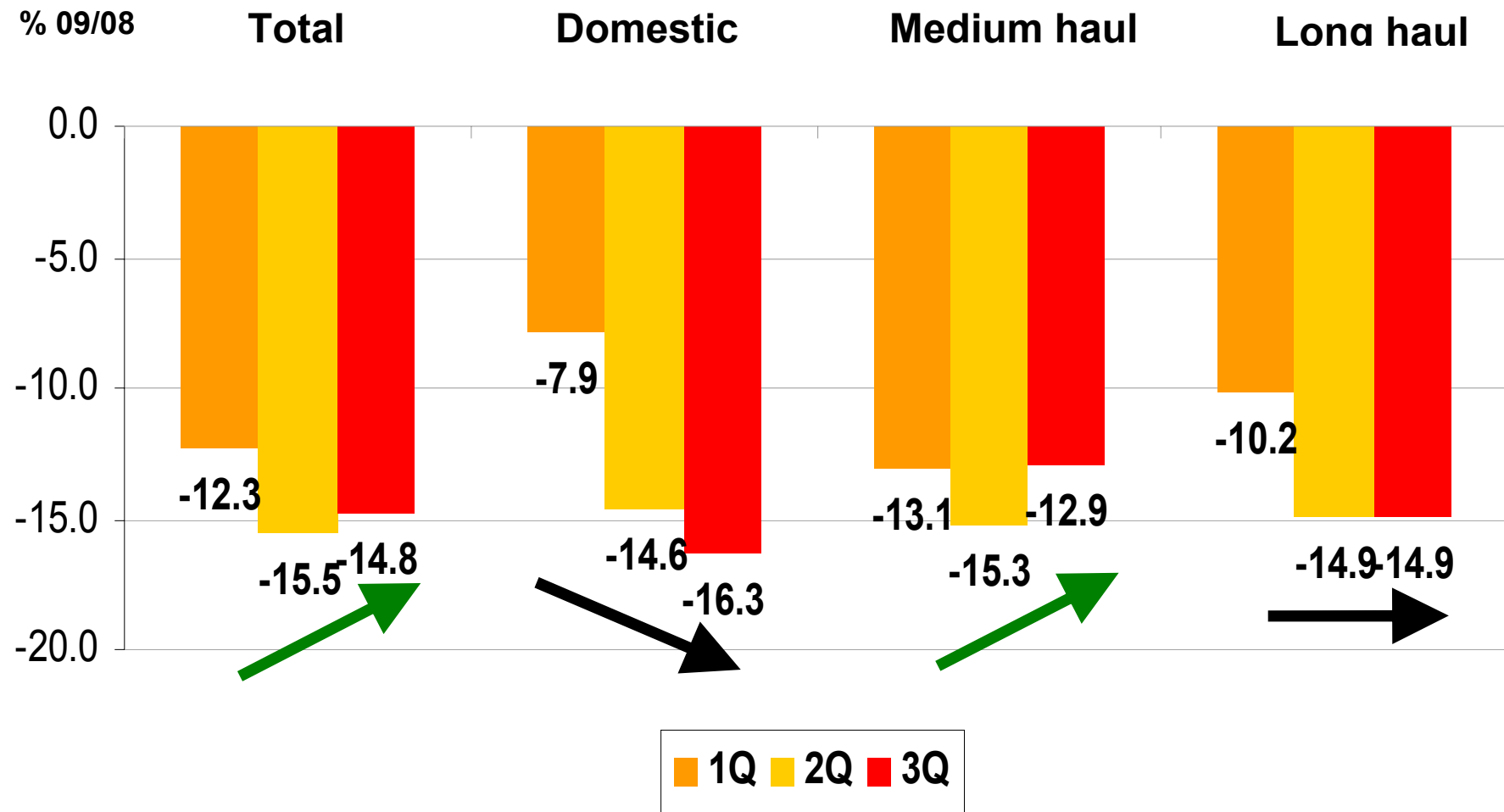
€ million	Q3 2009	% YoY
<b>Passenger</b>	892.7	- 21.6
<b>Cargo</b>	59.9	- 32.0
<b>Handling</b>	82.5	0.4
<b>Maintenance</b>	69.1	- 5.2
<b>Rest</b>	62.4	- 9.7
<b>Total</b>	<b>1,166.6</b>	<b>- 19.6</b>

# Yield Evolution





# Passenger Revenue/ ASK



## Good performance of Operating Costs

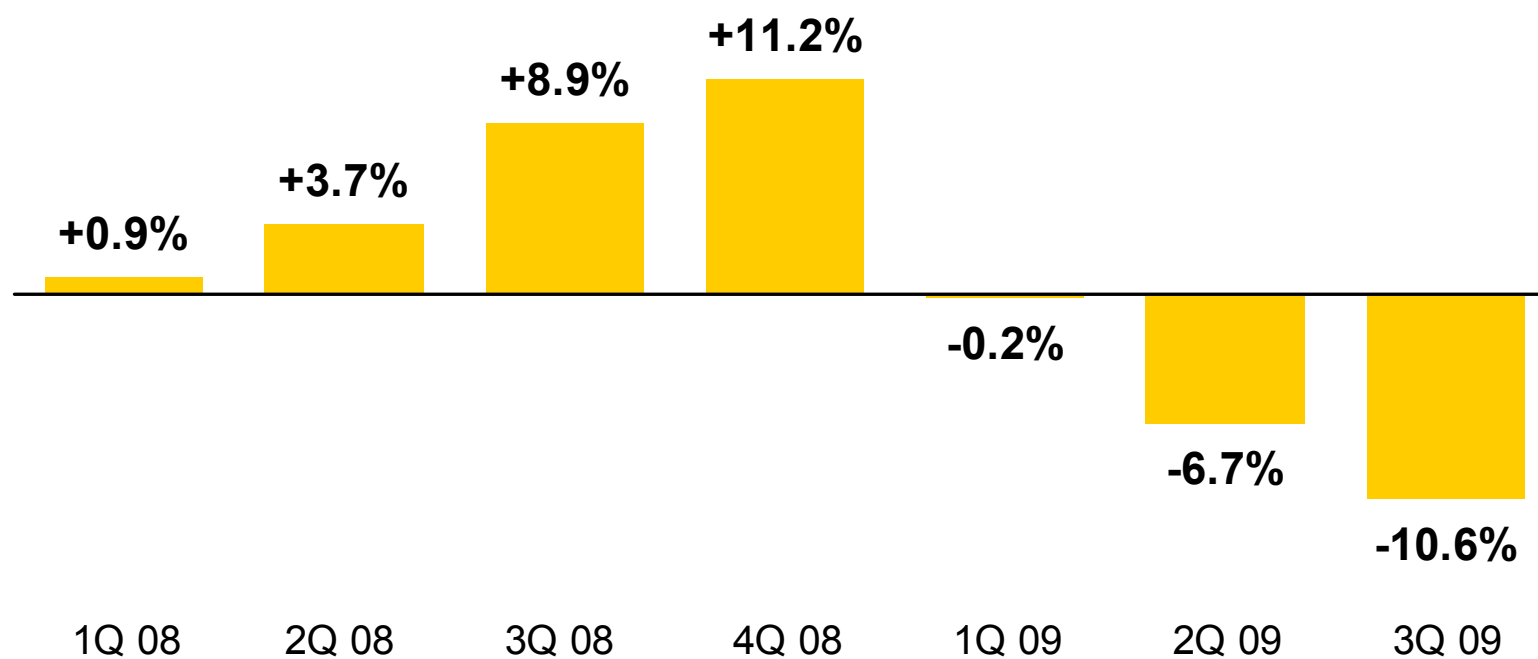


€ million	Q3 2009	% YoY
<b>Personnel</b>	324.8	- 2.8
<b>Fuel</b>	309.5	-34.1
<b>Aircraft rentals + Depreciation</b>	128.5	-10.3
<b>Nav.aids + Traffic levies</b>	166.4	-2.5
<b>Commercial</b>	35.5	- 30.4
<b>Total costs</b>	<b>1,220.6</b>	<b>- 14.9</b>
<b>Total unit costs</b>		<b>- 10.6%</b>

## Unit costs evolution



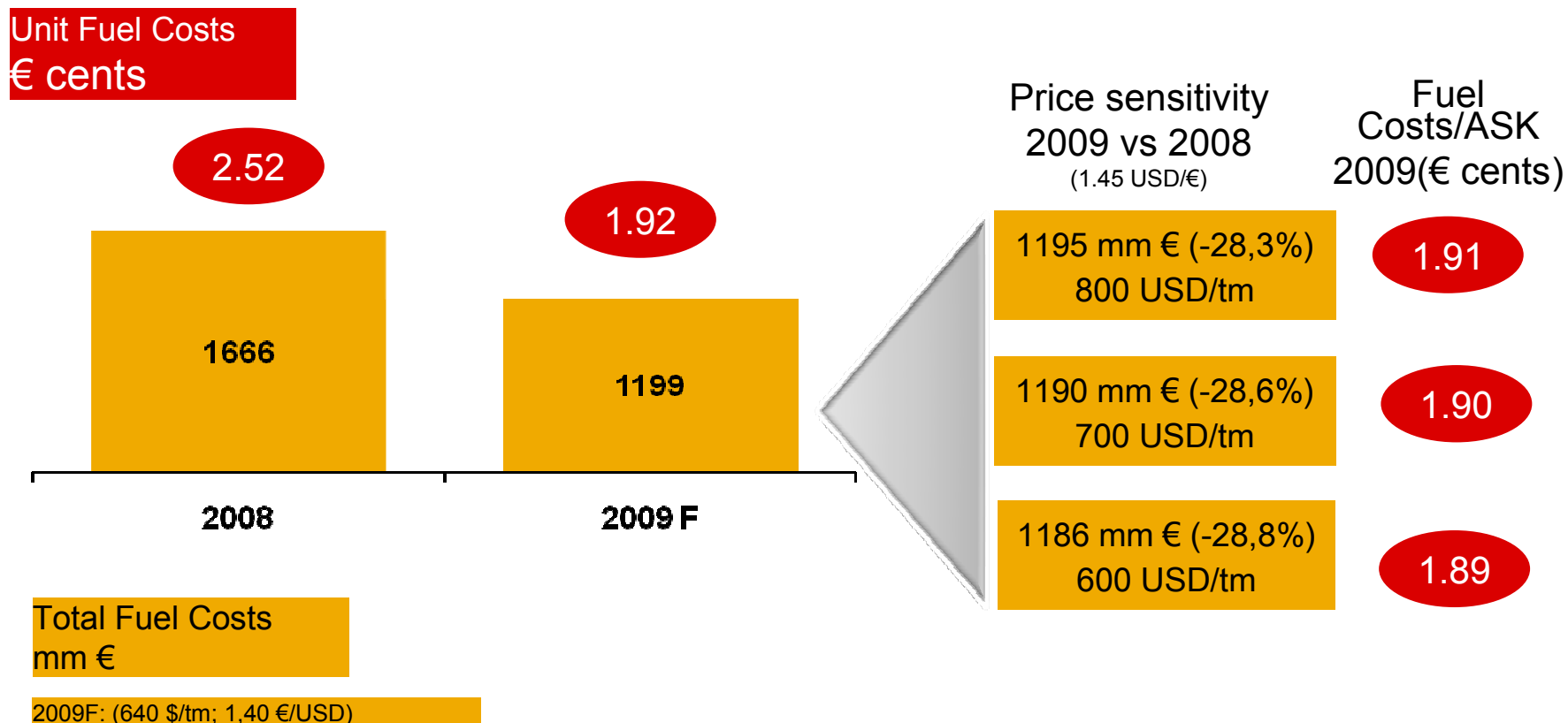
% YoY Cost / ASK



# Jet Fuel 2009 E



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



## 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
<b>In Balance-sheet net debt</b>	<b>-1,521</b>	<b>-1,803</b>
Capitalised operating leases (x8)	2,691	2,816
<b>Adjusted net debt</b>	<b>1,171</b>	<b>1,013</b>

**Iberia has maintained a strong financial position**



Rafael Sánchez-Lozano

Managing Director & Chief Operating Officer



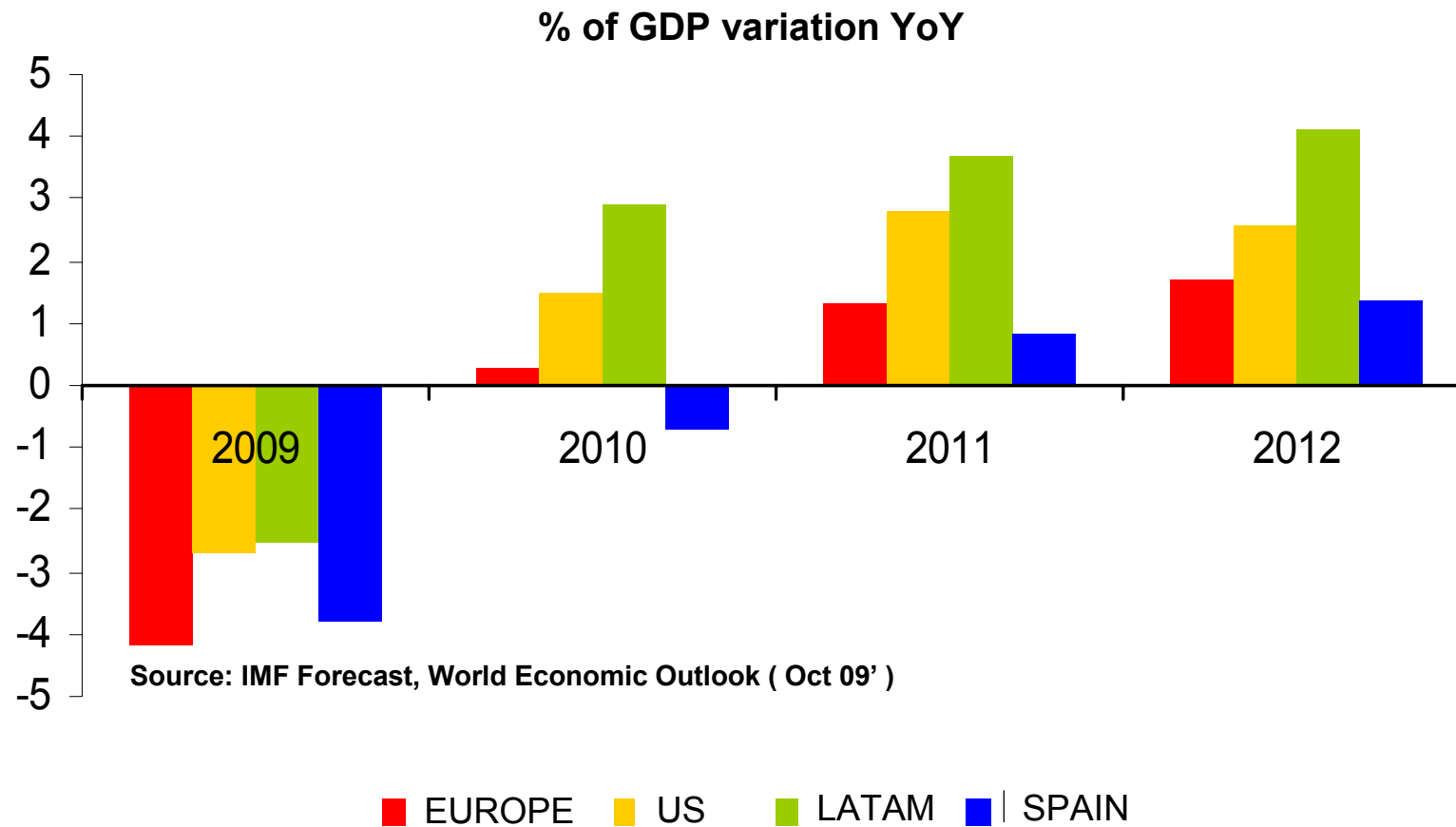


Plan 2012





# 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

