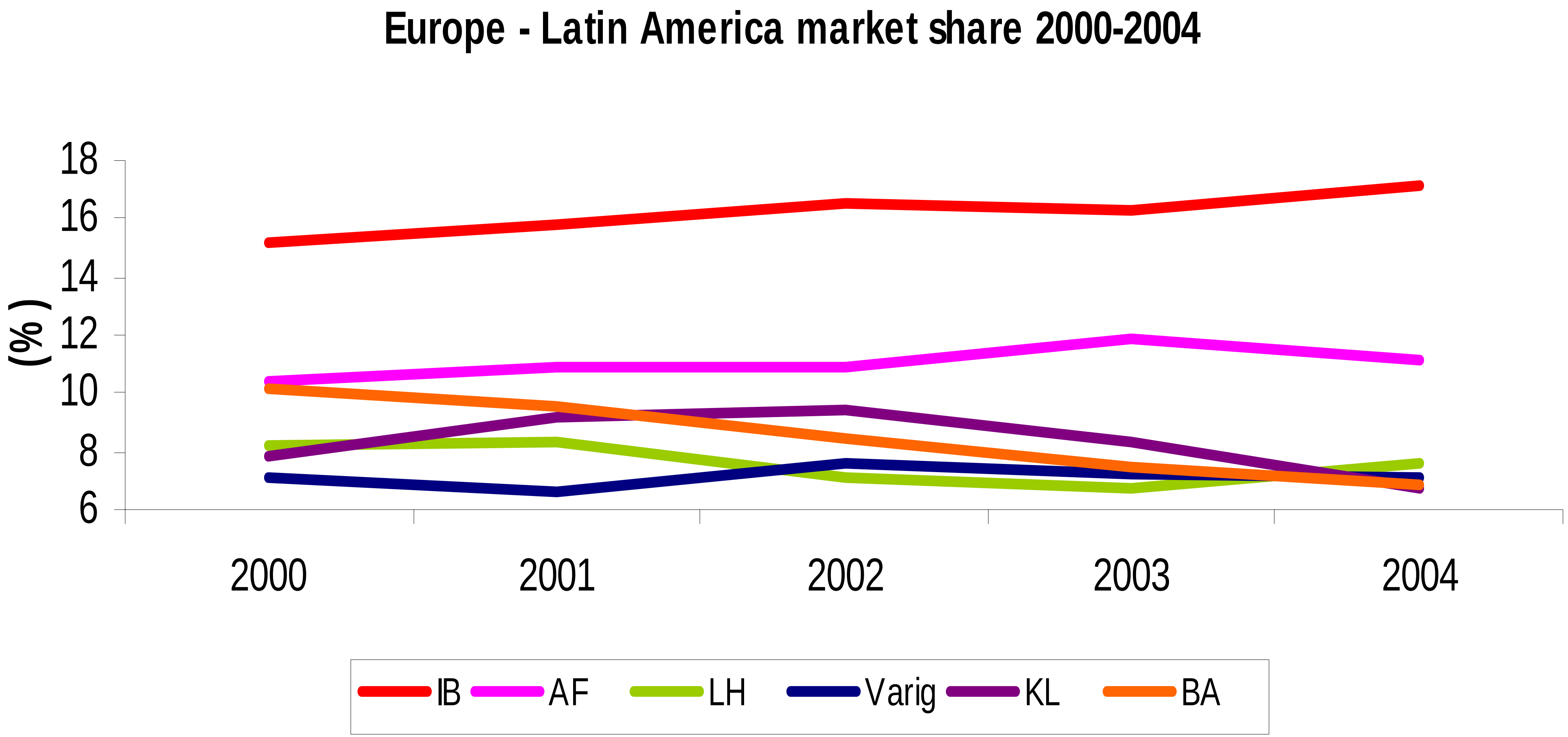
# Flexibility and cost cutting: Reaching targets

Merrill Lynch Transport Conference

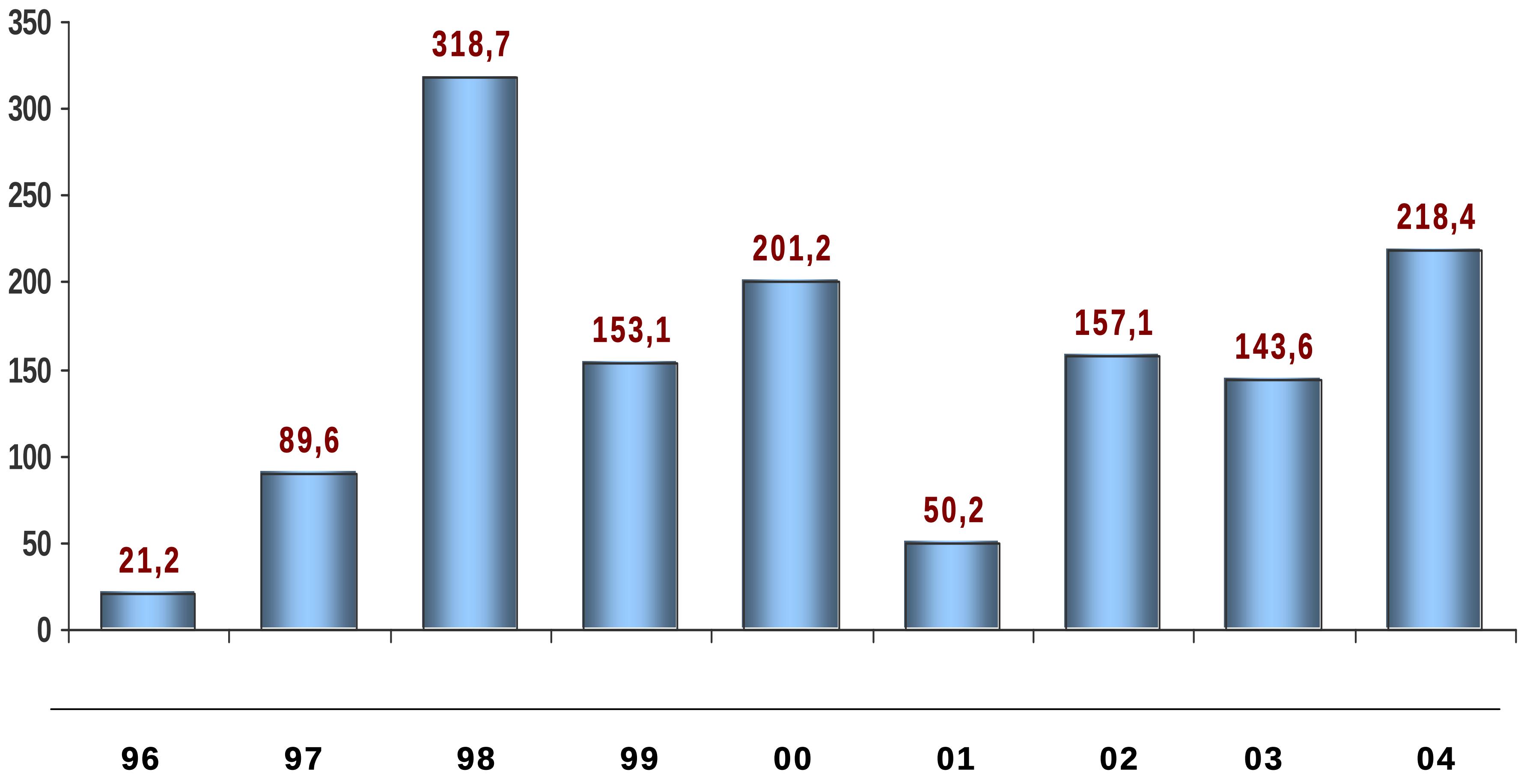
9th March 2005

# Competitive Strengths

# Leadership in the Europe-Latin America Market



# Nine Consecutive Years of Profits




Net Profit (€ M)

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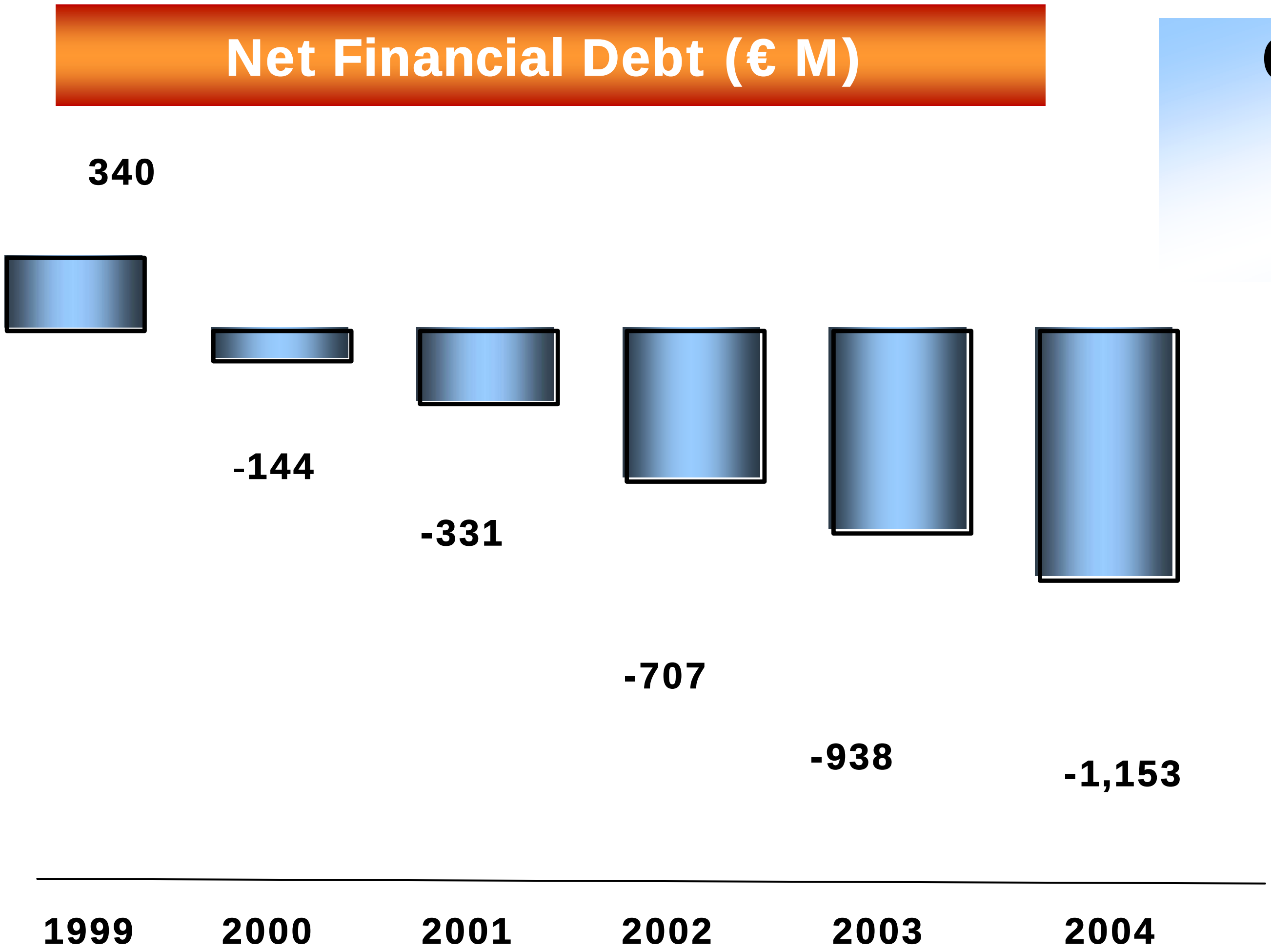
# Strong Balance Sheet




**Gross Cash Position**

**December 2004**

**1,546.5 € M**

**50 % of leverage if we include the off balance sheet debt**

# Targets of our Director Plan 2003-2005

# Vision of the Director Plan

- Maintain our leadership position in the domestic and Europe-Latin America market

  Enhancing business class and maintaining connecting traffic

- Develop competitive service and prices in Domestic and European point-to-point routes

  Redefining the service model in tourist class

- Maintain a competitive cost base even with Low Cost Carriers

- Maximise the value of the different airline related businesses

**Maintain the leadership in profitability among the European airlines**

**Shareholder Value Creation**

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# Adapting the Business Model of Iberia. New Products

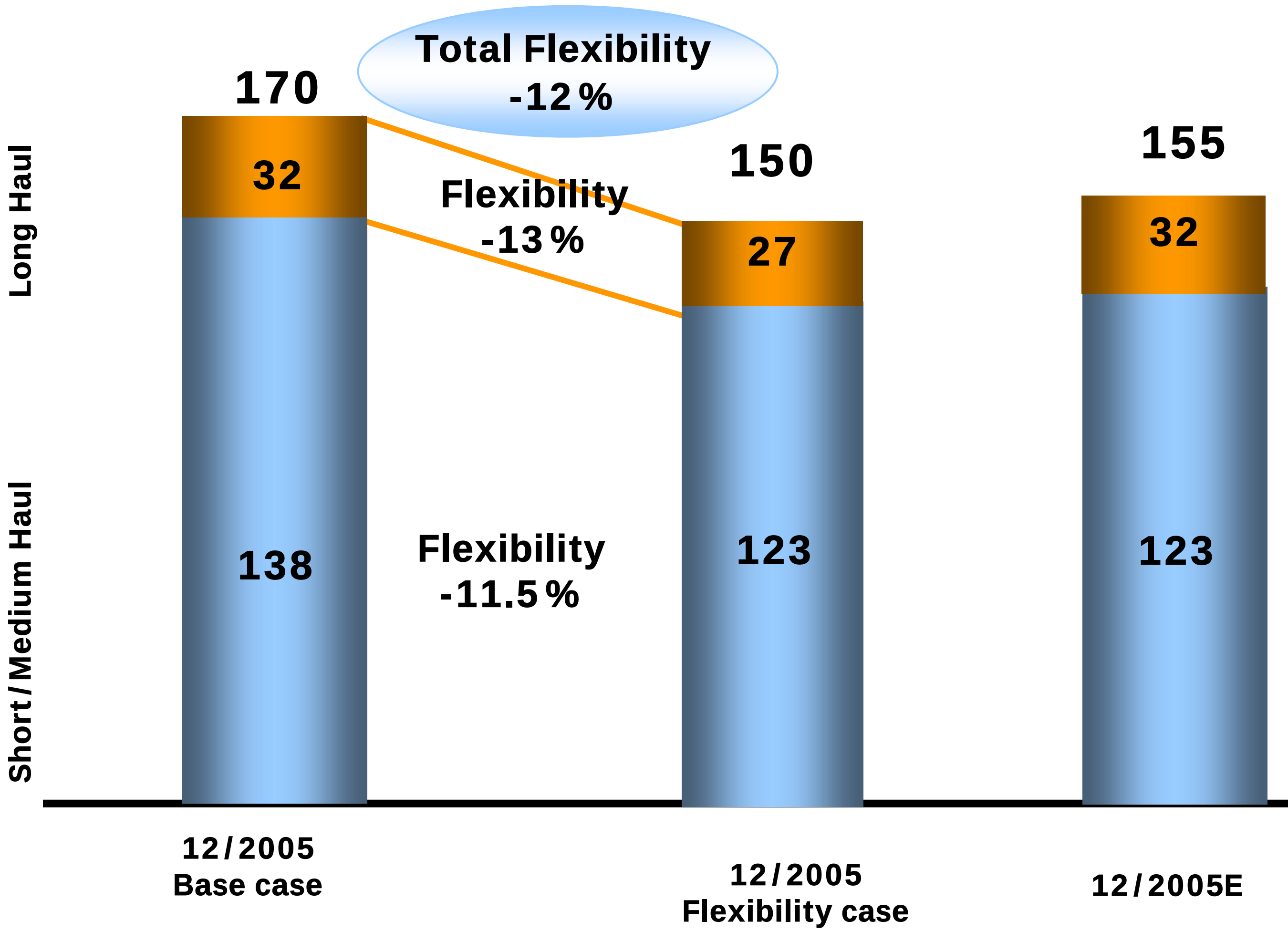
- The short / medium haul economy product will be transformed: Unbundling the product
- The proposal offered to business traveller will continue to be enhanced

## Modifications to Service Model

| | Economy | Business |
|---|---|---|
| Short + Medium Haul | **Migration to a "pay as you go" model**<br>•Simplification in 2003 (1st phase)<br>•Introduction of pay-as-you-go in 2004 | **Improvement of passenger services**<br>•Fast track services<br>•Quality meals<br>•Personalised passenger treatment (CRM) |
| Long Haul | No change | **Introduction of "New Business Class"**<br>•Entertainment on board<br>•Communications<br>•Flat Seats<br>•Personalised passenger treatment (CRM) |

Redeployment of resources

# 2005: Flexibility - Remains a Key Tool




- Non renewal of Operating Leases (-6 aircraft)
- Non exercise of options (-4 aircraft)
- Cancel new hiring of Wet Leases (-3 aircraft)
- Delay deliveries (-2 aircraft)

# Reducing Costs

| | Impact in 2005 € M |
|---|---|
| | **Director Plan** |
| Asset utilisation | 35-45 |
| Personnel costs | 65-75 |
| Commercial costs | 100-110 |
| On board service | 40-50 |
| Other costs | 110-120 |
| | 350-400 |

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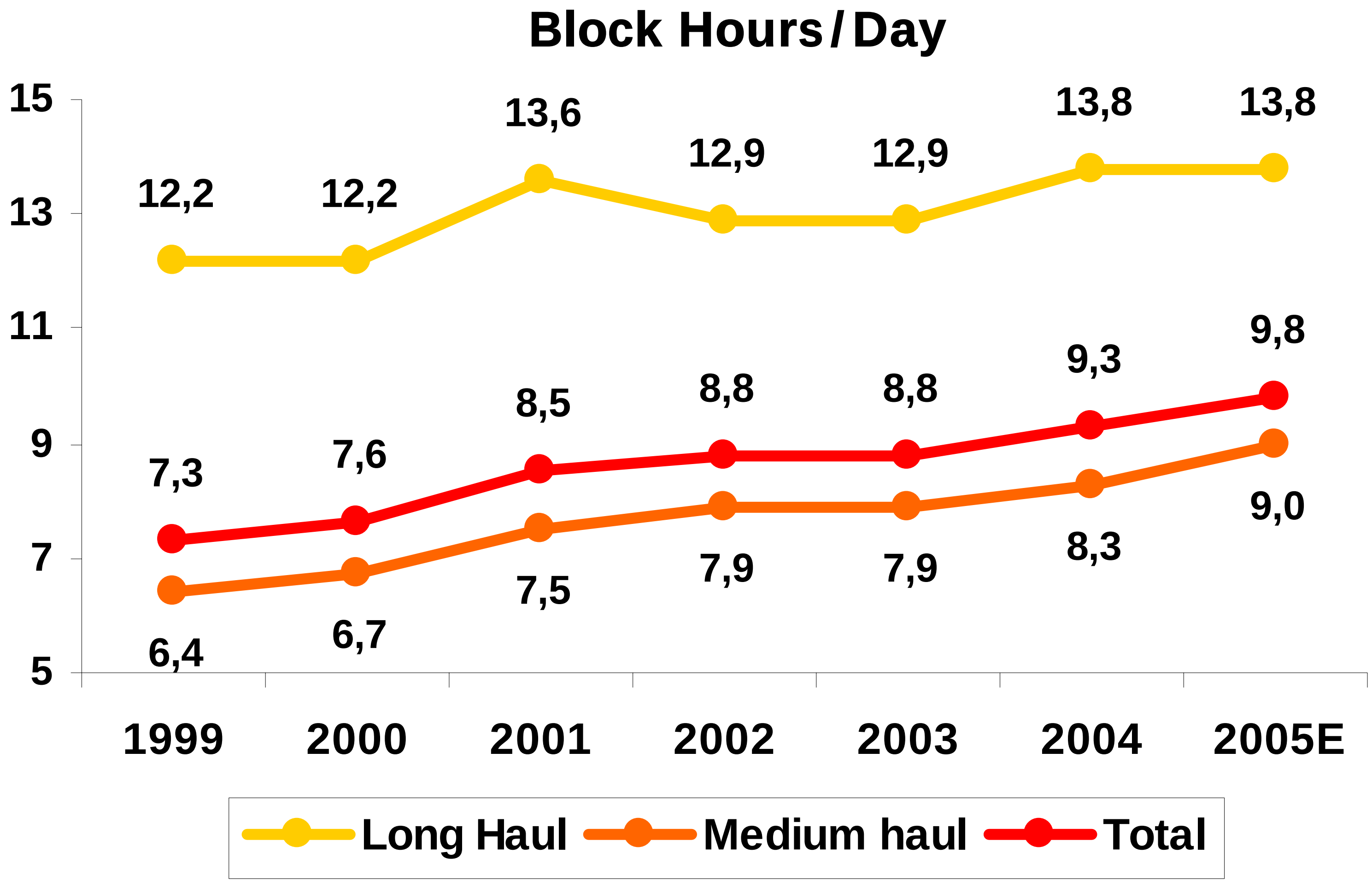
Note: Targets of cost reductions over base case 2005

# Strong Improvement in Asset Utilisation

35-45 MM/€

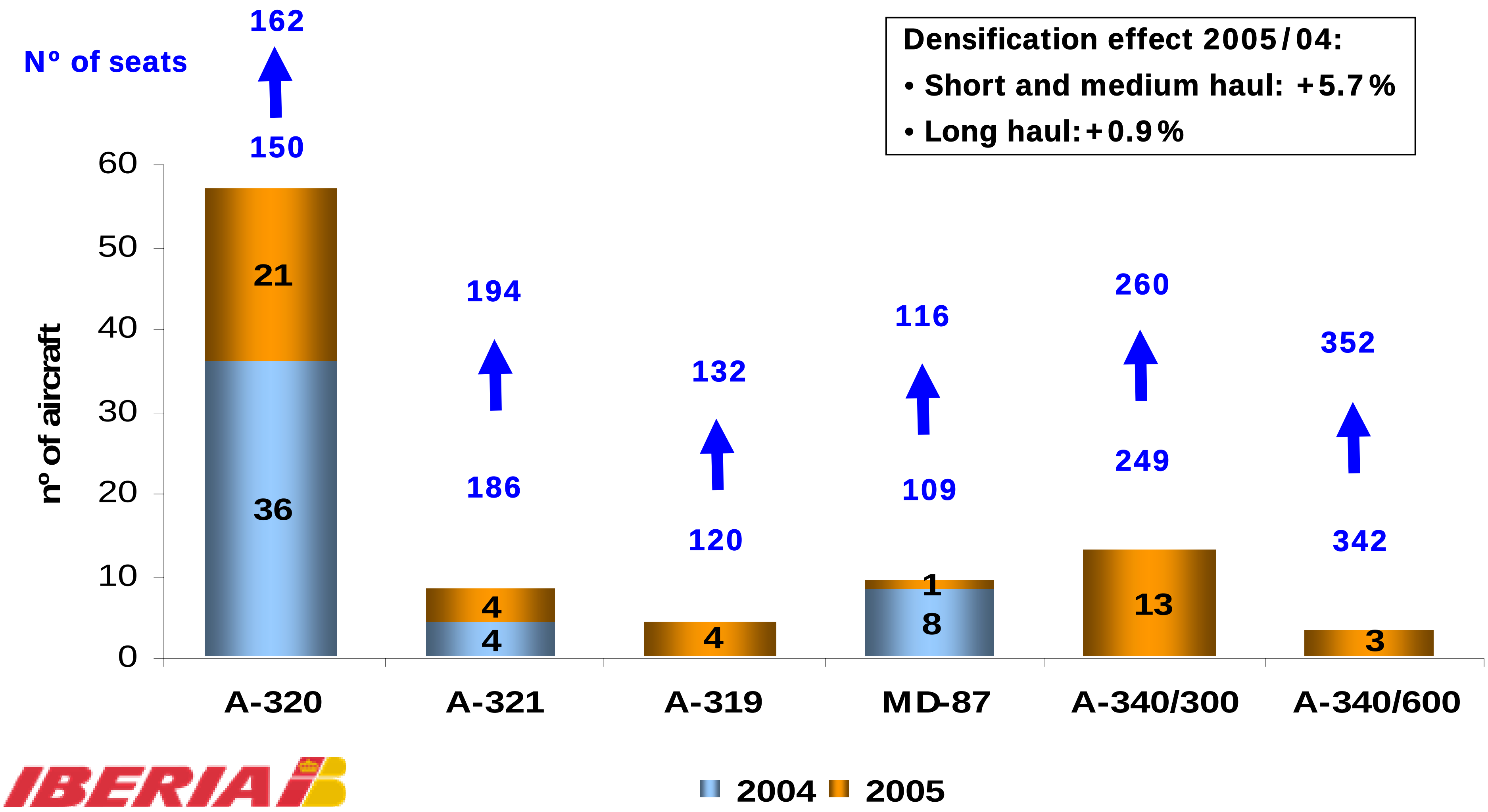


# Asset Utilisation

35-45 MM/€

- Optimisation of fleet: Increase number of seats per aircraft

Densification effect 2005/04:
- Short and medium haul: +5.7%
- Long haul: +0.9%

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# Personnel Productivity

65-75 MM/€

## Productivity improvement and reduction of unit costs

### Director Plan targets:

- **Ground Staff** Cost/ASK: ↓ 10-13%
- **Pilots** Cost/Block Hour: ↓ 4-8%
- **Flight attendants** Cost/Block Hour : ↓ 10-15%

### Some measures:

- Reduction of flight attendants for short and medium flights
- Reorganisation of regional offices
- Crew multilicences

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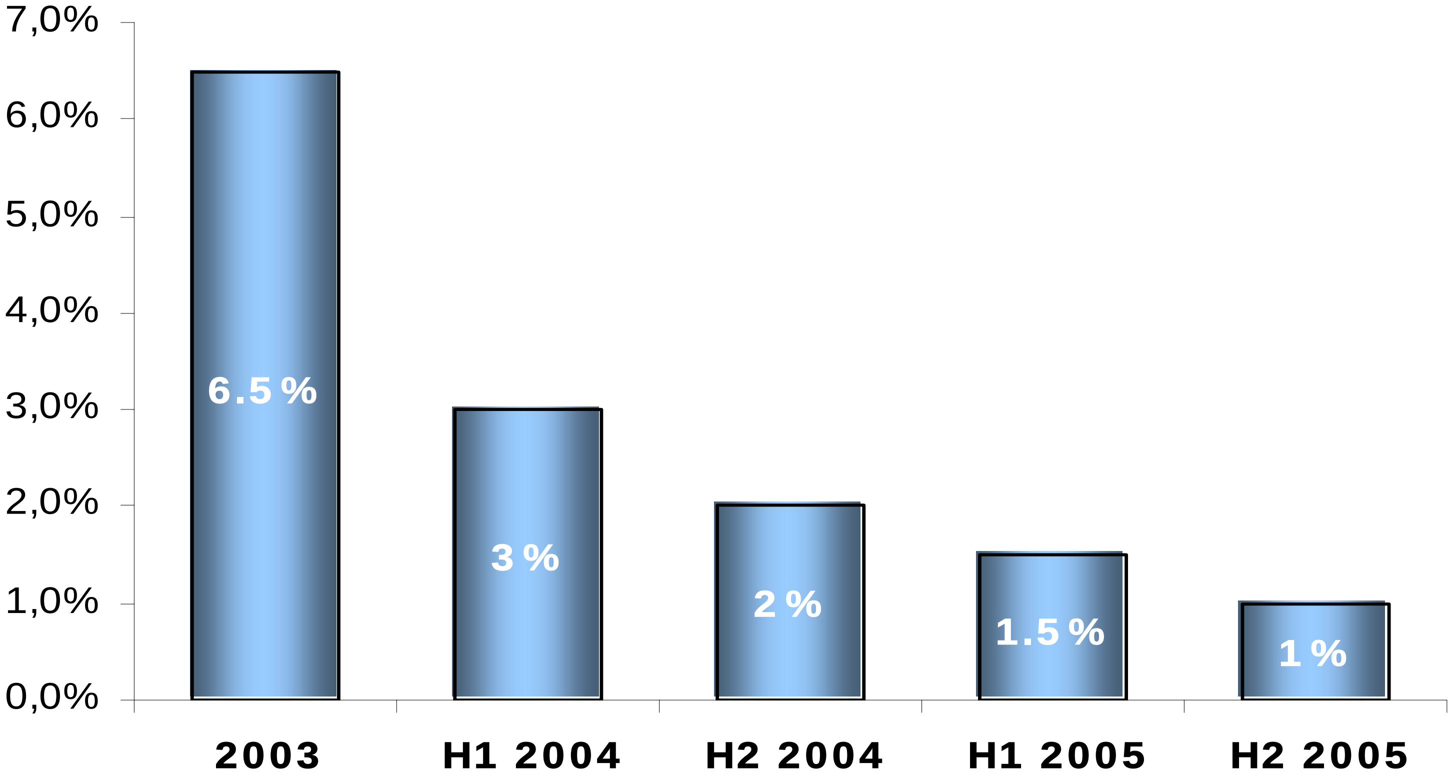
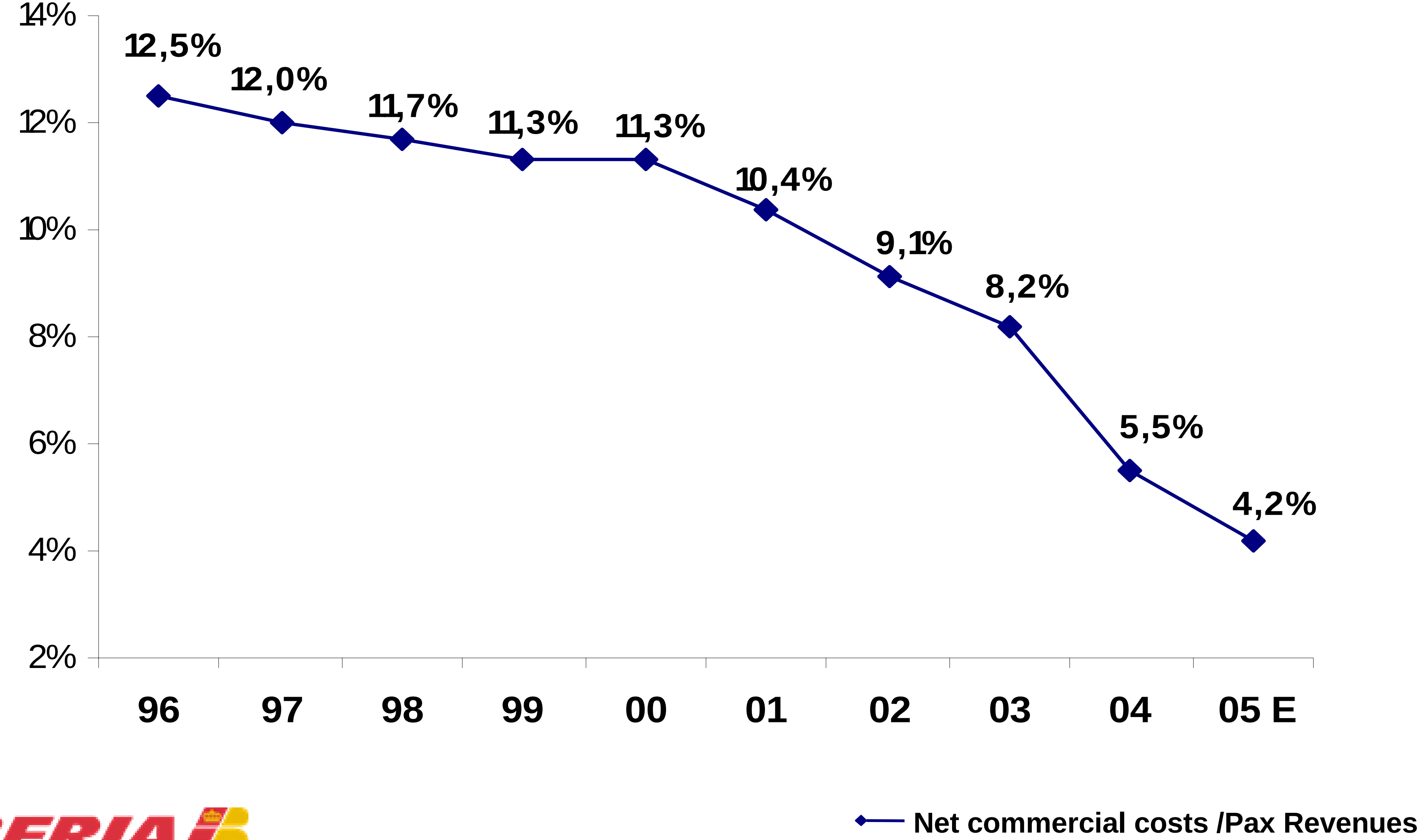
# Reduction of Basic Travel Agencies' Commissions in Spain

100-110 MM/€



# Commercial Costs Trend

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# Cost Reductions: The Plan on Track

**Impact in 2005 € M**

| | Director Plan | Achieved in 2004E | 2005E |
|---|---|---|---|
| Asset utilisation | 35-45 | 17% | 100% |
| Personnel costs | 65-75 | 42% | 100% |
| Commercial costs | 100-110 | 66% | 100% |
| Service on board | 40-50 | 37% | 100% |
| Other costs | 110-120 | 86% | 100% |
| | **350-400** | **60%** | **100%** |

**Note: Targets of cost reductions over base case 2005**

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# Sensitivity of the Targets

| | Targets 2005 | Sensitivity of targets to fuel prices: 5 US$/barrel |
|---|---|---|
| Unit Cost | ↓ 10-12% | -1.7 p.p. |
| EBITDAR margin | ~19% | -1.5 p.p. |

The Director Plan was calculated with a fuel price of 24.5 US$/barrel

# 2004

# Positive Results

| | 2004 | 04/03 |
|---|---|---|
| **Revenues** | **4,805.4** | **+4.2%** |
| **Ebitdar** | **766.9** | **+9.4%** |
| ***Ebitdar margin*** | ***16 %*** | ***+0.9 p.p*** |
| **EBIT** | **203.3** | **+29.8%** |
| **Ordinary results** | **264.6** | **+46.4%** |
| **Net Income** | **218.4** | **+52.9%** |

***MM/€***

***Data 03: Proforma without Iber-Swiss***

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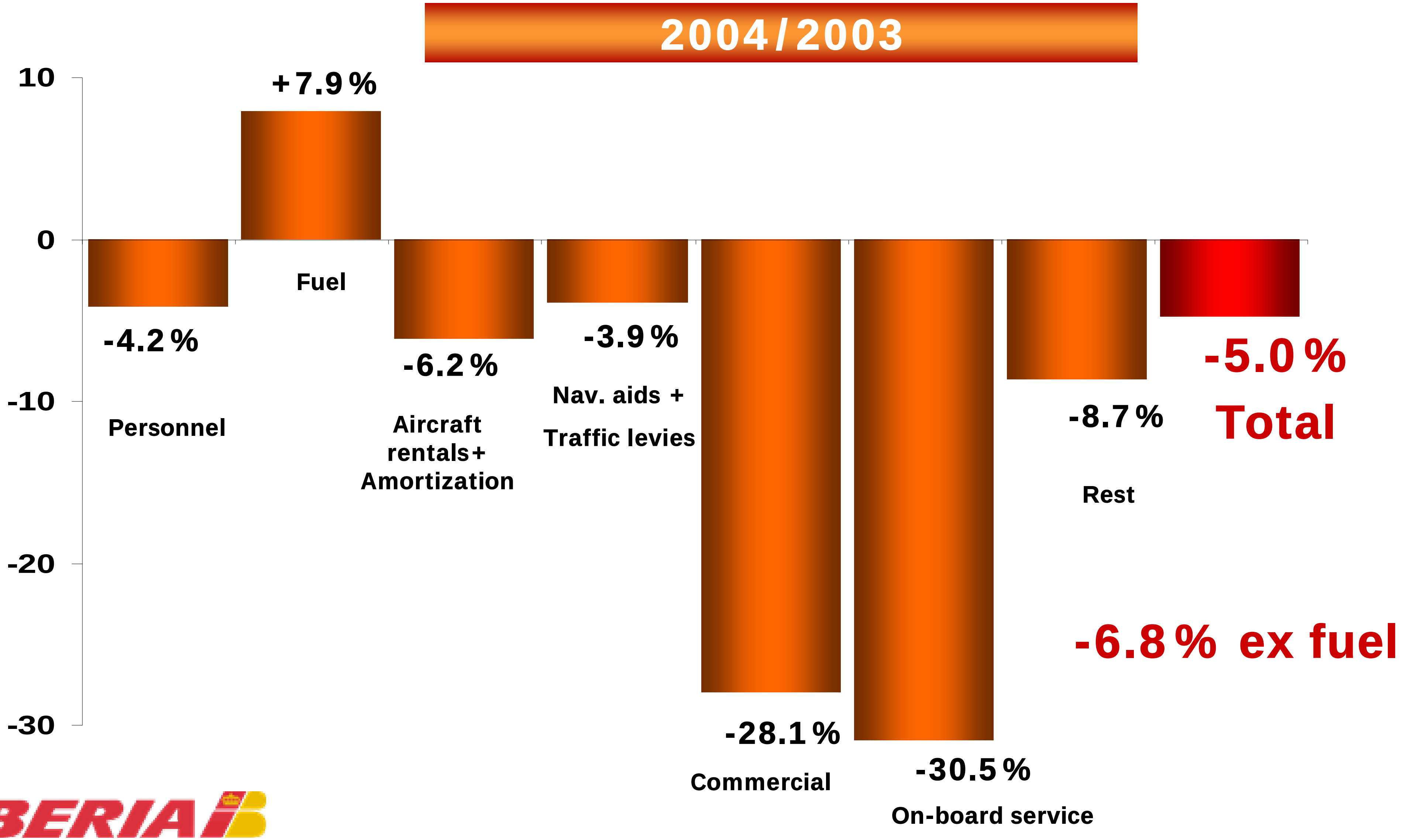
# Unit Costs Evolution



# New Developments

# Short and Medium Haul Fleet Renewal

- Up to 79 aircraft (30 firm + 49 options) to be delivered from 2006 to 2011
- Cost reductions
  - Fuel -19%
  - Maintenance -23%
  - Substantial reduction in aircraft rentals with respect to previous contract
- Mostly to be financed through operating leases

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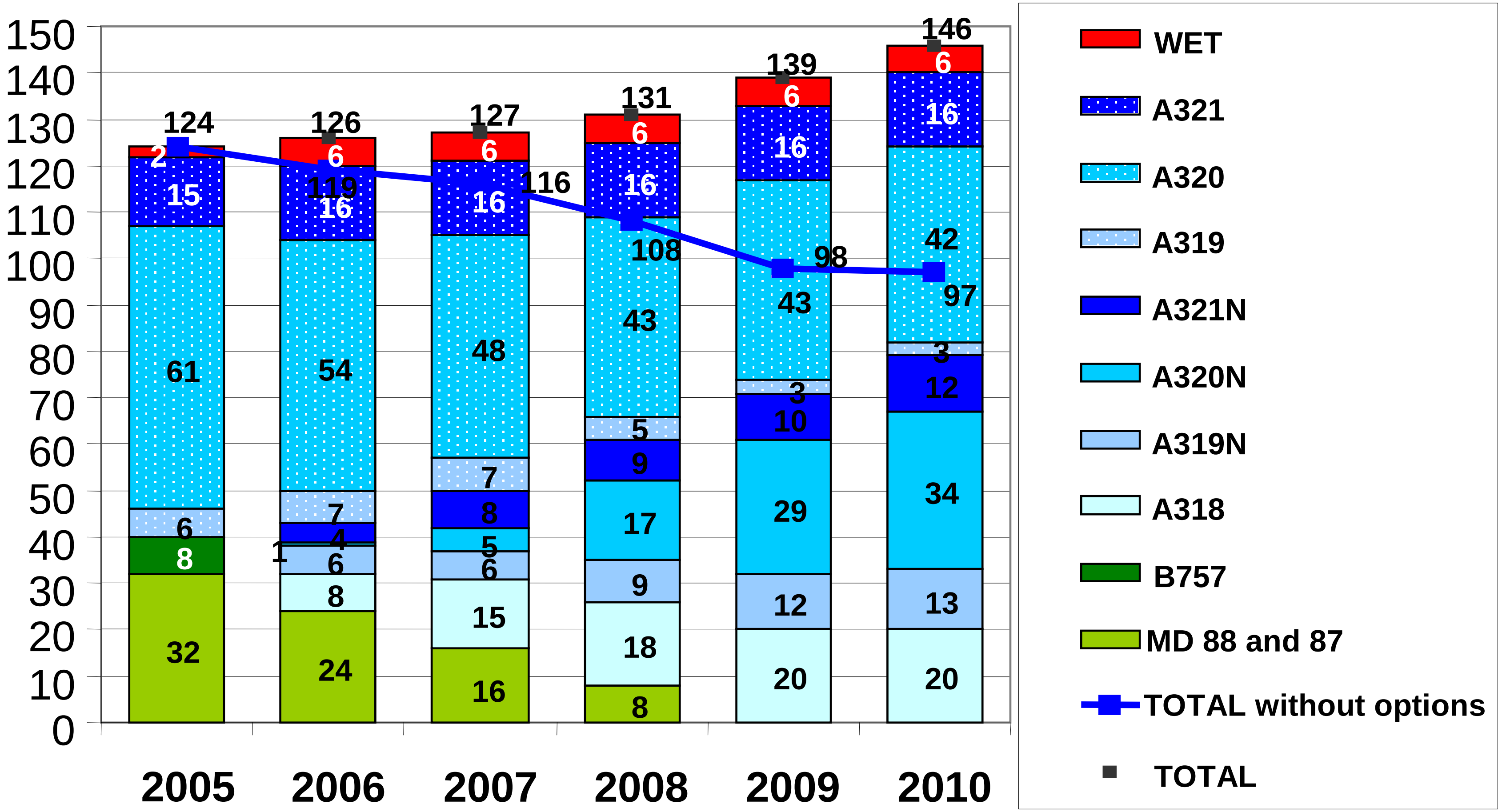
# Short and Medium Haul Fleet Evolution




**Iberia, first European network carrier with a single short and medium haul fleet**

# The Key Elements of Our Success

- **Flexibility:**
  - **Ability to adapt to different customer needs: differentiation of the products. Best customer proposal in each of our market segments**
  - **Ability to adjust capacity to market conditions**
- **Cost reduction focus**
- **Concentration in key strategic markets**

**Commitment to delivery: Profitable growth**

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# And Still More Improvement Potential...

## New areas to be developed:

- New labour agreements: Additional productivity and flexibility
- Simplifying the short and medium haul product: Review and automatisation of handling procedures
- Improving turnaround times
- Opportunities for non-organic growth
- Overheads and structure reduction