Iberia was founded on June 28, 1927 by Horacio Echeberrieta. It was not only Spain’s first airline, but also the first to fly between Europe and South America (as of 1946), the first to establish a walk-on air shuttle service (between Madrid and Barcelona), and the first in Europe to offer an international frequent flyers customer loyalty programme (Iberia Plus).

In 2001, on April 3, Iberia’s privatization process was completed, when its shares were listed for the first time on the stock exchange. The following year Iberia was included in the selective Ibex-35 stock market index. Today Iberia is an international transport group operating in around 100 airports.

**IBERIA’S POSITION SHORTLY AFTER PRIVATISATION (2002)**

Although Spain is not a major airline hub, it is a rapidly growing market:

**FAST GROWING SPANISH MARKET**

- New runways In 2004
  - 2 in Madrid
  - 1 in Barcelona

- New terminals
  - Madrid in 2004
  - Barcelona in 2005

- Air Traffic Control Investments

Source: Iberia.com
Iberia revenues are split roughly 1/3, 1/3, 1/3 across three market segments: Domestic, European and Long haul/Intercontinental:

- Spain has more domestic passengers than any other European country. Its large size and relatively undeveloped road and rail infrastructure outweigh the impact of being smaller in population than some other countries. The case majority of customers fly point to point (i.e., not through a hub such as Madrid). The domestic market has relatively few competitors on most routes, but is forecast to decline due to improvements in motorway and rail links. Iberia enjoys market shares of 50-60%, and 85% in the premium segment. It has good relationships with the local airports and related local government and this allows it significant influence over departure times, gates and plans for airport expansion and modification.

- The European market is also large in Spain. Germany-Spain has the largest number of flights of any two European countries – with UK-Spain second. The majority of passengers fly on point to point routes, although slightly less so than for the domestic market. European flights face increasing competition from LCCs (low cast carriers) such as Ryanair, particularly to and from tourist destinations. Spain is tied with Italy as the second most penetrated LCC market after the UK. However, to date the LCCs have taken share primarily from Charter airlines. Competitiveness varies a lot by route – but in general, high traffic routes attract new competitors over time. There are no major regulatory barriers stopping a new airline starting up – although they can find it difficult to find slots at very busy airports such as Heathrow or Madrid.

- Long haul markets have been hit by the recent twin towers bombing in New York, but are expected to recover. Iberia serves the needs of domestic travelers and has the highest market share (for European airlines) in routes to Latin America. Its share of tourist and business customers are about equal (the latter having grown significantly in recent years). Some airlines are contracting, such as BA. Several of the Latin American airlines have experienced severe problems related to the meltdown of some Latin American economies in recent years.

The majority of passengers fly on connecting flights to Madrid or Barcelona before flying to their final destination – although a significant number fly point to point (i.e., direct from Madrid and Barcelona). On routes from Spain to Latin American, as on routes to many other intercontinental markets such as the US, government regulation means that Iberia is the only European airline allowed to fly.

Examples of prices for different routes in these three different markets are attached as an appendix.
MARKET SHARE EVOLUTION EUROPE-LATIN AMERICA

Iberia
- More destinations
- Higher numbers of non-stop flights
- Higher daily frequency

Air France

KLM

British Airways
- Retrenching to business and point to point customers only

Lufthansa

Source: Iberia.com

Iberia’s operational performance is mixed. Costs are high relative to the low cost carriers. However, unit costs are low relative to other national carriers.

IBERIA UNIT COSTS BELOW TRADITIONAL AIRLINES

** Costs are Operating costs less 33% of Operating Leases. ASK is the number of seats times distance flown (a unit of capacity)  
Source: AEA, Iberia.com
More specifically (on the parameters identified in the note on the airline business):

- **NETWORK.** Iberia has two major hubs – Madrid (which is the biggest for inter-continental flights) and Barcelona. It is particularly strong in Madrid (in excess of 50% market share), which is relatively business orientated and the prime hub for inter-continental flights. Both hubs have experienced high growth and are expected to continue to show this. However, LCCs are building share at Barcelona in particular, and other Spanish airports such as Malaga and Alicante.

Iberia operates many flights from Spain to European locations and to major inter-continental hubs – particularly Latin America where it has a high share of total flights. It has also been increasing the proportion of business customers on these routes.

- **POSITIONING/BRANDING.** Iberia is the premium airline in Spain. Recent initiatives include strong growth of its European network, launching Iberia.com and electronic ticketing, e-procurement and initial reduction in staff costs. It has a traditional model, including branding, frequent flyer programs (as part of the OneWorld alliance), business lounges, on board catering, traditional seating (spaced out, limited recline in business), a relatively undifferentiated service between business and tourist class customers, heavy use of travel agents and relatively high commissions (10%)

Aircraft utilisation is particularly poor – primarily due to network planning and slow turnarounds.

- **ALLIANCES.** Iberia is a member of the OneWorld airline alliance along with American Airlines, British Airways, Aer Lingus, LAN Chile, Cathay Pacific, Finnair and Qantas. Together they fly to almost 600 destinations in 135 countries. On average, every five seconds there is a takeoff or landing by an aircraft of an airline in the alliance.

- **AIRCRAFT MIX.** The fleet is a mix of Boeing and Airbus aircraft.

- **OUTSOURCING.** Iberia has not outsourced many of its activities

- **SYSTEM DEVELOPMENT.** Iberia does not have any other major businesses

Iberia is a relatively profitable airline and has been for the past few years.

Sources: Iberia Website, Press.
### LOWEST PRICES OF IBERIA FLIGHTS FROM MADRID
Outbound flights Monday 19 June, 2006 – booked one month in advance

<table>
<thead>
<tr>
<th>Destination</th>
<th>Distance (Km)</th>
<th>Overnight stay (Euros)</th>
<th>4 day stay (Euros)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Granada (Spain)</td>
<td>310</td>
<td>262</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Murcia (Spain)</td>
<td>300</td>
<td>452</td>
<td>104</td>
<td></td>
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<tr>
<td>Geneva</td>
<td>1200</td>
<td>55</td>
<td>70</td>
<td>350 Euro for a day return</td>
</tr>
<tr>
<td>London</td>
<td>1650</td>
<td>66</td>
<td>168</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>5800</td>
<td>1820</td>
<td>1121</td>
<td>506 Euro for Friday or Saturday departure</td>
</tr>
<tr>
<td>Rio de Janiero</td>
<td>7000</td>
<td>3753</td>
<td>1149</td>
<td></td>
</tr>
<tr>
<td>Guatemala</td>
<td>7500</td>
<td>3048</td>
<td>4258</td>
<td></td>
</tr>
</tbody>
</table>

### LOWEST PRICES OF IBERIA FLIGHTS FROM BARCELONA
Outbound flights Monday 19 June, 2006 – booked one month in advance

<table>
<thead>
<tr>
<th>Destination</th>
<th>Distance (Km)</th>
<th>Overnight stay (Euros)</th>
<th>4 day stay (Euros)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Granada (Spain)</td>
<td>620</td>
<td>298</td>
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</tr>
<tr>
<td>Murcia (Spain)</td>
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<td>Via Madrid</td>
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<tr>
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<td>235</td>
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</tr>
<tr>
<td>New York</td>
<td>5800+</td>
<td>1820</td>
<td>1200</td>
<td>Via Madrid</td>
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<tr>
<td>Rio de Janiero</td>
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<td>1228</td>
<td>Via Madrid</td>
</tr>
<tr>
<td>Guatemala</td>
<td>7500+</td>
<td>3048</td>
<td>4258</td>
<td>Via Madrid</td>
</tr>
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</table>