A MAGAZINE FOR AIRLINE EXECUTIVES
2004 Issue No. 1

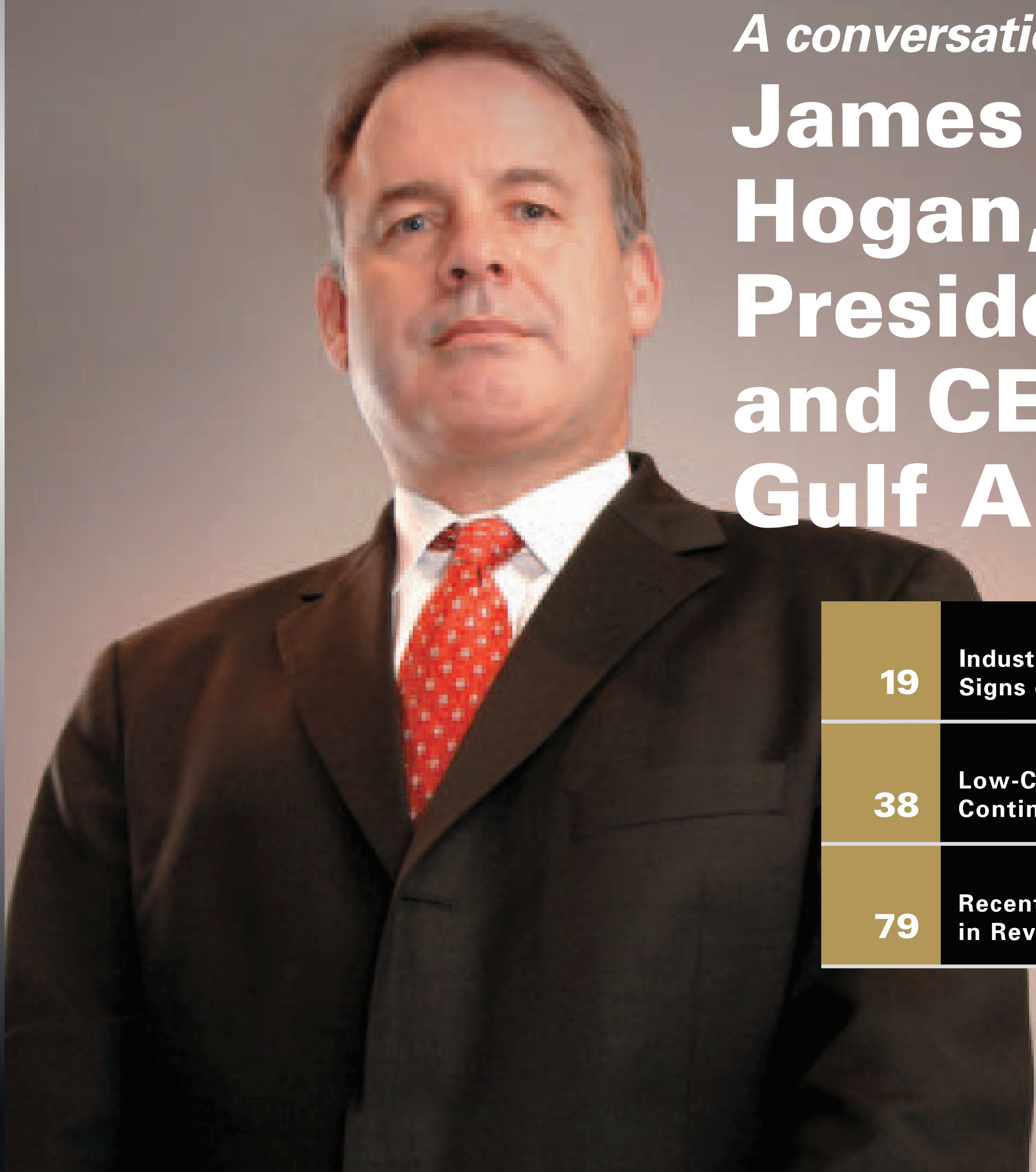
ascend

Taking your airline to new heights

ON THE ROUTE TO RECOVERY

A conversation with …

James Hogan, President and CEO, Gulf Air



INSIDE

wearelistening@sabre.com

Iberia Airlines

FOCUSED STRATEGY FOR AN OPTIMISTIC FUTURE

By staying the course of its strategic plans, Iberia Airlines is poised to continue its recovery and preserve its position as one of Europe's leading carriers.

By Gary Thompson
Ascend Contributor

Photo courtesy of Iberia Airlines

Iberia Airlines, the Spanish national carrier, has seen its profits take off during the past three years, achieving operating profits from 2001 through 2003. Last year, the airline, which is currently in its third three-year strategic "Director Plan," earned €4.6 billion (US$5.7 billion) in operating revenues, a sign of the carrier's strength despite the industry's economic condition.

Without a doubt, 2003 was a year of great change in the airline industry. But for Iberia Líneas Aéreas de España, the national airline of Spain, the year's changes marked a continuation of its recovery and transformation into a commercially successful global airline.

The airline's ability to weather the storm has been proven through its financial results of the past few years. For 2003, Iberia earned a €161 million (US$199 million) operating profit, and in 2002, Iberia posted an operating profit of €249 million (US$314 million) and a net profit of €157 million (US$198 million). Even in 2001, when the industry suffered its worst financial year in history, Iberia turned a €5 million (US$6 million) operating profit and a €50 million (US$63 million) net profit.

For Iberia, however, recovery was not an overnight process. Rather, the foundation for the profitability the airline has enjoyed recently was poured a decade ago. The key to Iberia's ongoing success has been its management's focused strategy and discipline to implement it, and its desire to ensure it maintains a competitive edge and exceeds its customers' expectations.

"Iberia decided to adopt a strict policy of cost control long before 2001, the fruits of which were demonstrated during the worst crisis the industry has suffered to date," said Angel Mullor, consejero delegado for Iberia. "At the same time, operational and financial flexibility was a key focus for Iberia. The crisis that has affected the industry over the past two years has underlined the fact that airlines today need to be extremely focused on controlling their costs and planning, while at the same time, they need to be more flexible."

Ten years ago, with the liberalization of the Spanish market, Iberia's leadership realized it would have to adapt to a new airline industry. In 1994, the airline launched a three-year "Viability Plan," which featured initiatives to cut costs and reduce holdings in other airlines. Following the Viability Plan, the airline launched its first "Director Plan" in 1997 in conjunction with the full phase-in of the liberalization of the air transport industry in the European Union.

IBERIA

"The key to Iberia's ongoing success has been its management's focused strategy and discipline to implement it, and its desire to ensure it maintains a competitive edge and exceeds its customers' expectations."

Photo courtesy of Iberia Airlines

The first Director Plan was highlighted by finalizing agreements with British Airways and American Airlines, which led to the founding of the **one**world alliance. It also embarked on a fleet renewal program — moving to the A320 for short- and medium-range flights and the A340 for long-haul flights — and rationalized its route network. As a result of the first Director Plan, revenues exceeded the plan by 6.2 percent, and income before taxes was 62 percent above plan.

> "… Iberia continues to maintain a leadership position on Europe/Latin America routes in terms of number of destinations, number of non-stop flights and daily frequencies."

Photo courtesy of Iberia Airlines

Part of Iberia Airlines' strategy for future growth includes taking advantage of planned expansions at Barcelona El Prat Airport and Madrid Barajas Airport, both of which will increase passenger capacity between 30 percent to 40 percent during the next three years, much greater than any other major European airport.

In 2000, a second Director Plan began, featuring the airline's initial public offering, the sale of Binter Mediterraneo and Binter Canarias, and the launch of iberia.com and electronic ticketing. The second Director Plan brought about the strong growth of the airline's European market and the development of enhanced customer service plans.

Last year, the airline entered a third Director Plan, which aims to reduce costs by 8 percent to 10 percent; increase the margin of earnings before interest, taxes, depreciation, amortization and rent above 19 percent; and achieve a return on equity of at least 15 percent.

These targets are within reach given Iberia's 2002 EBITDAR margin of 17.1 percent (compared with 13.8 percent in 2001) and ROE of 12 percent. Through the third Director Plan, the airline seeks to achieve these objectives through further cost-cutting initiatives, preserving Iberia's leading position on Europe/Latin America routes, and making its domestic and European point-to-point routes profitable. Specific targets include a capacity increase of at least 22 percent over the plan's three-year period, a rise in fleet utilization of 9 percent and a 15 percent reduction in costs.

As it continues its recovery, the airline is now back to focusing on growth. Orders for A320/A321 aircraft that were put on hold began arriving this year, and it will replace its fleet of Boeing 747s with eight A340-600s, which will be assigned on routes to North and South America.

Another key element of Iberia's focused strategy for continued growth is to take full

Sabre Airline Solutions

Through its series of three-year strategic plans, Iberia Airlines has not taken a quixotic approach to future success. Rather than chasing at windmills like the famous Spanish literary character Don Quixote, the airline identified specific achievable goals and set out to realize them.

advantage of the planned airport expansions at Barcelona El Prat — which will open an additional runway this year and a new terminal in 2005 — and Madrid Barajas — which will add two new runways and a terminal this year. This will result in passenger capacity growth of between 30 percent and 40 percent at Barcelona and Madrid during the next three years — much greater than any other major European airport.

"Iberia is already the natural 'bridge' between Europe and Latin America, and the new expansion reinforces our position," said Enrique Donaire, director general of the airline. "The aggressive growth of the airports in Madrid and Barcelona will allow us to dramatically increase our offerings to Latin America, while at the same time, offer better facilities for our European connections."

Altogether, Iberia will spend more than €1.5 billion (US$1.9 billion) on aircraft and terminal improvements. Management claims that if aircraft productivity targets are not achieved, capacity will be increased even further than planned through additional wet leasing.

> "Iberia decided to adopt a strict policy of cost control long before 2001, the fruits of which were demonstrated during the worst crisis the industry has suffered to date. At the same time, operational and financial flexibility was a key focus for Iberia."

The third Director Plan remains on course, and Iberia continues to maintain a leadership position on Europe/Latin America routes in terms of number of destinations, number of non-stop flights and daily frequencies.

To maintain its position and compete in such a tough commercial environment, Iberia officials recognize that they will need to continue their focus and determination to develop competitive service and prices in domestic and European point-to-point routes, maintain a competitive cost base on par with low-cost carriers, and maximize the value of the different airline-related businesses. The foundation has been laid, the strategy is in motion and the future is optimistic.

Gary Thompson is the Europe-based account director for Iberia Airlines. He can be contacted at gary.thompson@sabre.com.

THE HIGH•LEVEL view

News Briefs from Around the Globe

Who

Aeropostal

What

Implemented the *Sabre® AirCrews®* Crew Management suite and the *Sabre® AirOps™ Control* suite through the application service provider delivery method, the *Sabre® eMergo®* Web-enabled and dedicated network solutions. As a result of the implementation, Aeropostal has automated two key functional areas.

Why

"With the increased efficiencies in the operations and crewing processes, travelers should encounter less flight delays and cancellations, which then improves customer satisfaction," said Licio Piccoli, chief information officer for Aeropostal.

The systems will help Aeropostal integrate its crew and operations areas.

"Implementation of the *AirCrews* suite has benefited Aeropostal by permitting a much greater level of control regarding the utilization of our manpower," said Capt. Enrique Zerpa, responsible for the coordination and implementation of the *AirCrews* suite. "By integrating functions between the *AirCrews* and *AirOps* suites and the schedule generated by the *Sabre® AirFlite™* Schedule Manager, we are able to operate more efficiently. The *Sabre® AirCrews®* Crew Connection has provided the crews with an efficient and low-cost means of communicating with the rostering department to handle such items as flight, days off, swaps, requests for specific duties and many other functions that normally took up a lot of the schedulers' time in answering telephone calls."

The airline also benefited from the lower total cost of ownership by accessing the suites through an ASP.

"We do not have the resources to dedicate to the installation of an onsite system operations control center, but with the *eMergo* solutions, we get the technology without the expensive upfront hardware costs or the ongoing cost to maintain the system," Piccoli said. "In addition, Sabre Airline Solutions made accessing the system easy by linking Unix servers to personal computers for a graphical user interface such as the use of a three-button mouse."