European Small & Midcap Conference

Credit Agricole Indosuez

June 2004

Competitive Strengths

Focused Strategy in Key Markets

Long Haul

"Maintaining current leadership in Europe to Latin America routes"

Improve product offering

- frequencies
- connectivity

Daily flights to all Latin American capitals, even 2 in most relevant destinations

Medium Haul

"Strengthening market presence"

Feed the Europe to Latin American routes

Increase in frequencies and direct flights rather than from new markets

Spain

"Focusing on unit revenue reinforcement"

Selective increase in frequencies

Increase in aircraft capacity

Continue leveraging on regional flights with Air Nostrum

IBERIA

Leadership in the Europe-Latin America Market

Iberia´s leadership will allow to benefit from the potencial growth of this region

Iberia has a superior product in:

- **Number of destinations**
- **Number of non-stop flights**
- **Daily frequencies**

Market share evolution Europe-Latin America

Unit Costs Significantly Below Industry Average

Date for period January - December 2003, except Ryanair and Easyjet fiscal year 2003.

* Source: AEA

**Operating costs less 33% of Operating Leases less other non-airline revenues

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

IBERIA

The Expansion in Madrid and Barcelona Will Allow Iberia's Growth

Madrid and Barcelona are among the fastest growing airports in Europe

Madrid expansion to 2007

2005	2 new runways 1 new terminal

Barcelona expansion to 2007

2005	1 new runway 1 new terminal

(*) IB forecast

Iberia Will Grow Taking Advantage of the Expansion Capacity of Madrid Hub

Capacity

Domestic

Medium Haul

Long Haul

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Flexibility - Remains a Key Tool

- Non renewal of Operating Leases or non exercise of options
- Cancel new hiring of Wet Leases (starting in 2004)

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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 •Simplification in 2003 (1st phase) •Introduction of pay-as-you-go in 2004	Improvement of passenger services •Fast track services •Quality meals •Personalised passenger treatment (CRM)
Long Haul	No change	Introduction of "New Business Class" •Entertainment on board •Communications •Flat Seats •Personalised passenger treatment (CRM)

Redeployment of resources

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Cost Differential Iberia-Low Cost Carriers

Areas Identified → Action plan under way → Gap narrowing

The Director Plan will narrow this differencial by 60 % in 3 years

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Asset Utilisation

35-45
MM/€

- Improvement of 0.8 Block Hours/ Day in medium haul aircraft through optimisation of slots and night aircraft utilisation

- Optimisation of short/medium haul fleet : Increase number of seats per aircraft by 5%

Additional measures

- Accelerate the phase out of B747-200
- Utilise financial tools will add flexibility in fleet incorporation
- Optimisation of A 340-300. Change of crew rest zone adding more seats

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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/€

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Reducing Costs

	Impact in 2005 MM/ Euro
	Director Plan
Asset utilisation	35-45
Personnel costs	65-75
Commercial costs	100-110
Service on board	40-50
Other costs	110-120
	350-400

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Note: Targets of cost reductions over base case 2005

Our Objectives

Unit Cost	2005/02 ↓ 10-12%
EBITDAR margin	≃ 19%
ROE	≃15%

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1st Quarter 2004

Improving Results

1st Quarter 2004

Revenues	1,087.7	+4.3%
Ebitdar	111.8	+31.4%
Ebitdar Margin	10.3%	+2 p.p.
EBIT	-26	+48.7%
Net Income	-1	+95.5%

million €

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