



Analyst **and** Investor Day

Madrid, 28th January 2009

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IBERIA 

Year 2008



Highlights 2008



Adverse economic environment



Deep crisis since summer



High fuel prices



Historic record in July/August



Strong fuel price reduction since October



Uncertainty and volatility





















Launch of high speed train (AVE) Mad-Bcn



Impact in line with estimations

2008 Main goals



 Finalize the process of network adjustment	
 Maintain load factor and unit revenues levels	
 Consolidate the product Business Plus in long haul	
 Reinforce cost reductions measures	
 Accelerate pending initiatives to improve productivity	
 Reach fleet utilization targets	
 Improve quality levels (punctuality,)	
 Consolidate the development of Maintenance business	
 Start handling "turn-around"	

Flat capacity and moderate reduction of Load factor

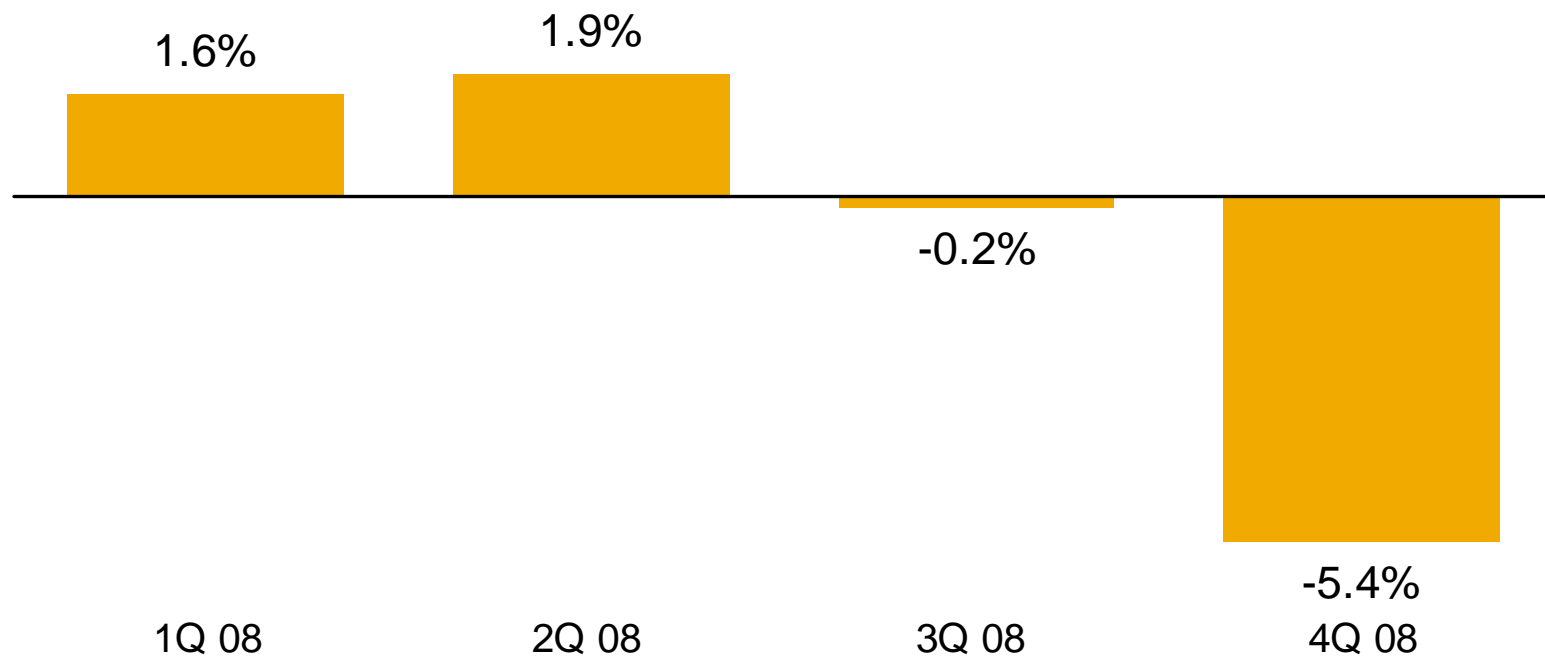


	ASK %YoY	Load Factor %	YoY	
Domestic	-17.1	71.3	-4.5p	←
Europe	+2.9	72.7	+0.3p	←
<i>Madrid - Europe</i>	+14.9	73.4	+0.3p	
Other Inter. Medium haul	+2.8	75.6	+0.7p	
Long haul	+3.0	85.2	-2.1p	
Total Network	-0.5	80.0	-1.6p	

Iberia has adjusted its capacity to the evolution of the markets



% Capacity YoY



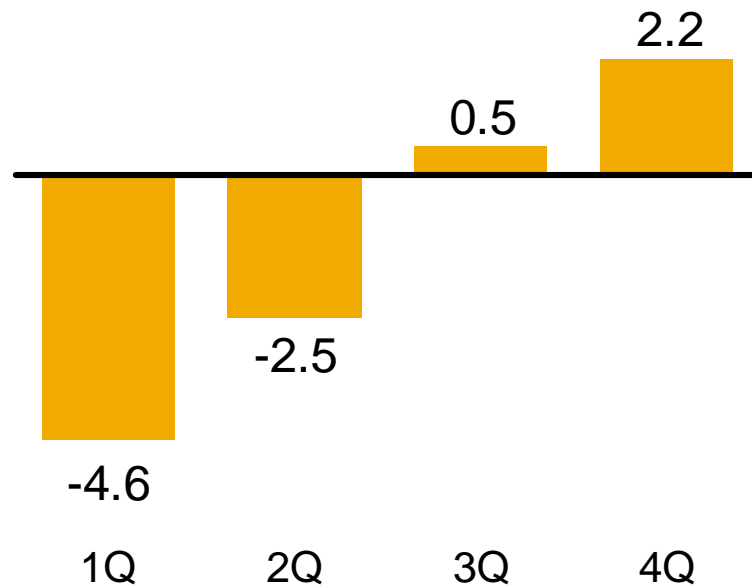
This capacity cut will probably be insufficient considering the evolution of the markets

Unit passenger revenue evolution

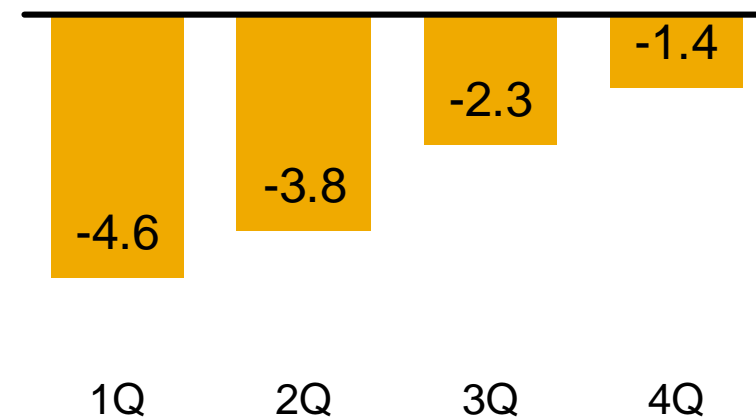


%YoY

Yield



Pax Revenue/ASK



- ✈ Positive trend evolution of revenues
- ✈ But not enough to offset the hike in fuel prices

Operating Revenue



€M

	2008E	% YoY
Passenger	4,218	- 2.5
Cargo	346	+ 1.0
Handling	275	- 1.8
Maintenance	297	+ 8.7
Rest	312	+ 4.1
Total	5,450	- 1.3

Operating costs



€ M

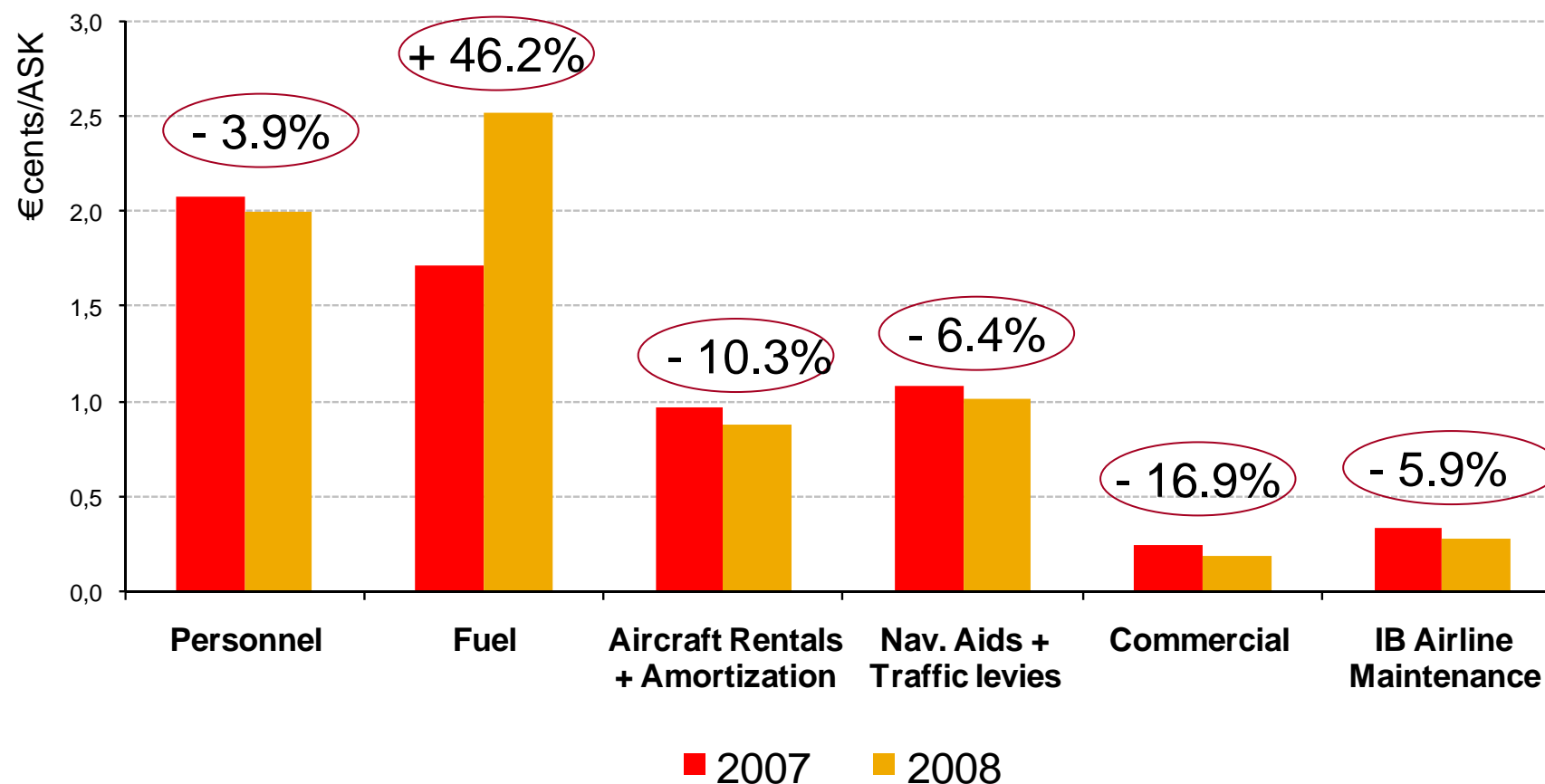
	2008E	% YoY
Personnel	1,320	- 4.4
Fuel	1,666	+ 45.5
Navigation Charges + Traffic Services	671	- 6.9
Aircraft rentals + Depreciation	579	- 10.8
Commercials + Distribution	338	- 12.7
Rest	955	-0.1
Total	5,529	+ 5.5
Total ex – fuel	3,863	- 5.6

Unit operating cost



Total unit costs + 6.1%

Ex fuel - 5.1%

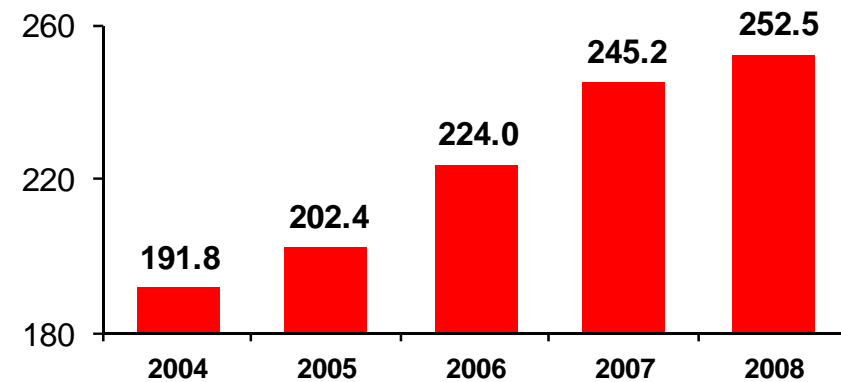


Headcount and productivity



Annual average headcount	2008E	%YoY
Technical crew	1,644	-3.7
Fligth attendant	3,923	-0.2
Ground staff	16,011	-5.1
Total	21,578	-4.2

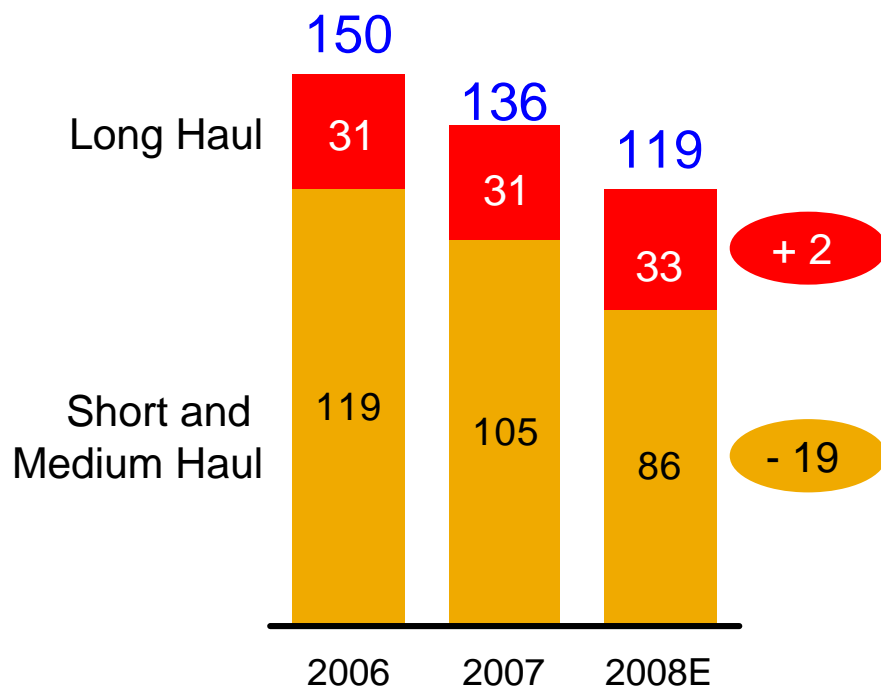
Operating Revenue/Employee
Thousand €



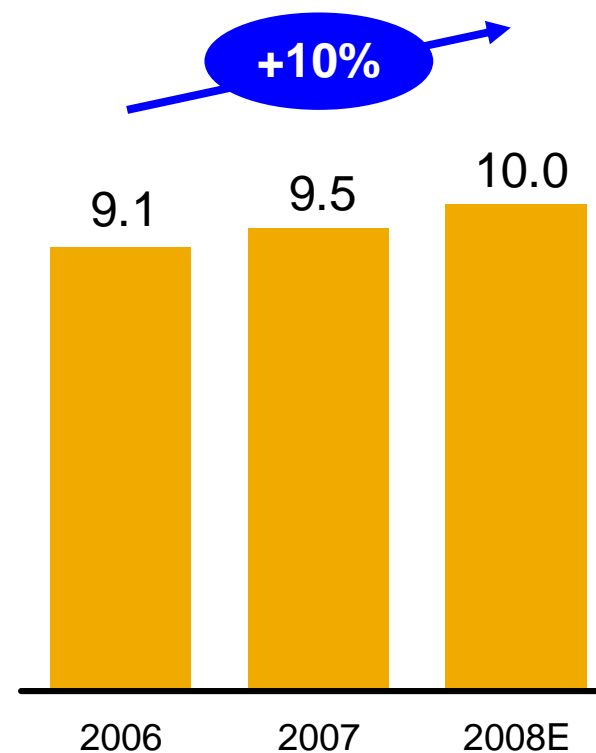
Fleet



Number of aircraft (31 Dec)



Utilization (BH/DAY)



Main Figures



MM/€

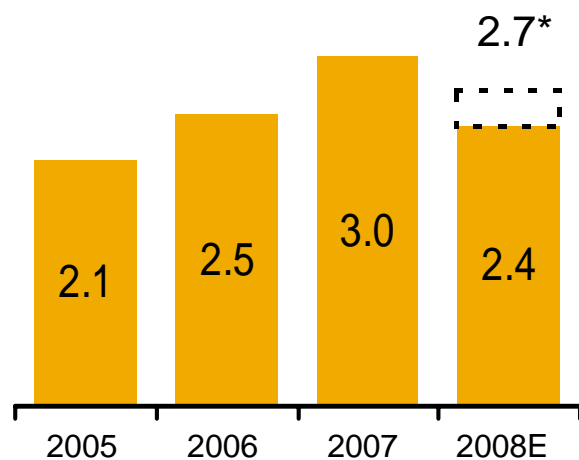
	2008E	% YoY
Operating Revenues	5,450	- 1.3%
EBITDAR	499	- 46.4%
EBIT	-79	n.m
Profit from operating activities	4	n.m
Adjusted EBIT	36	- 91.2%
EBT	36	- 91.9%
Net Income	32	- 90.3%

Balance and financial position

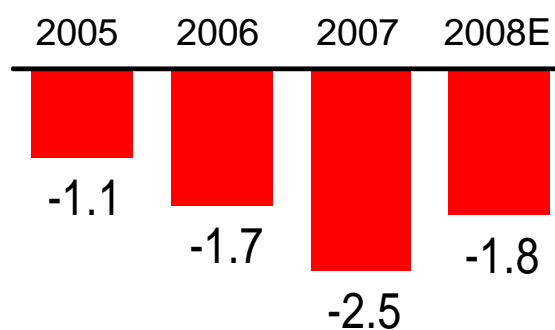


MM/€

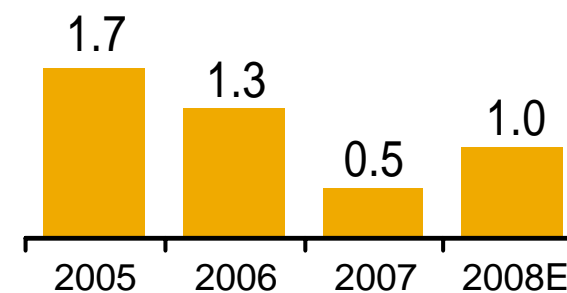
Cash and Cash equivalents



Net Debt

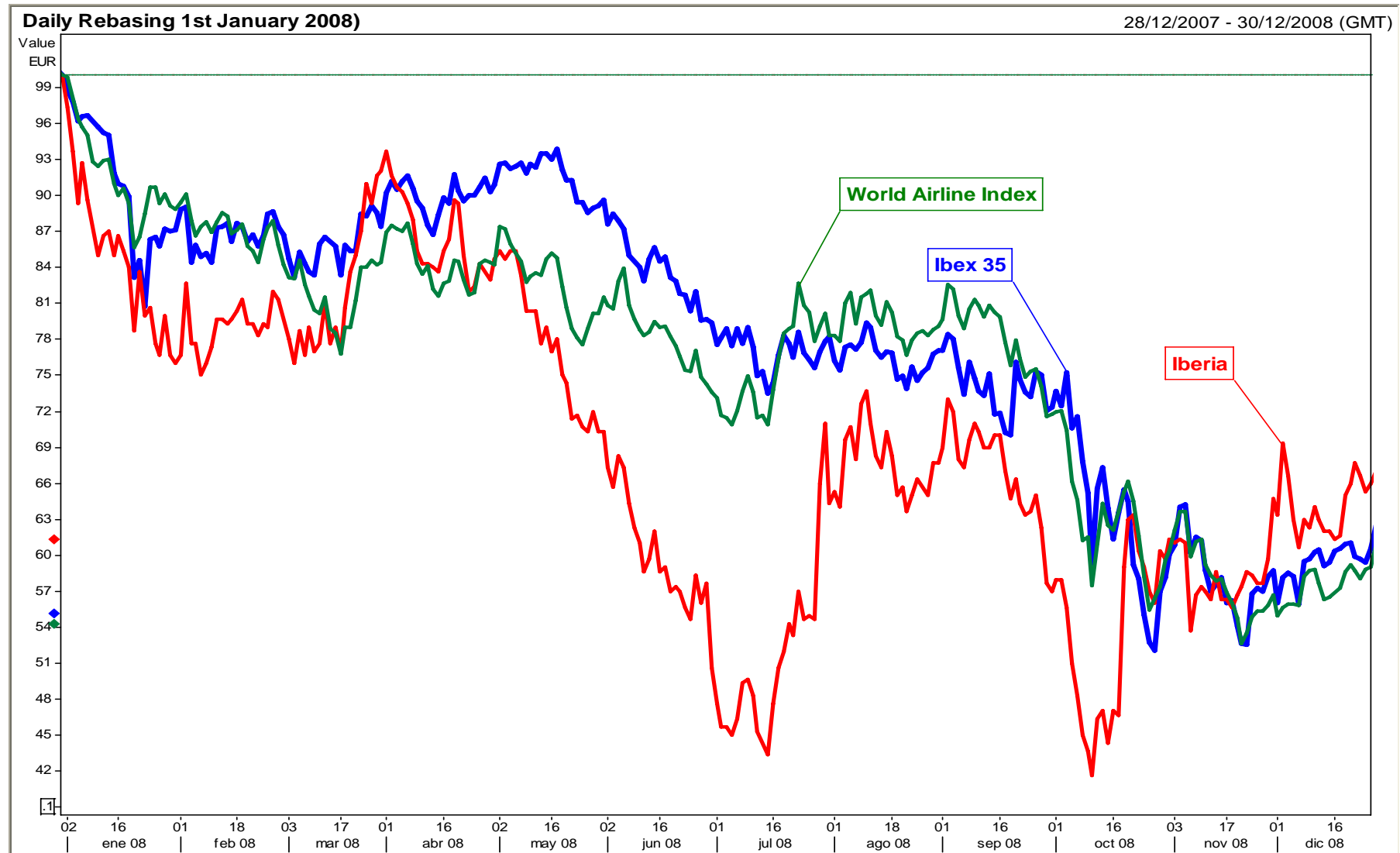


Adjusted net debt



* Including BA investment

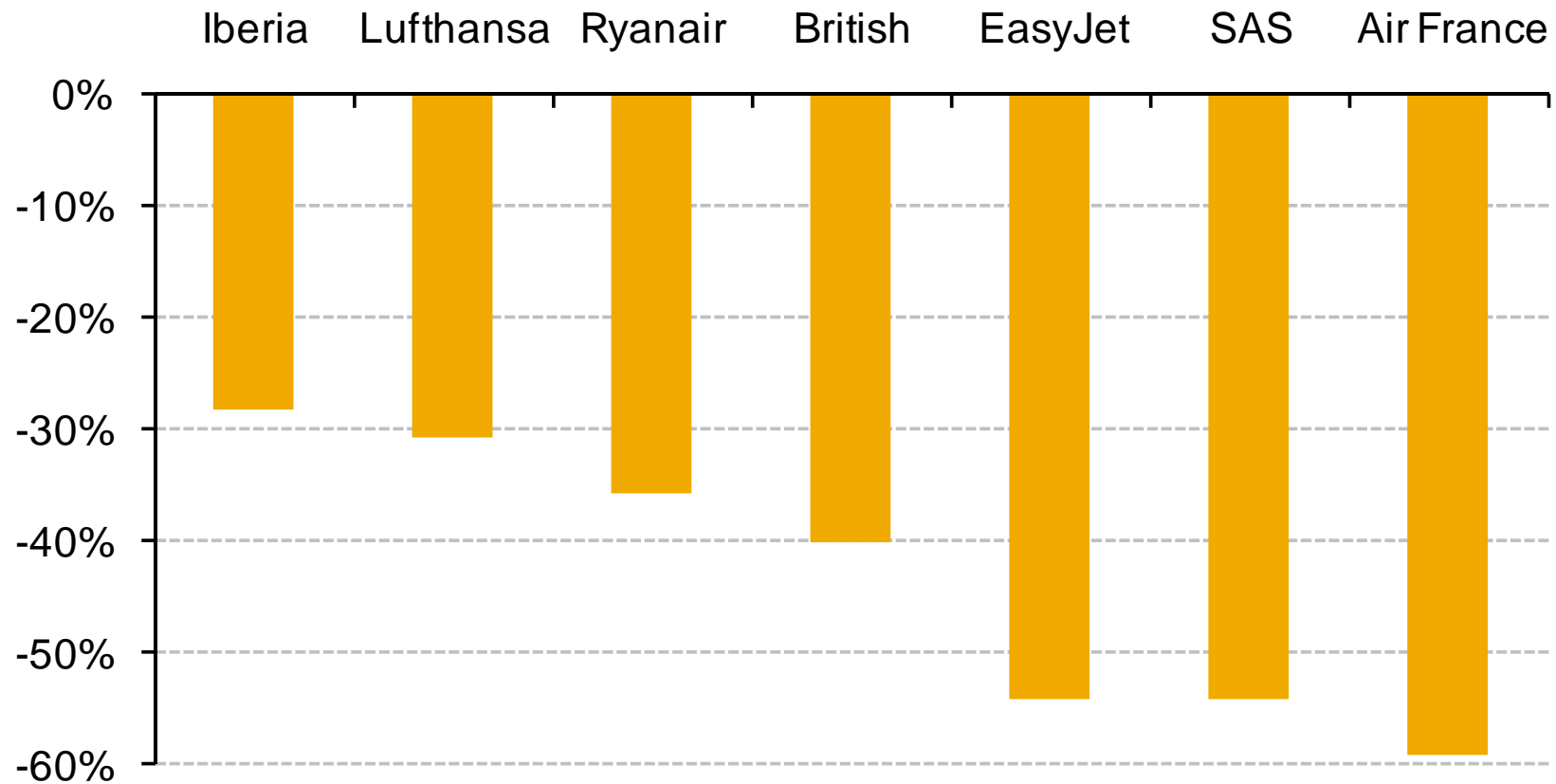
Stock market performance 2008











Shareholder profitability



Shareholder profitability 2008 (incl. dividend)



-  Results hit by the hike in fuel prices
-  Positive change in trend of passenger yields
-  Good evolution of unit costs ex fuel thanks to the achievement of the Director Plan initiatives
-  Increase in staff productivity and fleet utilisation
-  Good progression of our Maintenance business
-  Handling starting its turnaround
-  Demand reflecting more clearly the weakness in the economy
-  Best share performance among peers



Director Plan 2006 – 2008

Achievements



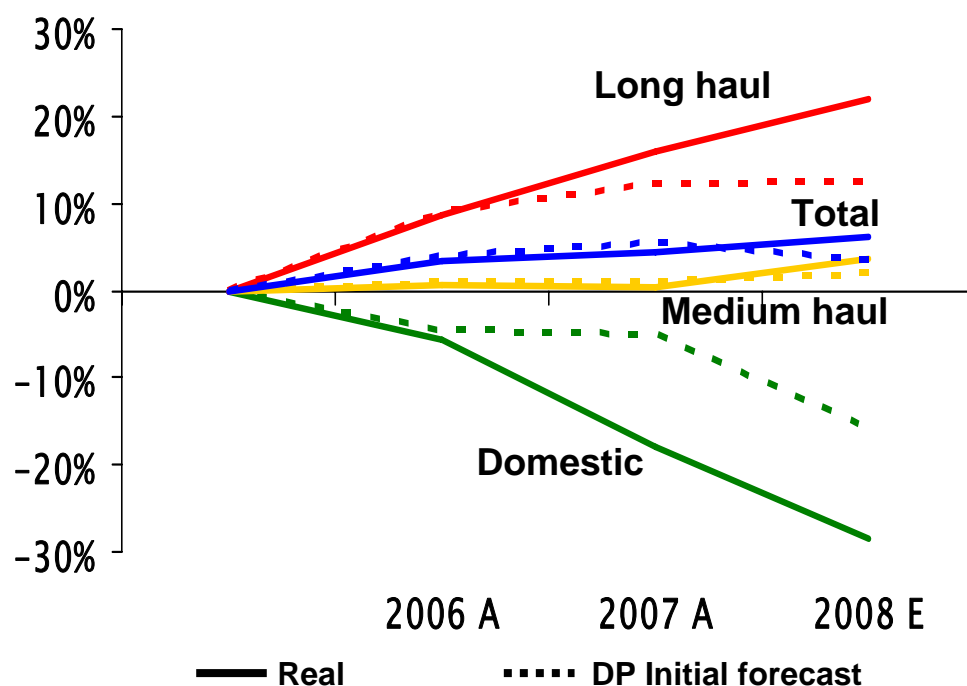
The Director Plan 2006-2008 was based in four pillars



Reviewing & Optimizing the Network



Cumulative % Growth in ASK



Capacity Evolution

	DP 08/05	08E/05
Domestic	-16.0%	-31.5%
Medium Haul	+1.9%	+3.7%
Madrid-Europe	+31.6%	+45.4%
Long Haul	+12.4%	+19.3%
Total	+3.4%	+4.0%

 Strengthening the network: Growth in the Hub

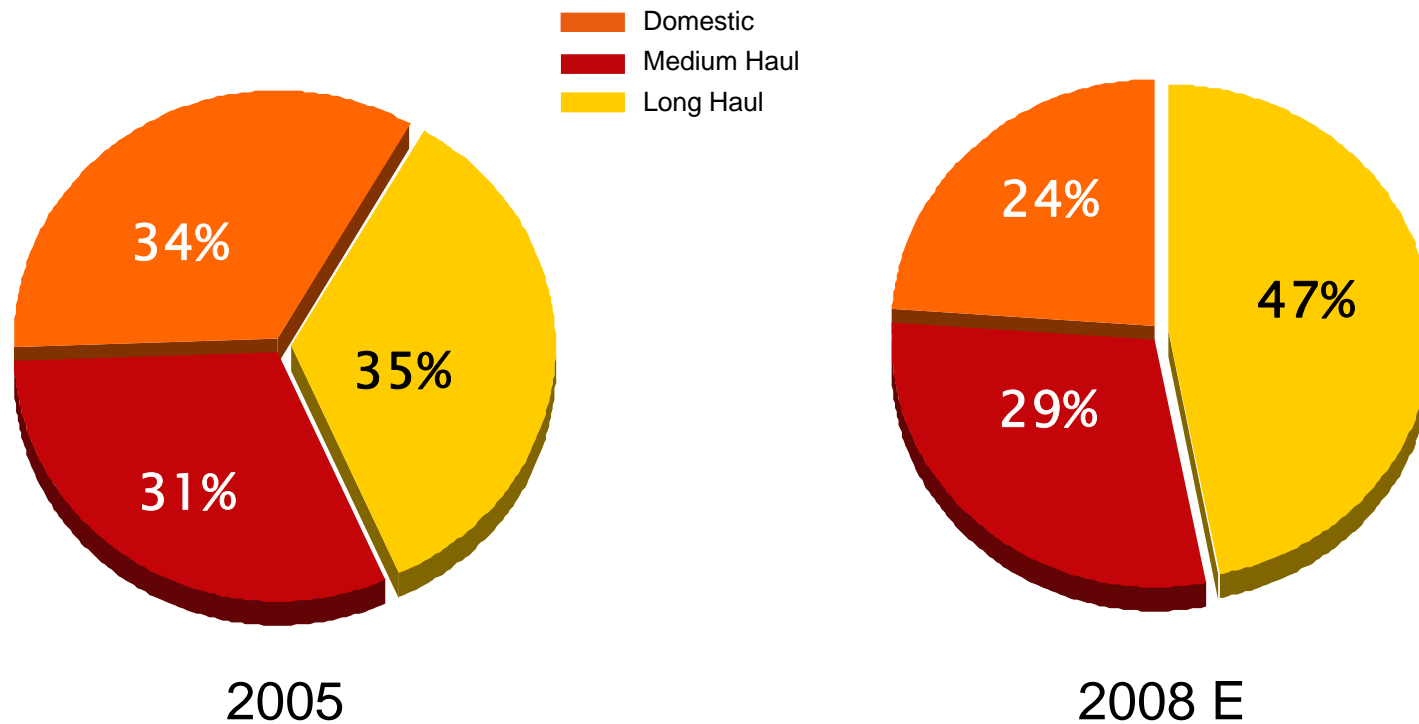
 Achievements in line with the Director Plan

Long-Haul is gradually increasing its weight



Strengthening the competitive advantage that the presence in the Latin American market represents for Iberia

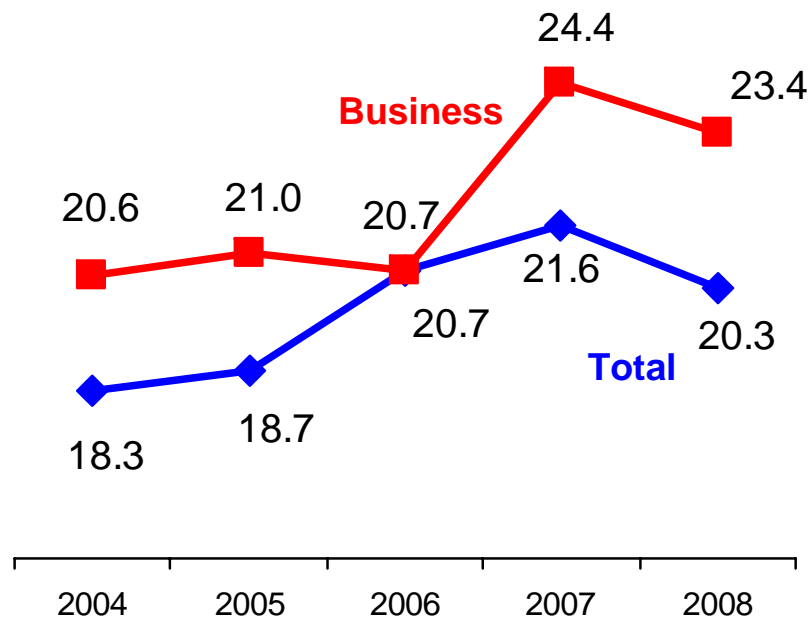
% of Pax Revenue



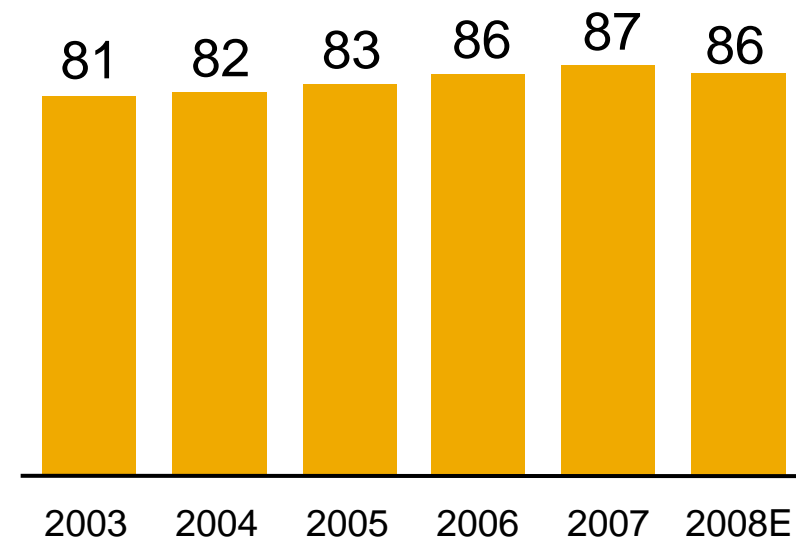
Iberia has improved its market share and load factor in Europe-Latin America







Europe-Latin America market



Load Factor



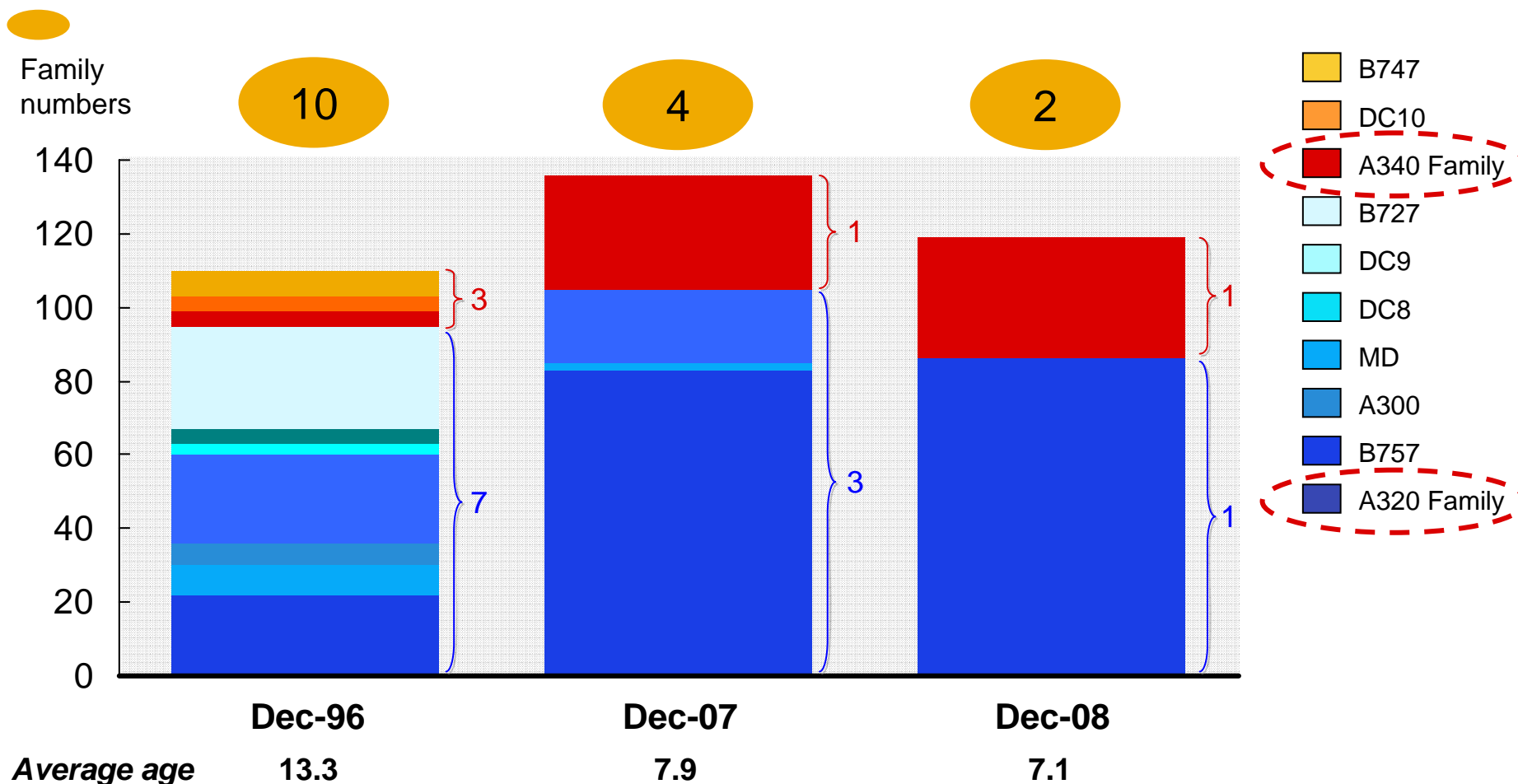
Good Performance in Long Haul*

Business passengers	 +42 %
Total passengers	 +19 %
Yield	 +20 %
Unit revenue	 +23 %

Fleet Management: Main Objectives



Fleet rejuvenation and homogenization

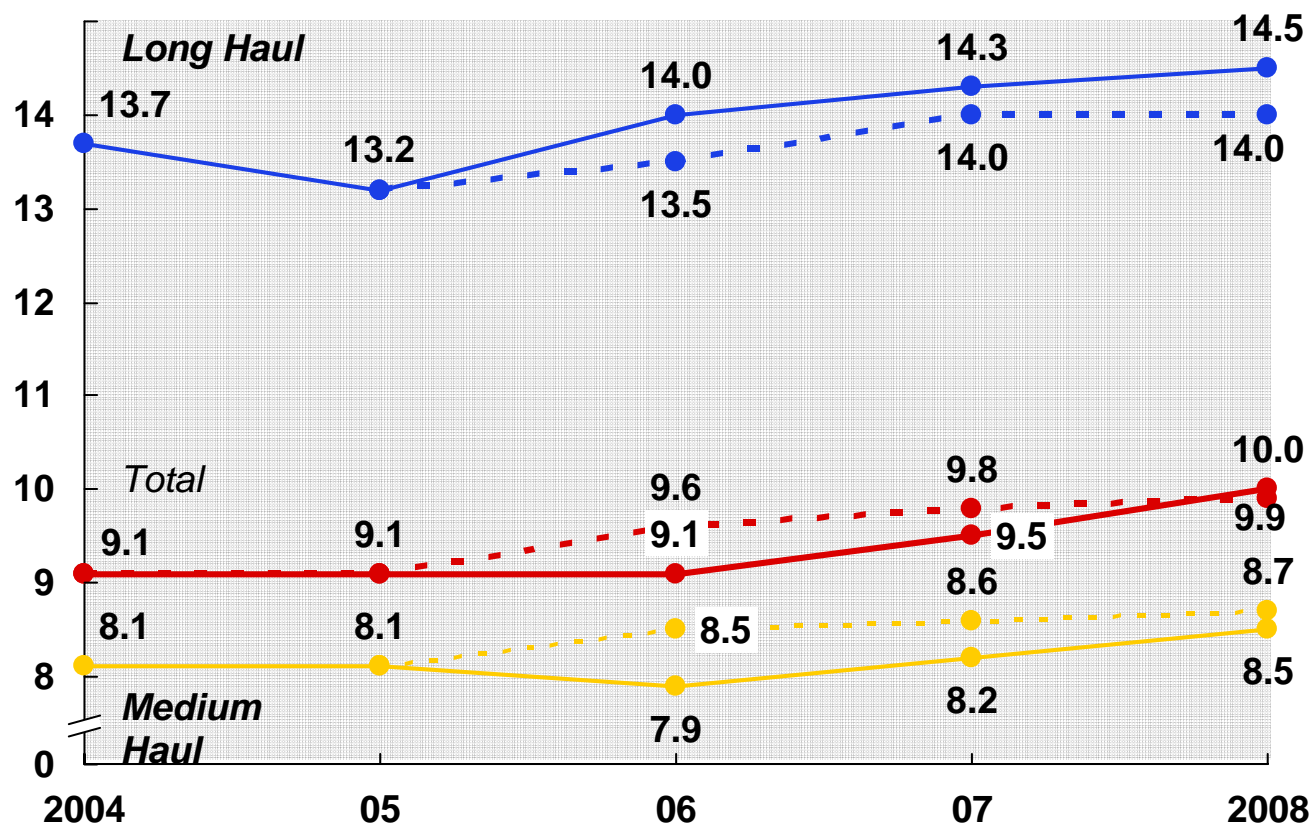


Director Plan has taken advantage of fleet flexibility

Increased Aircraft utilisation



Block Hours/Day



% 08/04 DP

% 08/04 R

+2.3%

+5.5%

+8.6%

+9.7%

+7.1%

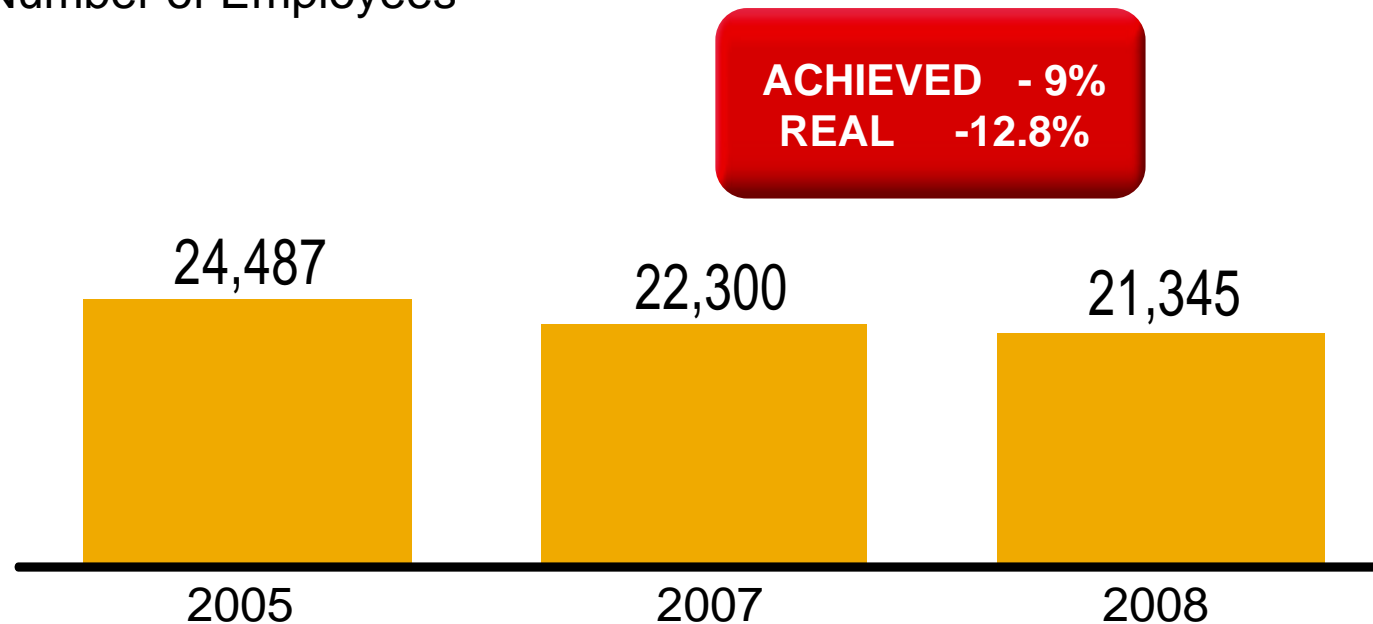
+4.9%

Despite MD fleet early retirement, we have exceeded the global target

Increased staff productivity



Iberia Number of Employees
(FTE)



 The greatest cost savings due to headcount reduction have been carried out in 2008

Redundancy Plan provisioning	▶	€ 360 m
Annual Impact	▶	€130 m in 2008
Recovery period	▶	2 / 3 years

Personnel Costs reduction

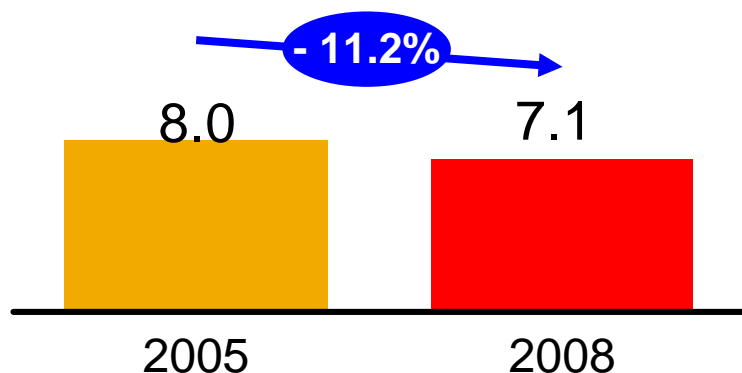


	Ground 50% of Total Cost	Cabin Crew 25% of Total Cost	Pilots 25% of Total Cost
Salary freezes	✓	✓	✓
Change from fixed to variable wages linked to target performance	✓	✓	✓
New seniority	pending	pending	pending
Productivity measures	✓	✓	✓

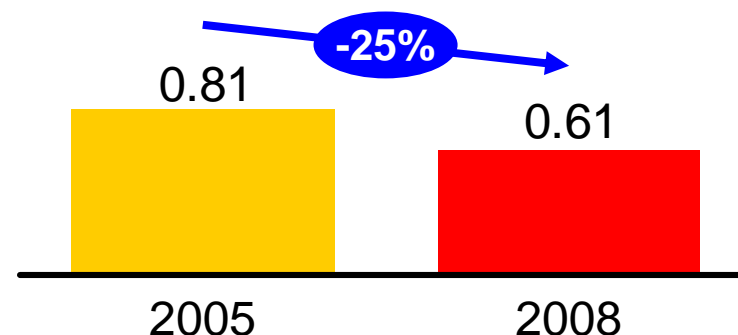
Fleet Management: costs reduction



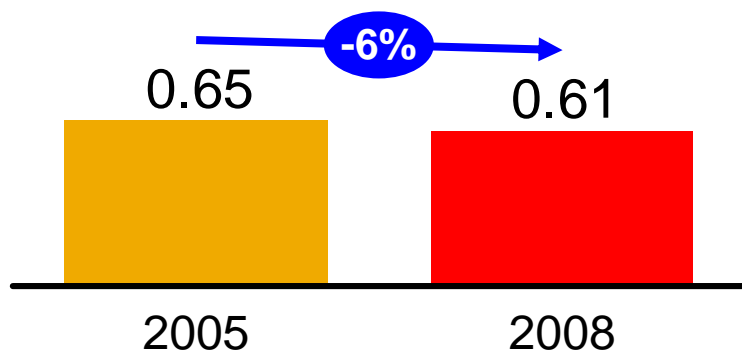
Average Age (Years)



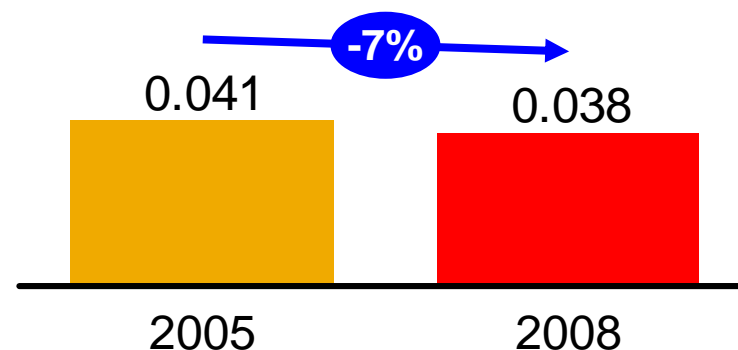
Fleet Ownership Costs (€ cent/ASK)



Maintenance Costs (€ cent/ASK)



Fuel Consumption (liters/ASK)



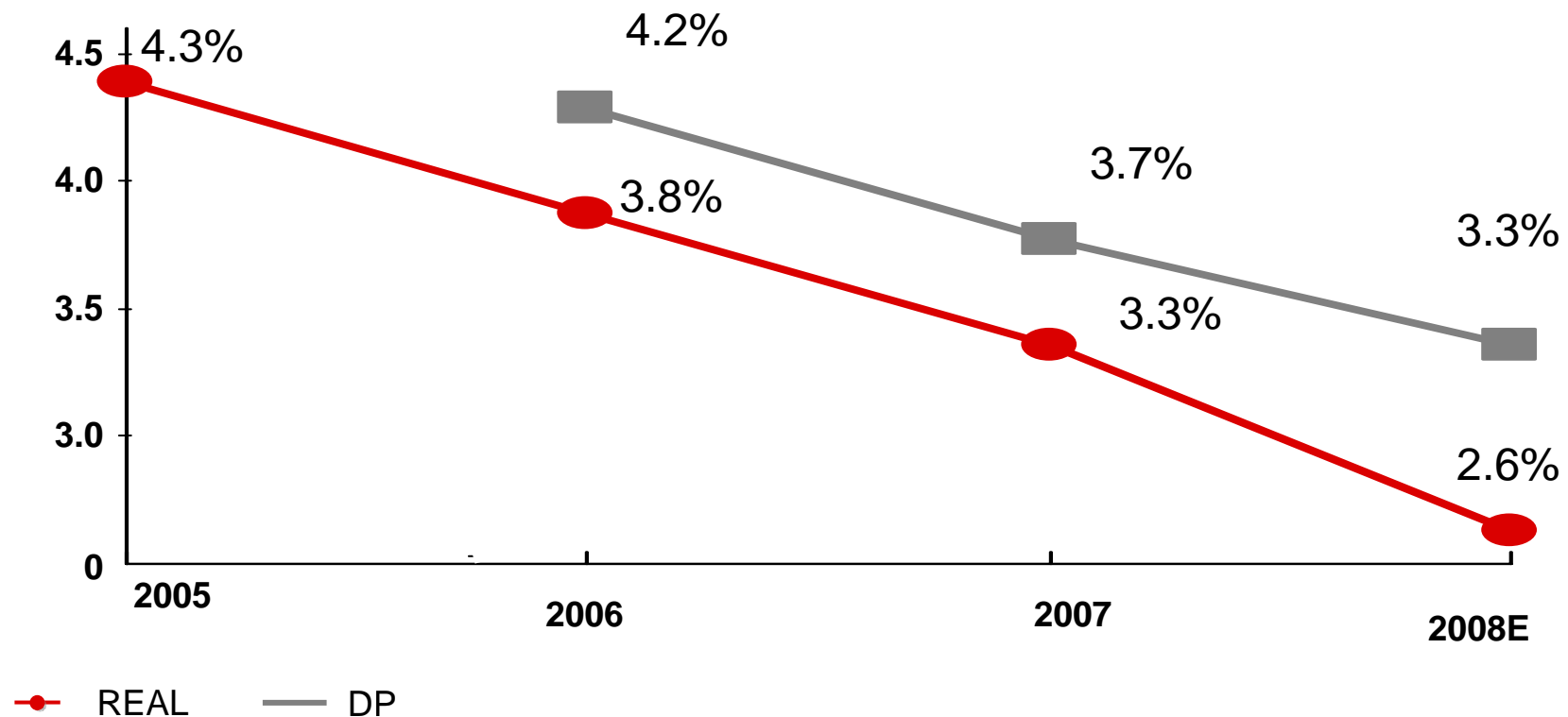
The renewal of the fleet has been compatible with the stability of ownership costs

Commercial cost reduction



Net commercial cost

% over commissionable pax revenues

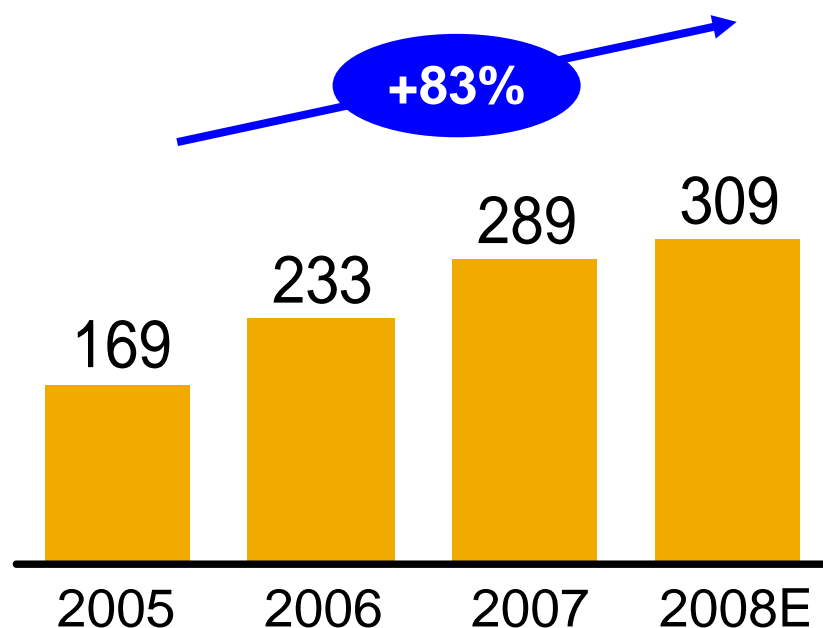


We have outperformed our targets

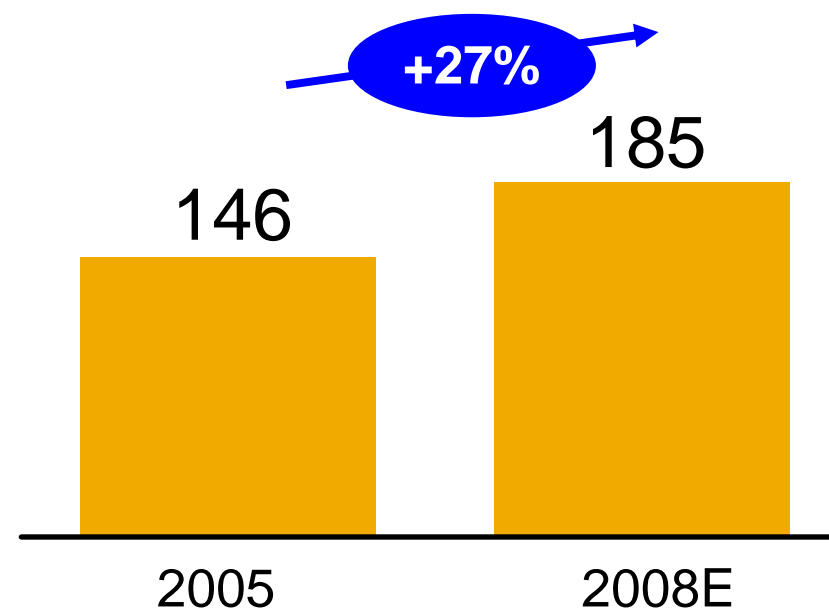
Director Plan 06/08 performance in Maintenance



Third Party revenues,
€M



Operating Revenues per employee,
€M

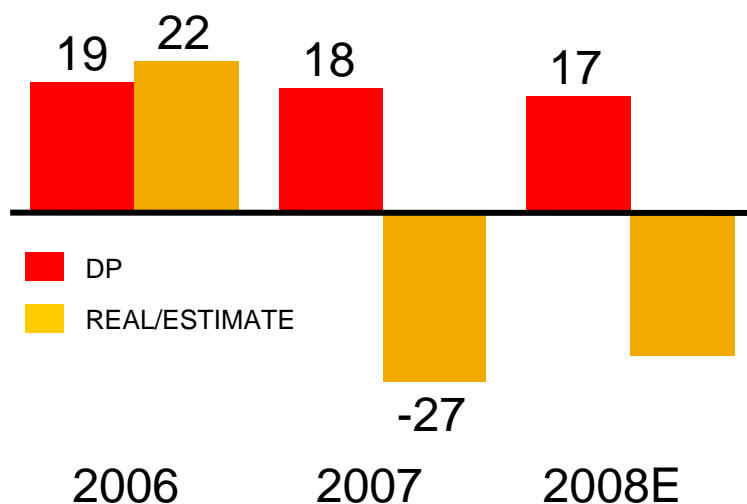


- IB New commercial contracts
- IB Significant agreements for strategic development
- IB New production system consolidation
- IB EBIT margin > 7%

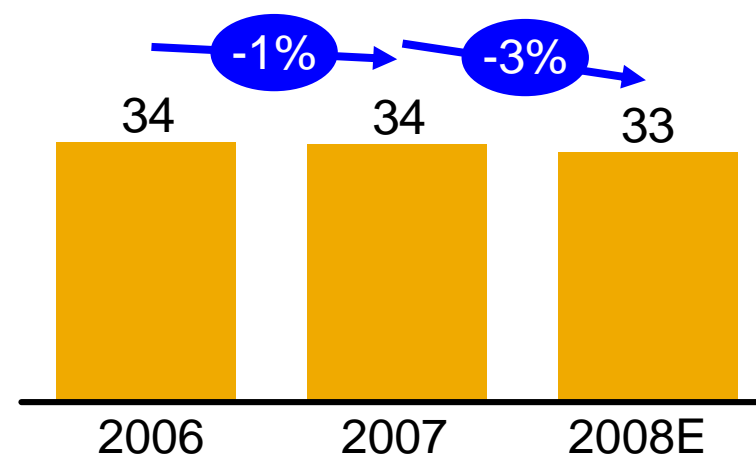
Director Plan 06/08 performance in Handling



Operating revenues
€ M






Productivity
MH/ET



-  Ramp's handling licenses lost in some airports
-  Strong deterioration in results
-  Turnaround plan initiated in 2008

Director Plan performance



€ M	DP 06/08	R06/08 E	
Operating Revenues	15,164	16,363	
Operating Income	322	325	
Net Income	267	413	



IBERIA



IBERIA



Iberia: A sound financial model



1	Financial Strength
2	Cash
3	Fleet
4	Financing
5	Hedging
6	Conclusion

1 Financial Strength

One of the best financial profiles amongst comparable airlines



Strong gross cash position ⁽¹⁾:

2,250 (Mill €). 41% of revenues

Low leverage:

Net Adjusted debt to capital: 31% ⁽²⁾
Net Adjusted debt to EBITDAR: 1.5 ⁽³⁾

Modest capex and pension contributions requirements

Flexible asset base (fleet structure & financing) with low ownership costs

⁽¹⁾ Cash invested + Other Investments (Iberbus) + Cash Balances

⁽²⁾ Net Adjusted Debt / Net Adjusted Debt + Capital

⁽³⁾ Net Adjusted Debt / EBITDAR

1 Financial Strength

Drivers of Iberia Financial strength






Long and consistent period of positive results and cash flow (managing through the cycle)

Lean asset base

Fleet management, strategic divestments, control on investments and acquisitions

Financial policies





-  Financing fleet acquisitions off balance sheet
-  Tax lease equity
-  Efficient cash management



Low leverage

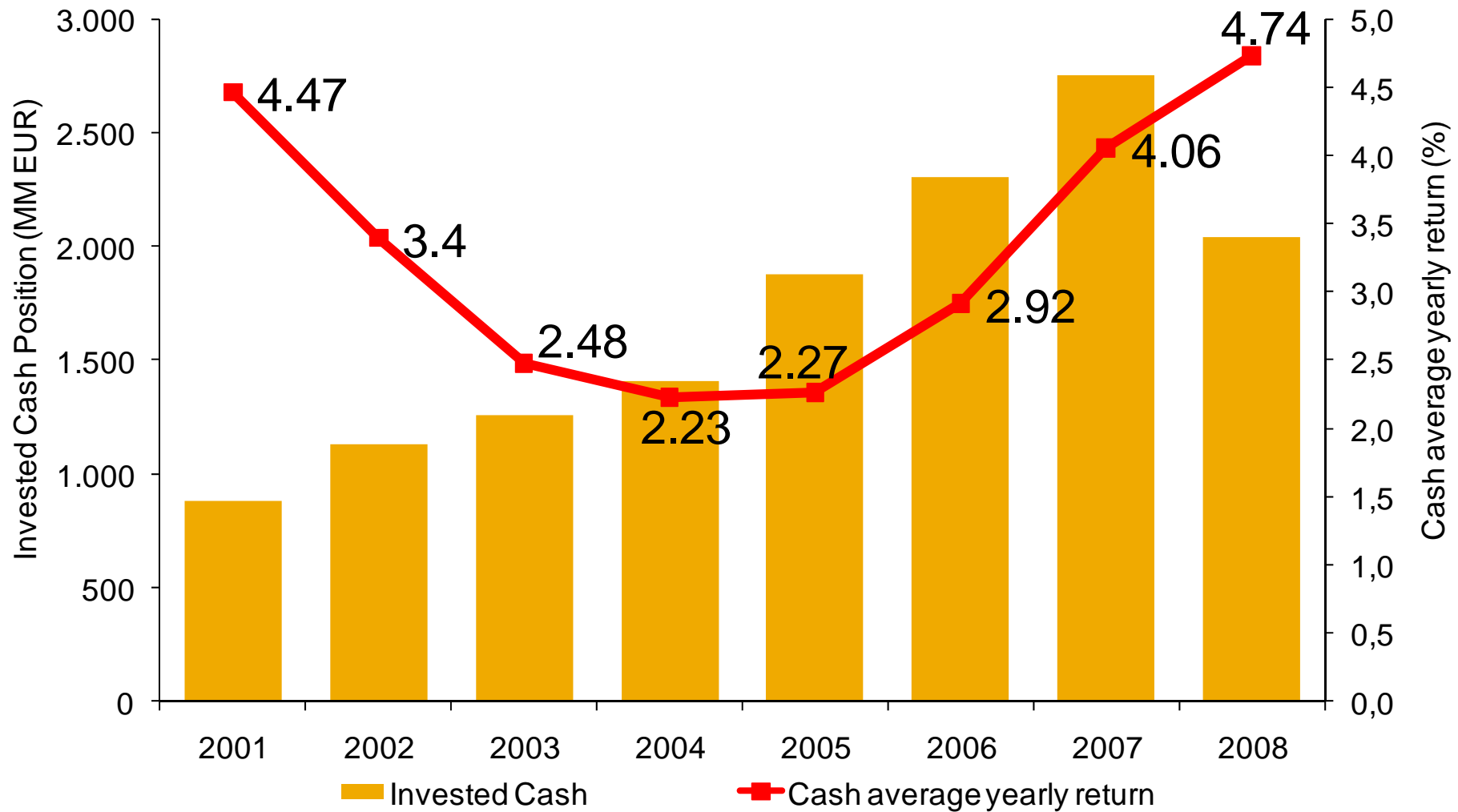


High cash

-  2008 rate of return on invested cash 4.74% (higher than cost of debt including capitalised leases)
-  Cash invested only in euro denominated Spanish bank deposits (minimum P1 rating) and commercial bank paper (no structured products) at no longer than 1 year
-  Limits allocated for institutions by reference to their equity and rating
-  Additionally, short term credit lines amounting to 200 million € (unused)



2 Cash

Increasing Cash and Financial Returns






Invested Cash defined as: Cash invested in banks at year end




Strategic Aircraft Acquisition

-  Anticyclically timed
-  Size and concentration of orders

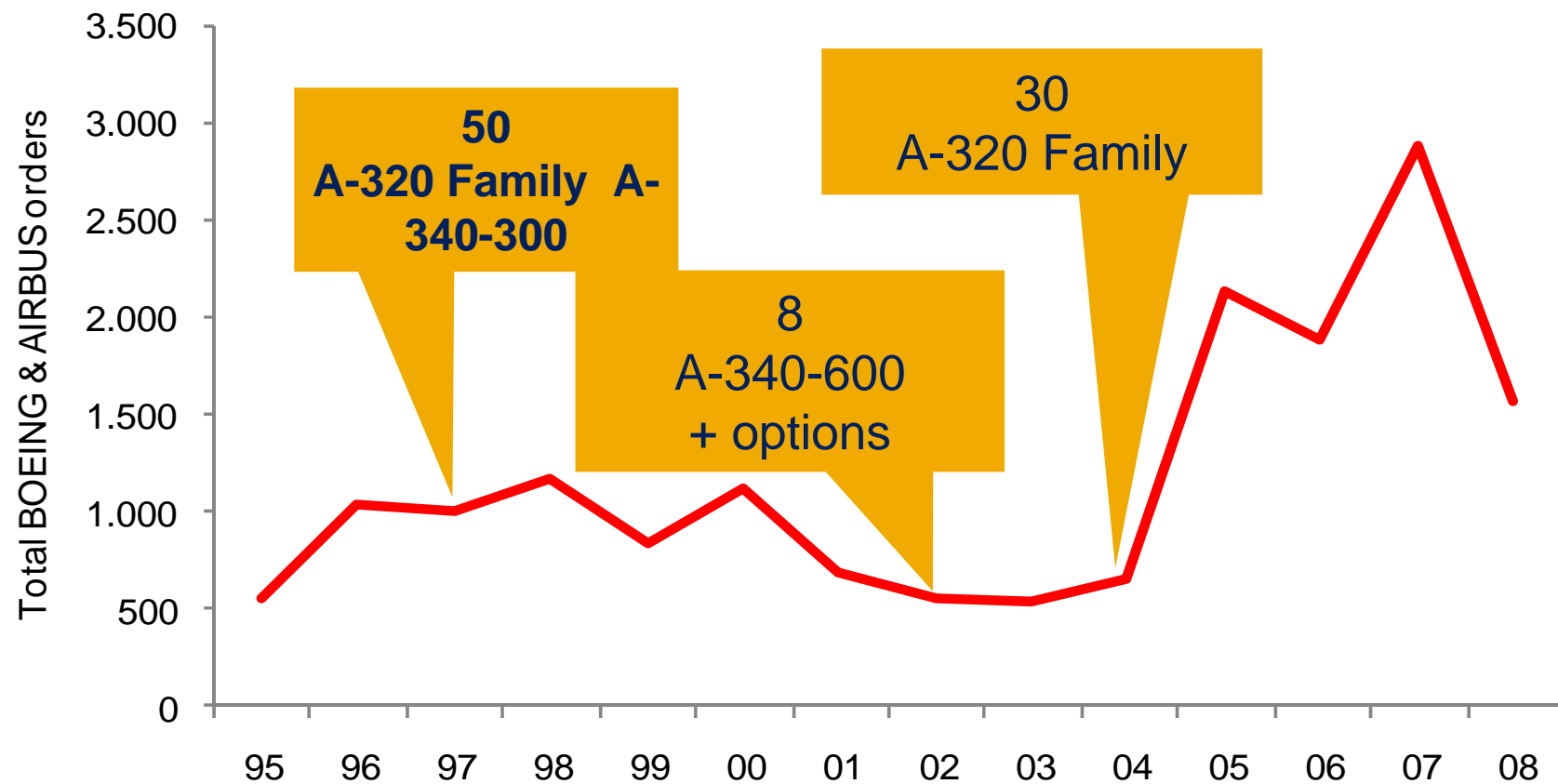
Fleet management

-  Homogenization
-  Rejuvenation
-  Flexibility

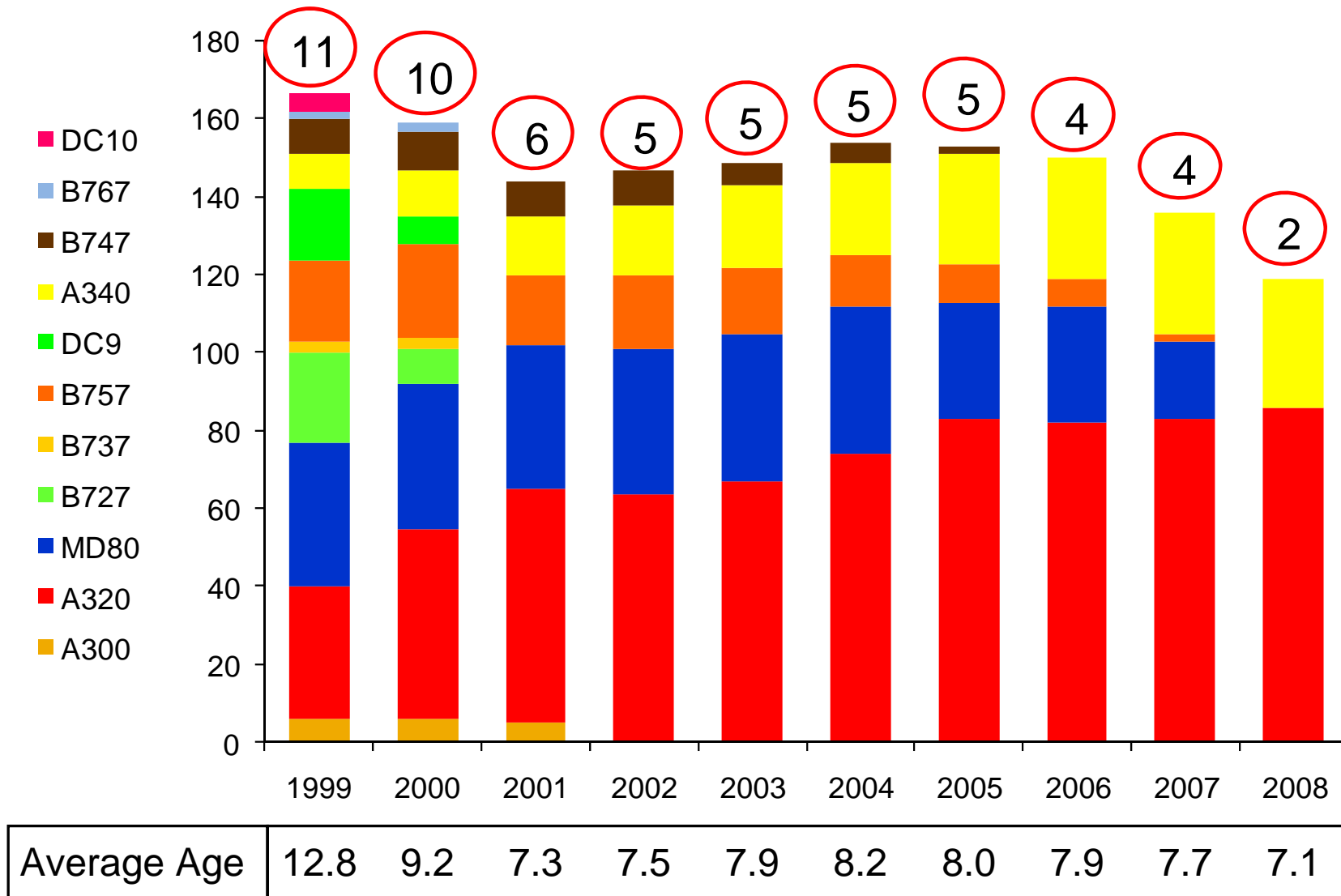
Financing

-  Decoupling financing and asset property
-  Managing financial variables (liquidity, spreads, FX, interest rates)
-  Optimizing financial structures (EETCs, Tax leases...)

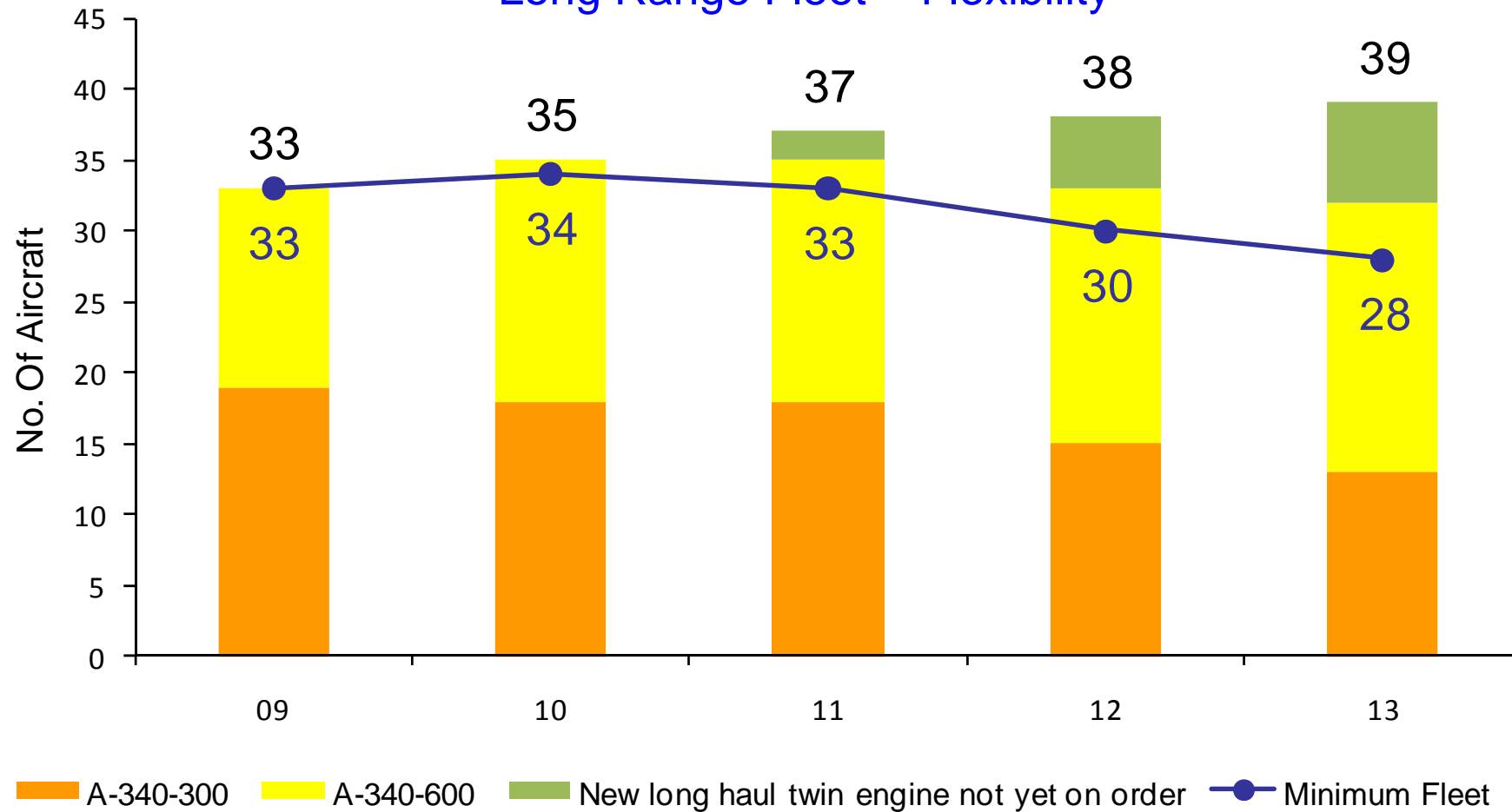
IBERIA Aircraft Orders - Negotiation Dates Prior to Peaks



Homogenization and Rejuvenation

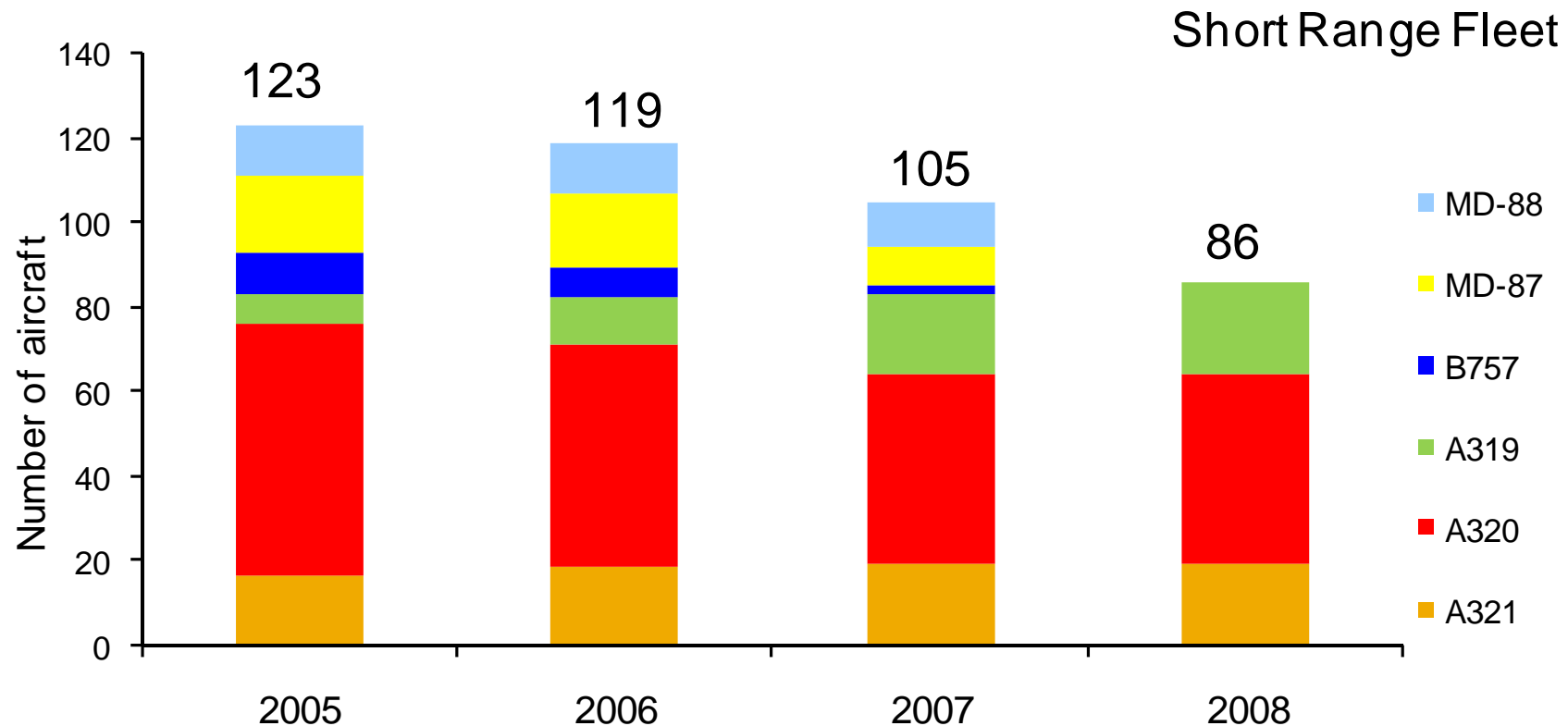


Long Range Fleet - Flexibility



70% of aircraft are on synthetic operating leases

Flexibility is being used in the short range network restructuring process



Further flexibility possible if needed through warehousing transactions or sales to secondary market

Fleet Management: Future Deliveries

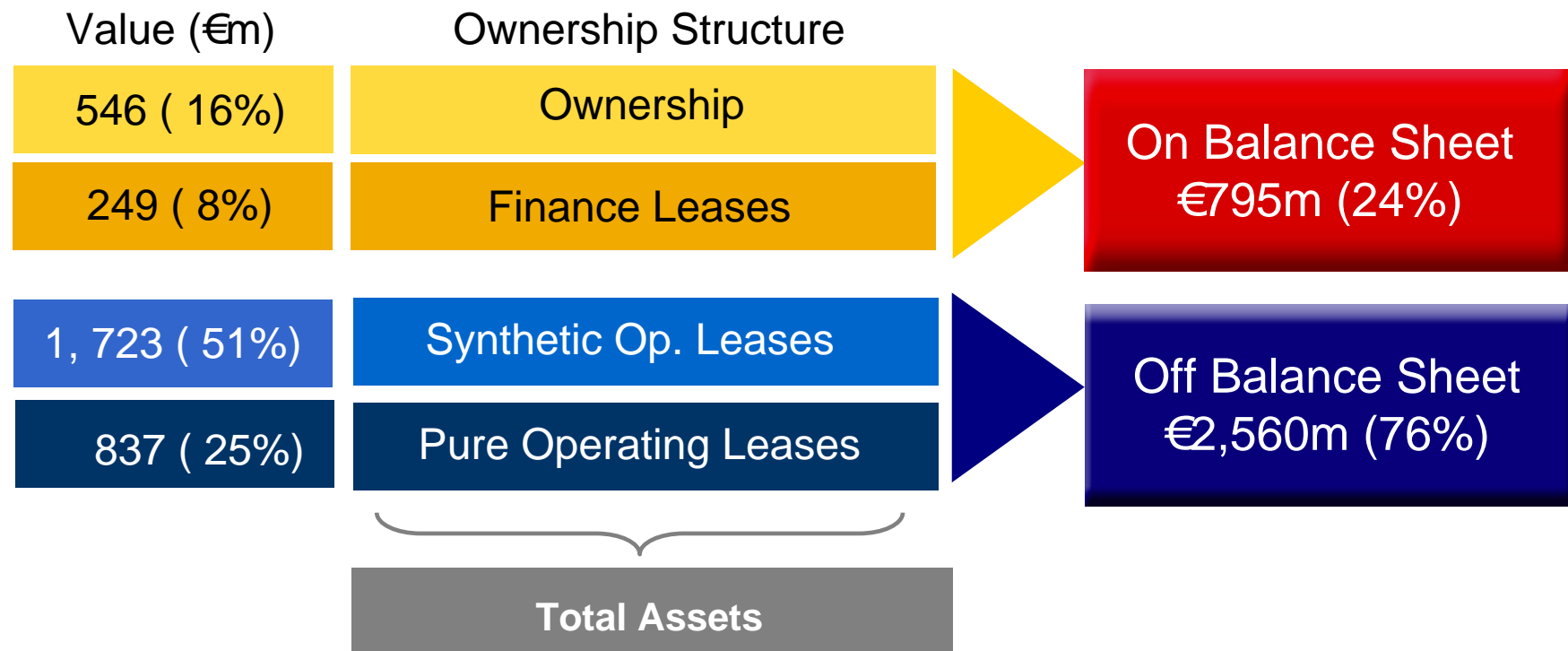


Modest amount of new deliveries

Aircraft model	2009	2010	2011	2012
A 340 - 600	2	3	0	0
A 320	0	9	5	0
Total	2	12	5	0

A340-600's in 2009:
Financing proposals currently being negotiated

In Balance Sheet vs Off Balance Sheet



Minimizing Asset Risk by having only 24% of our fleet on balance sheet

Note:

(1) Data as of 31st of December 08

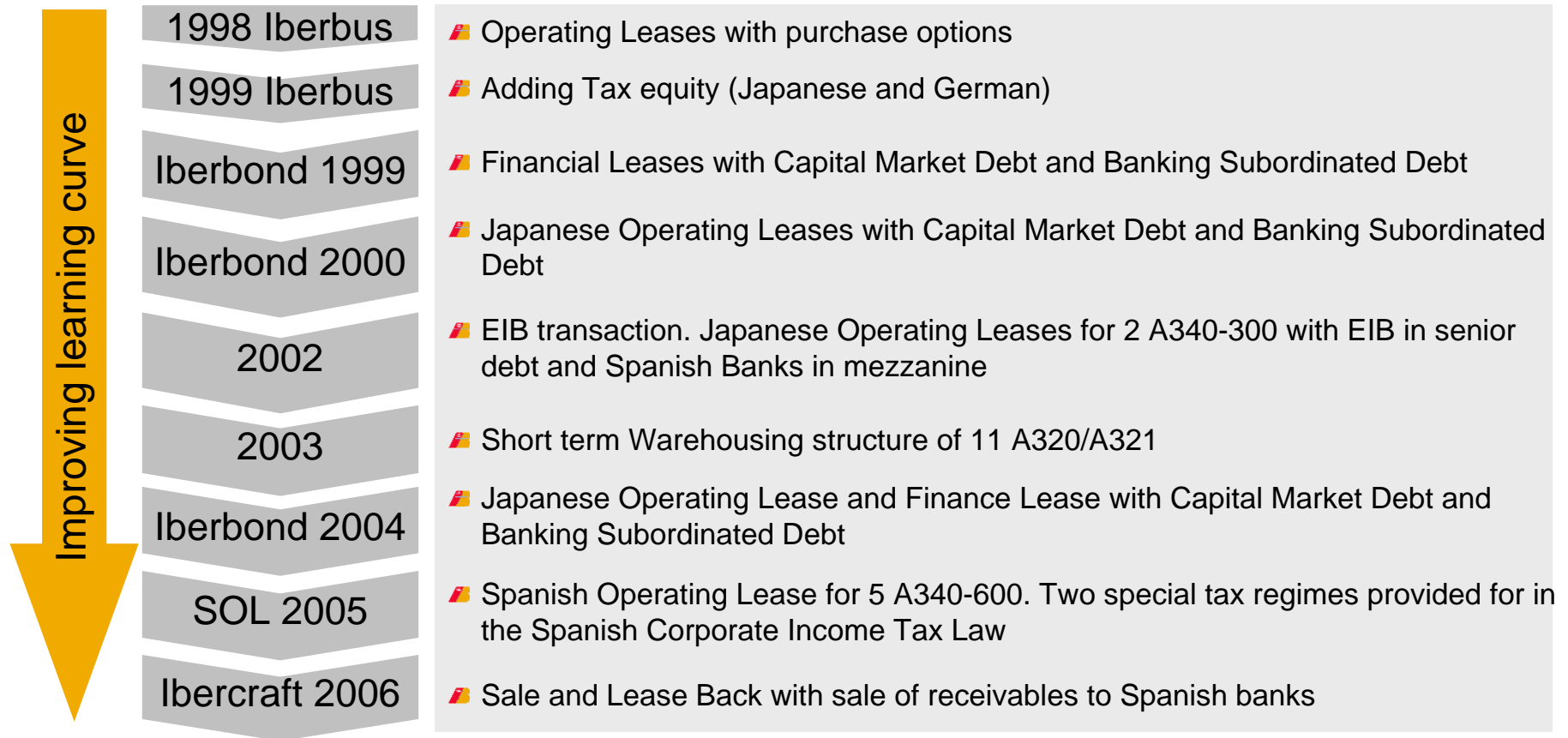
(2) Value of OFF Balance Sheet has been calculated capitalizing annual aircrafts rentals by:8

4 Financing

State of the art structuring



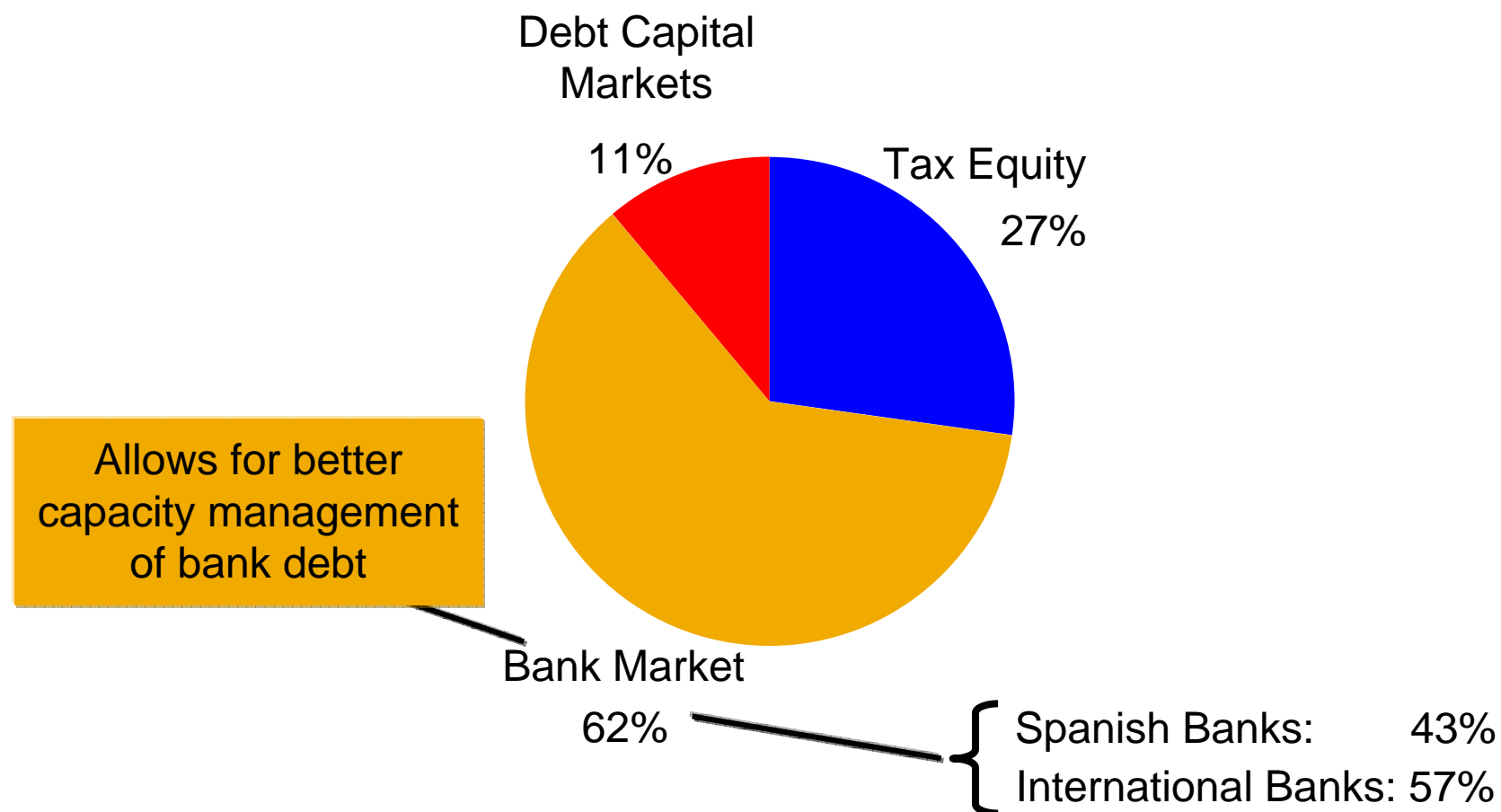
Philosophy: Take advantage of best financing markets available at each point in time



Ten "Deal of the Year" for financing innovation by following publications: Corporate Finance, Airfinance Journal, Asset Finance International, Jane's Transport Finance

4 Financing

Funding Diversification



Iberia's debt is not subject to financial covenants

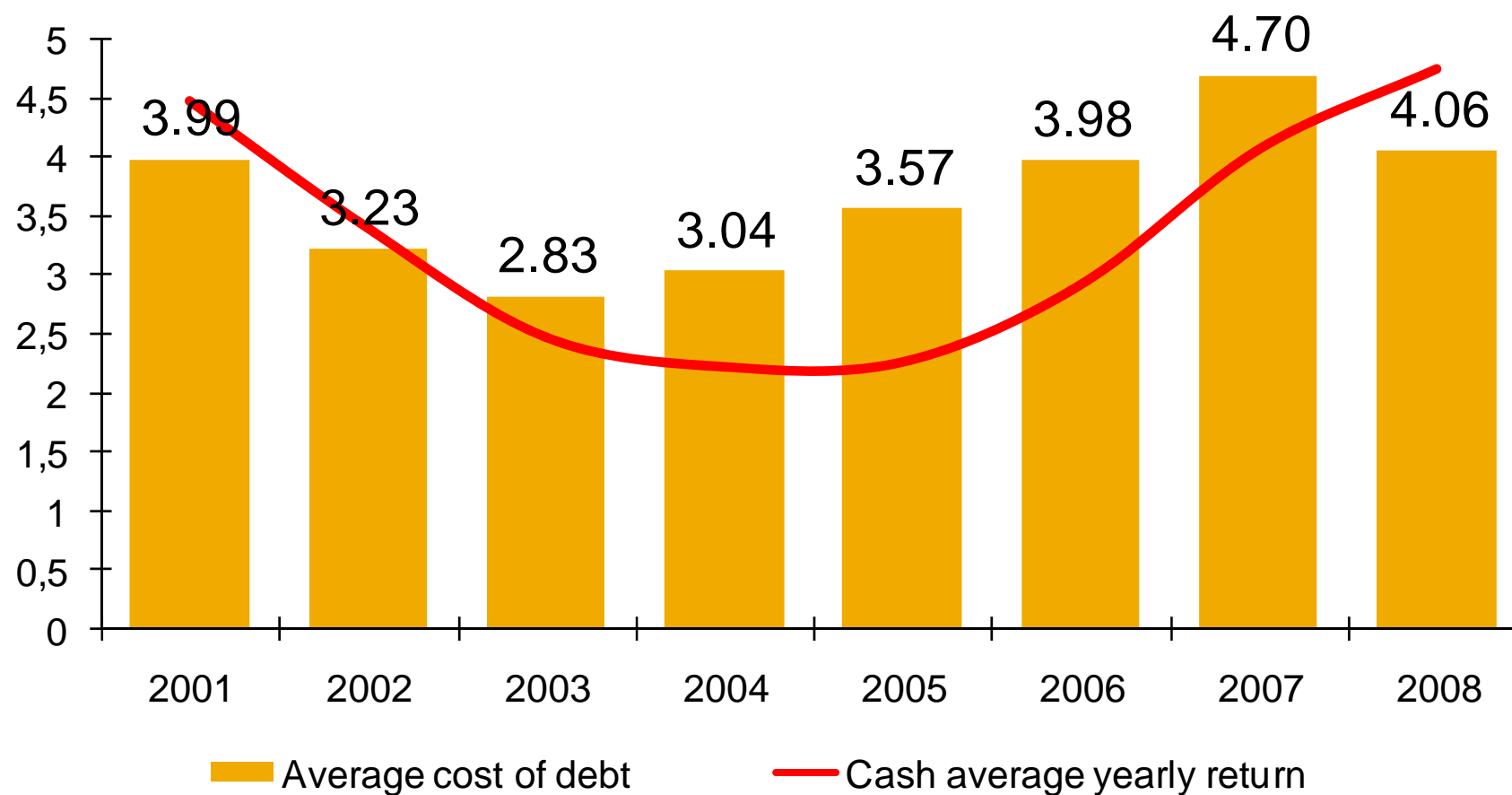
Note:
(1) Data as of 31st of December 08

4 Financing

Low and Stable Cost of Debt




Cost of debt



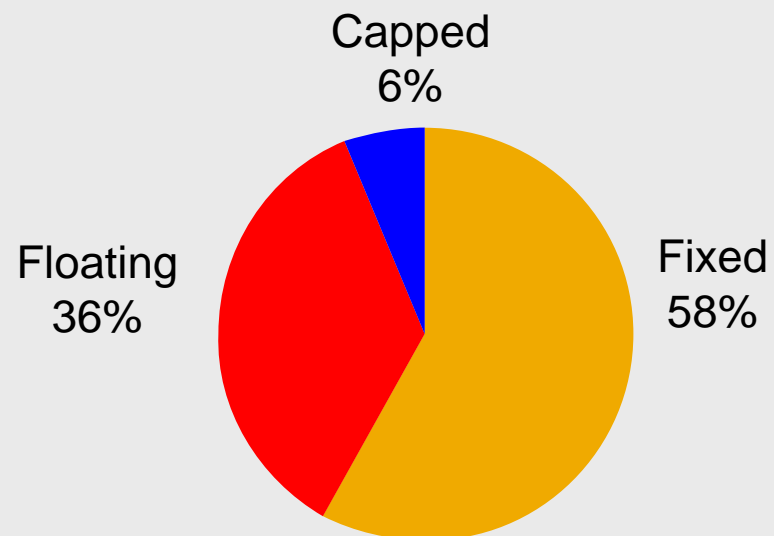
Note:


(1) Gross cost of debt (On and off balance sheet debt and benefit of tax equity included)

Interest Rate Risk Management

 Limited exposure to interest rate increases

Gross Debt Interest Rate




 42% floating (mainly in USD) will produce additional savings in rental and financing costs

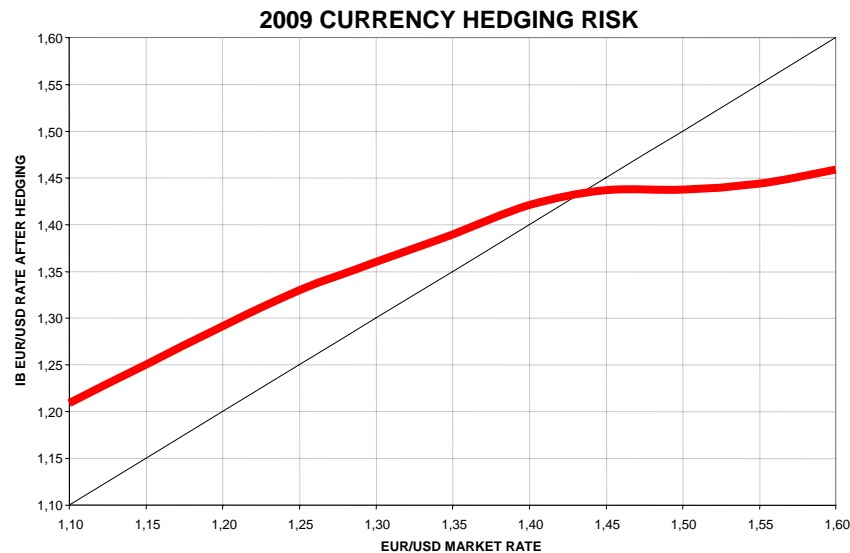
5 Hedging

Hedging programs: FX Exposure

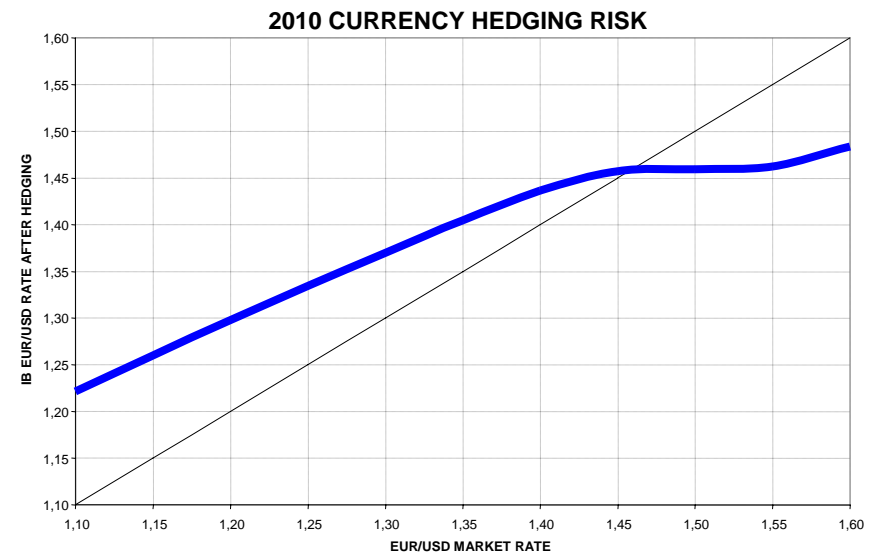


Currency Hedging Program: Exposure in EURO/USD

-  Hedging against the fall of the EURO against USD while leaving flexibility in case of a sell down of the USD



2009 exposure: Short USD ~1,350 MM
Hedge ratio: 90%



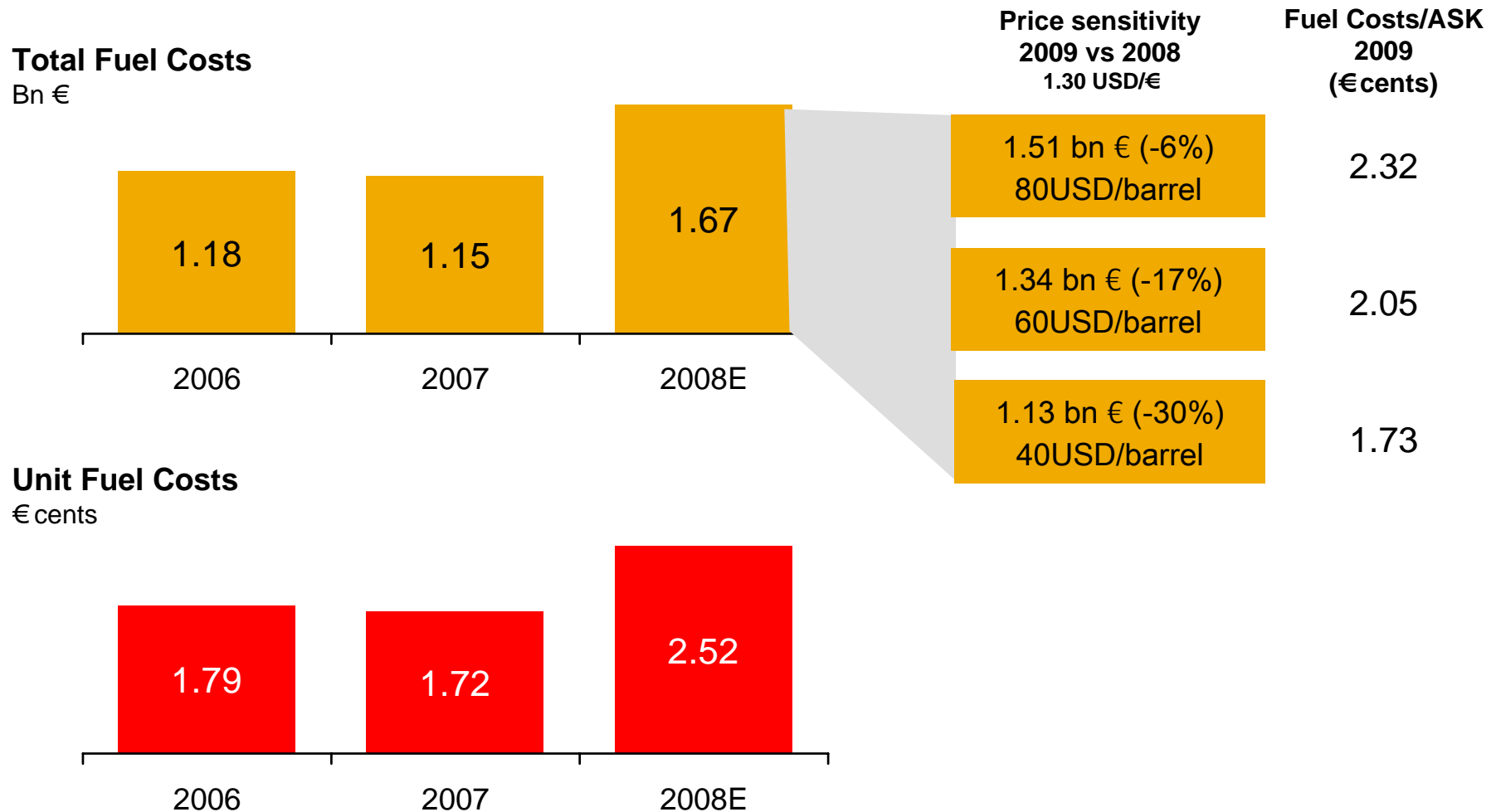
2010 exposure: Short USD ~ 1,350 MM
Hedge ratio: 50%

5 Hedging




Hedging programs: Jet Fuel



Around 50% hedged : Position that allows opportunities for fuel reductions



Iberia is in a very good position to withstand financial & economic crisis

-  Cash situation and bank availability will be preserved and even improved through the new Strategic Plan
-  Good access to relationship banks and financial markets will permit to finance capex requirements in the next few years
-  New fleet acquisitions will be timed on the optimal conditions in terms of price and flexibility



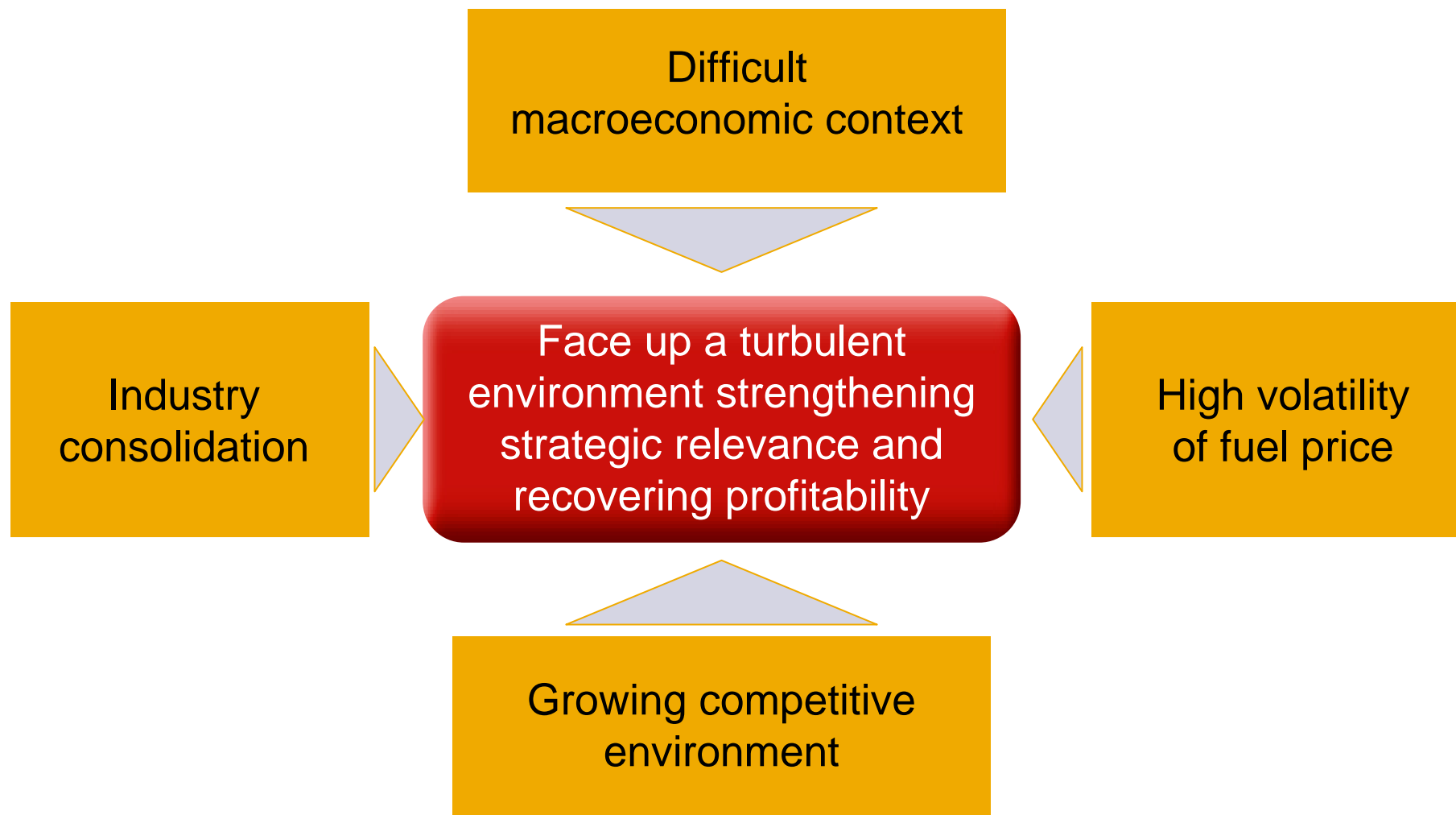
Strategic Plan 2009-2011



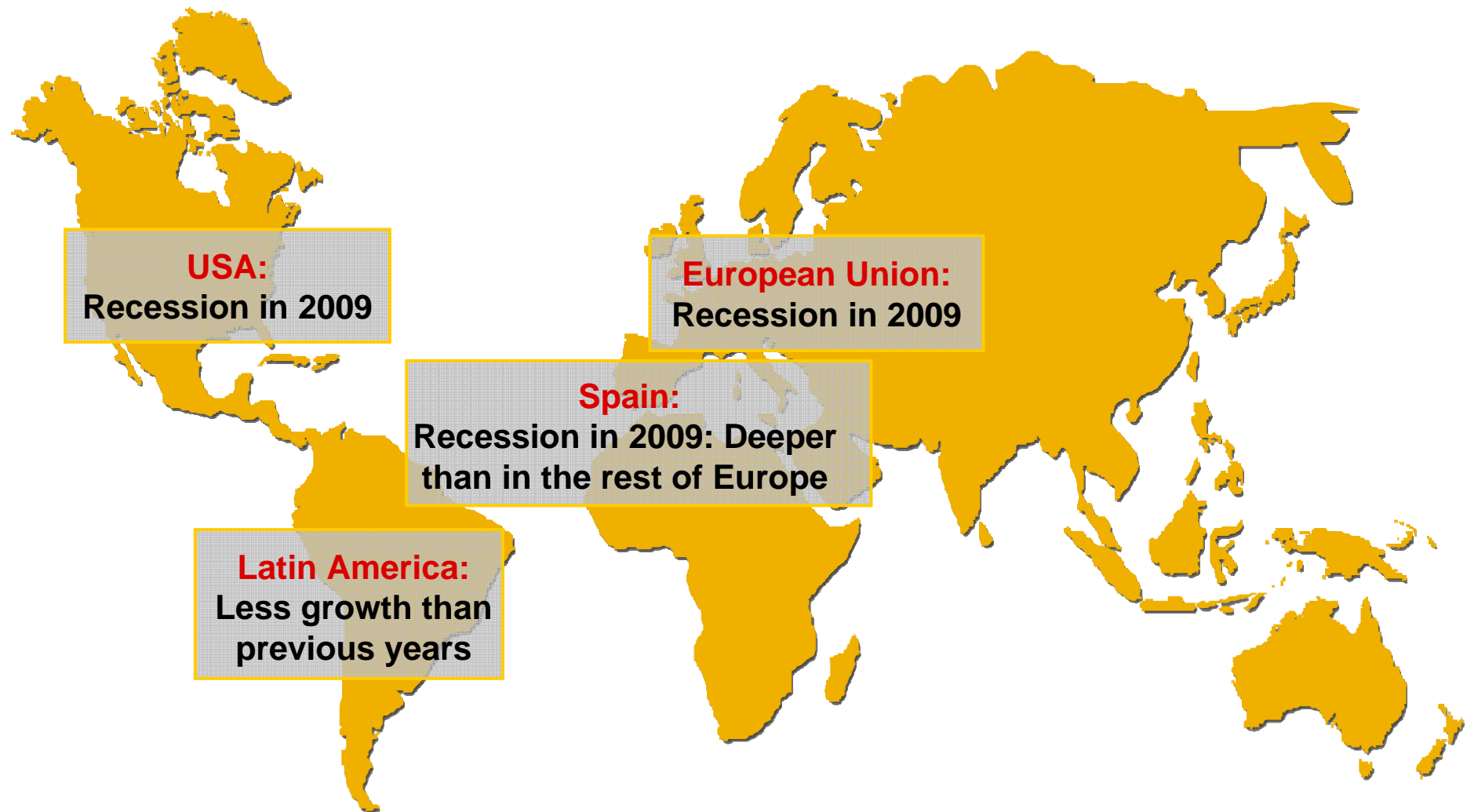
Strategic Plan 2009-2011

Business Environment

Main challenges for the next years



Economic growth prospects have changed significantly
in the last months



USA:
Recession in 2009

European Union:
Recession in 2009

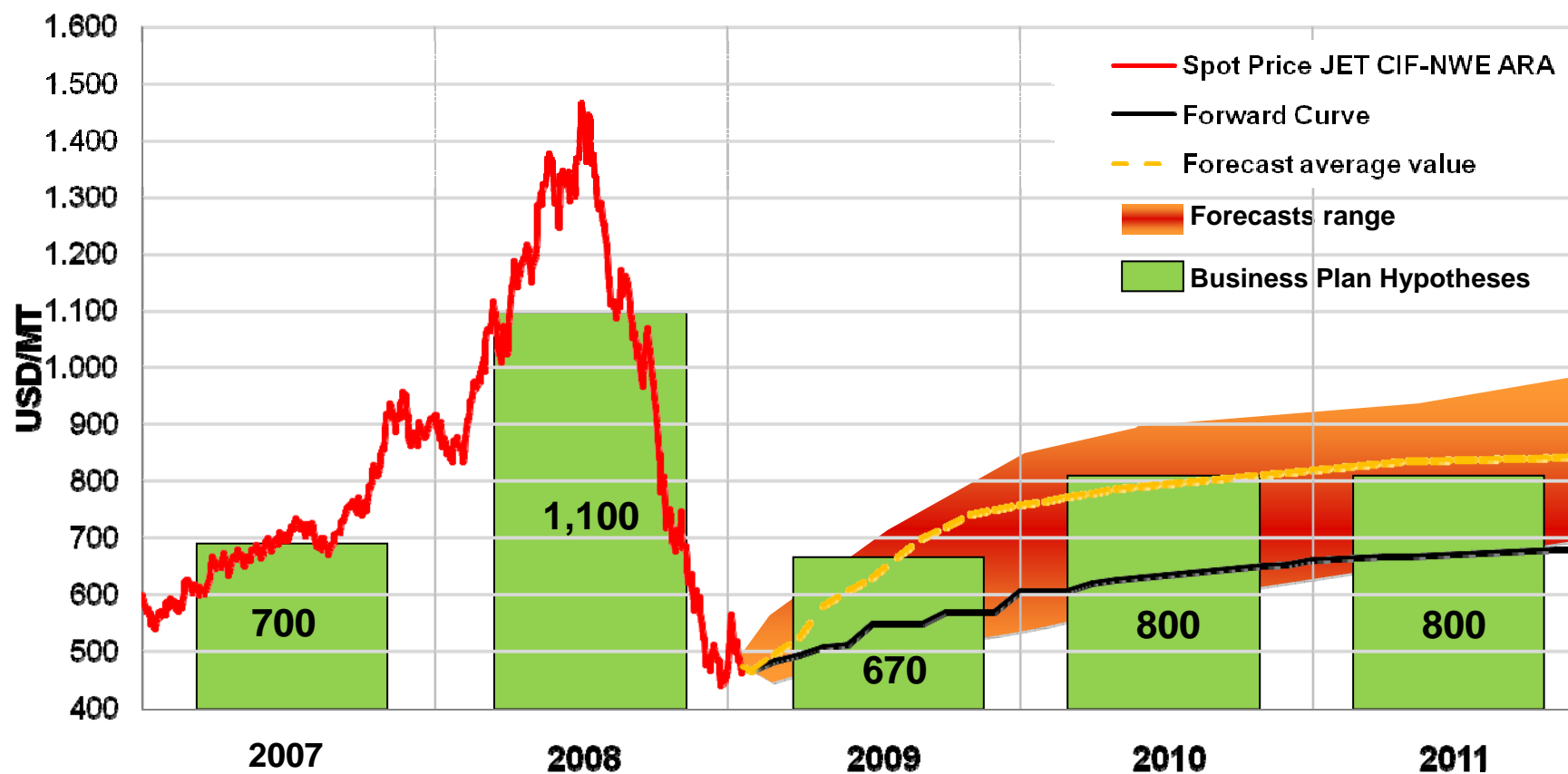
Spain:
Recession in 2009: Deeper
than in the rest of Europe

Latin America:
Less growth than
previous years

Fuel price has decreased to similar levels of those of 2007 although with high volatility



Fuel price* and forecast range according to main analysts



* Spot price Kerosene-Type Jet Fuel Price CIF NWE ARA and Forward Curve updated on 21 January 2009.

Industry capacity evolution becomes an opportunity in this downturn



European
network
carriers

Restrained capacity

Spanish
Competitors

Adjusting capacity beyond market decreases

European
LCC

Growing less than in the past

Latin
American
carriers

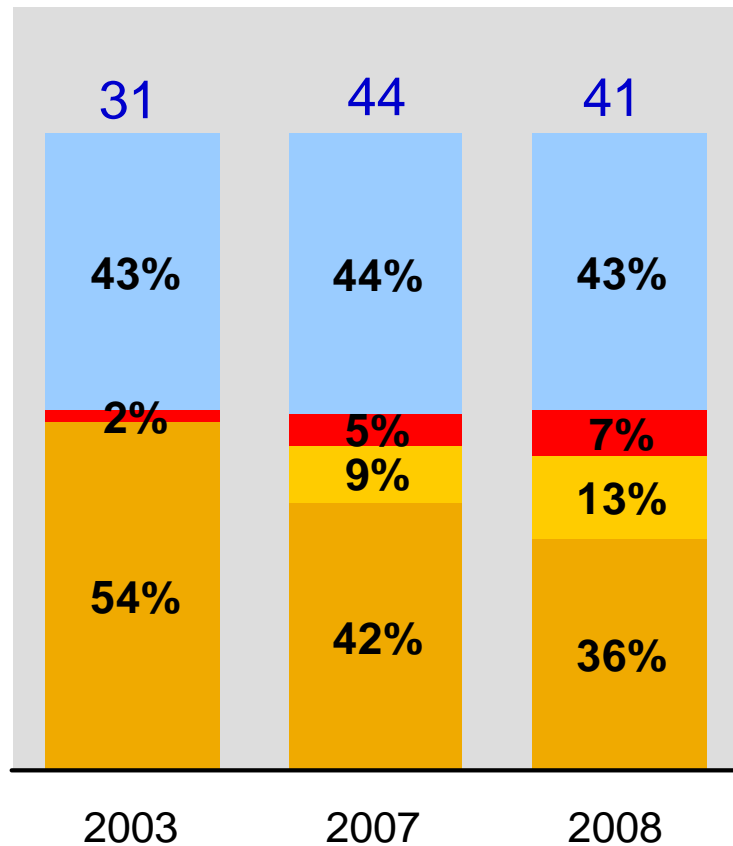
Cautious with reasonable growth

Short and Medium Haul market evolution



Spanish domestic market

Market shares. MM/Pax

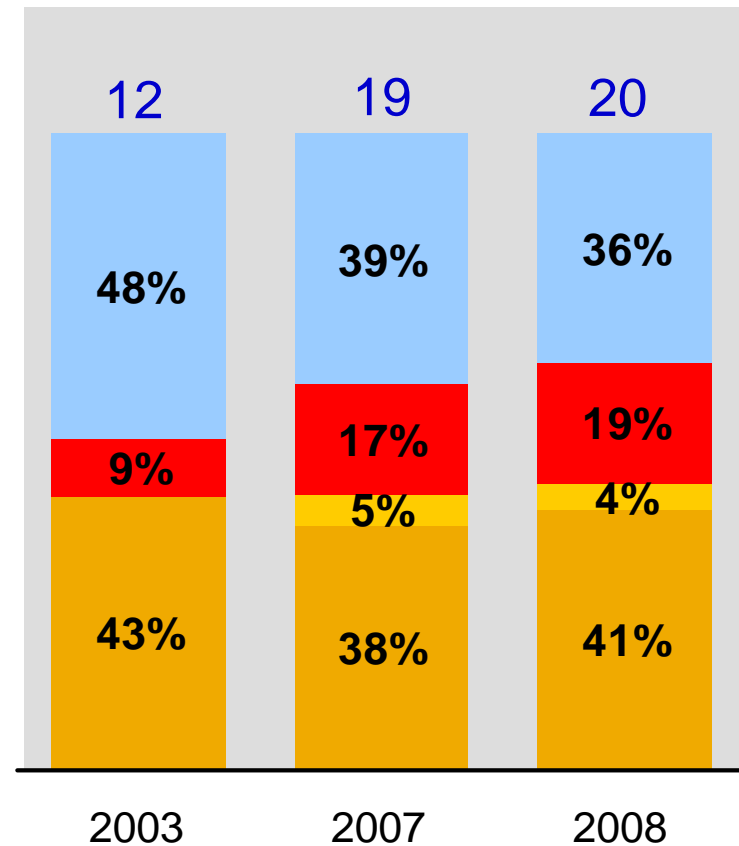


Iberia +
Air Nostrum

Clickair +
Vueling

Madrid - Europe market

Market shares. MM/Pax



LCC

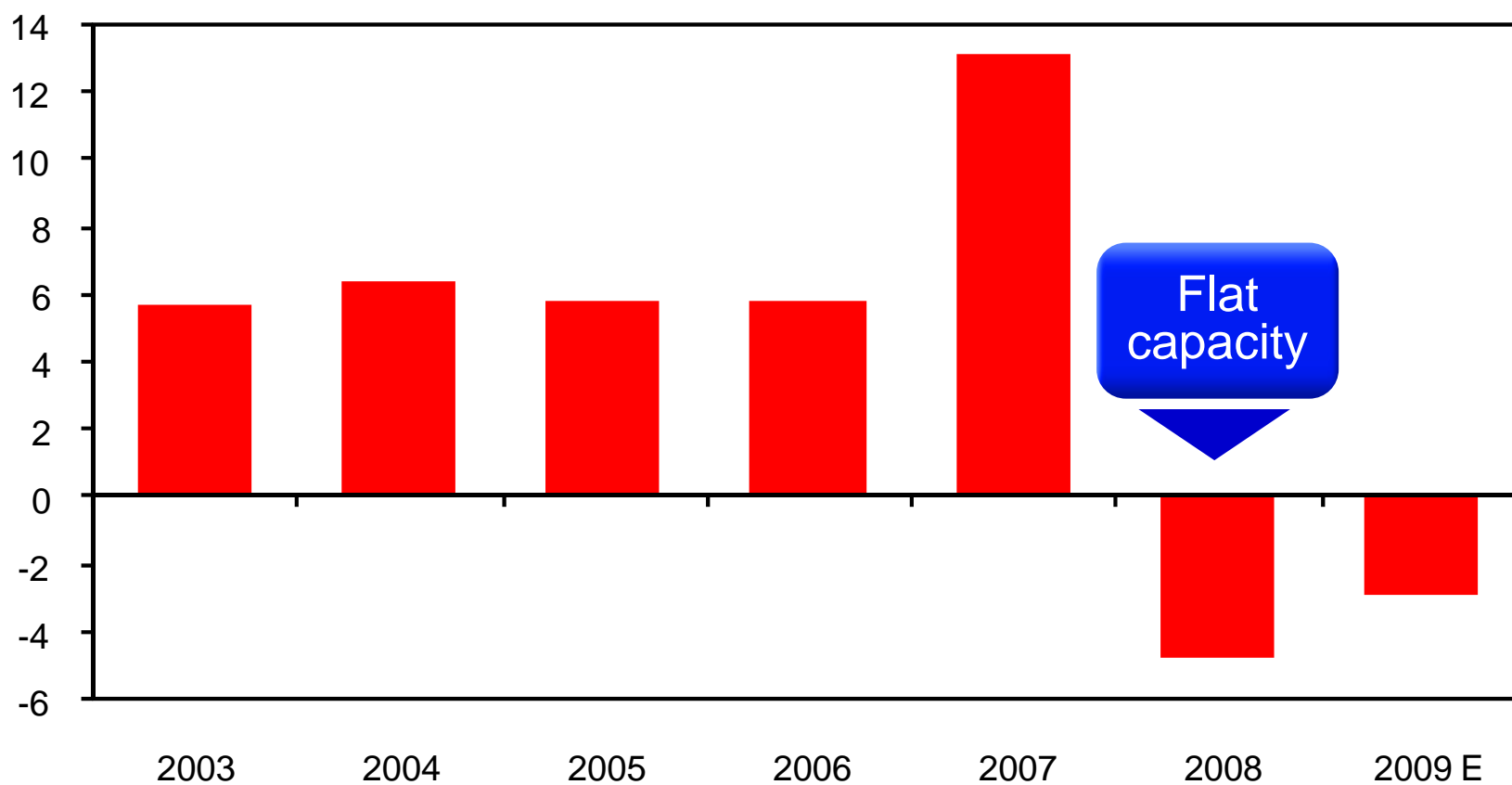
Rest

Evolution of main strategic markets



Madrid - Rest of Spain (ex MAD-BCN)

Pax % YoY

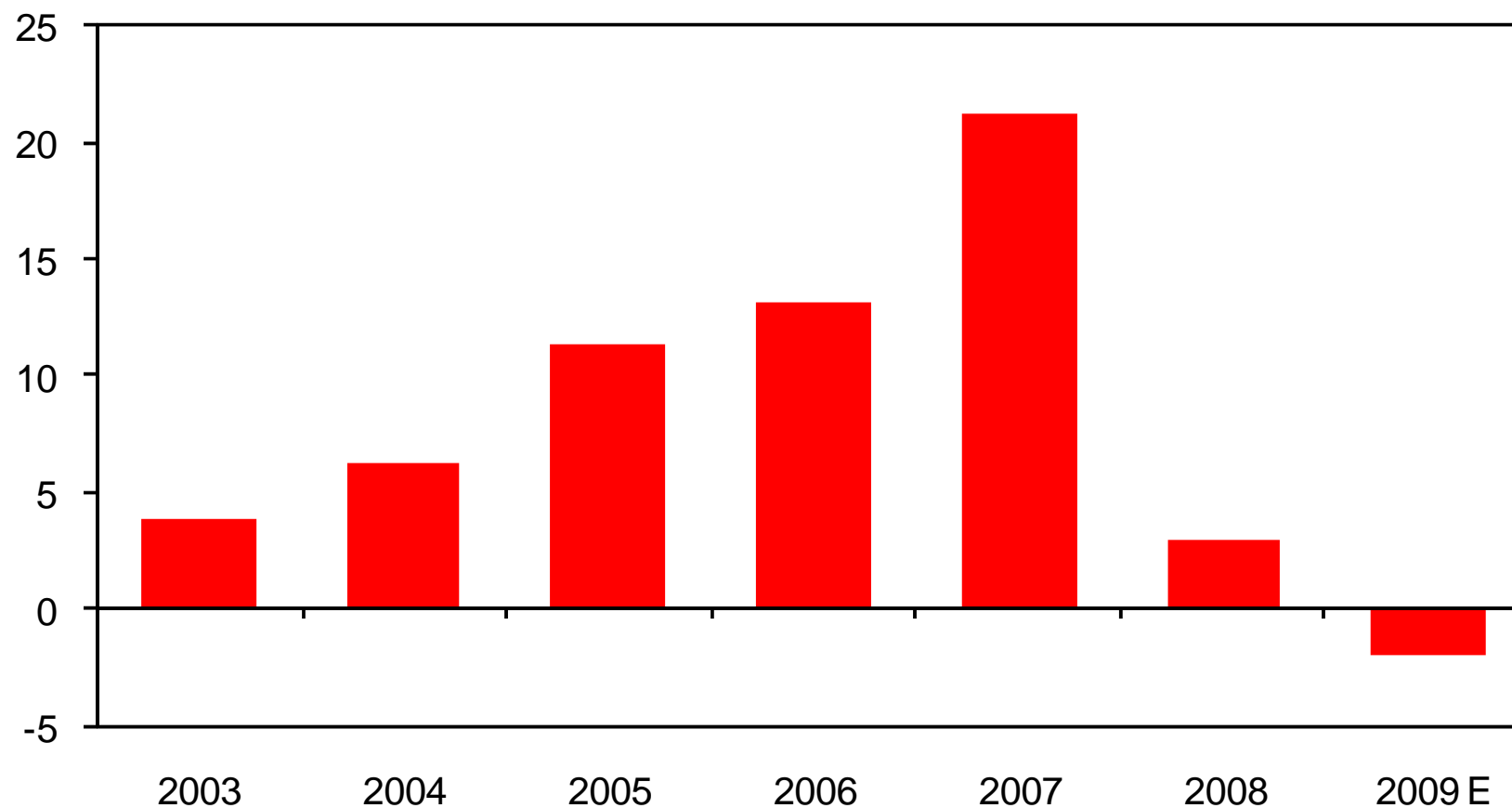


Evolution of main strategic markets



Madrid - Europe

Pax % YoY

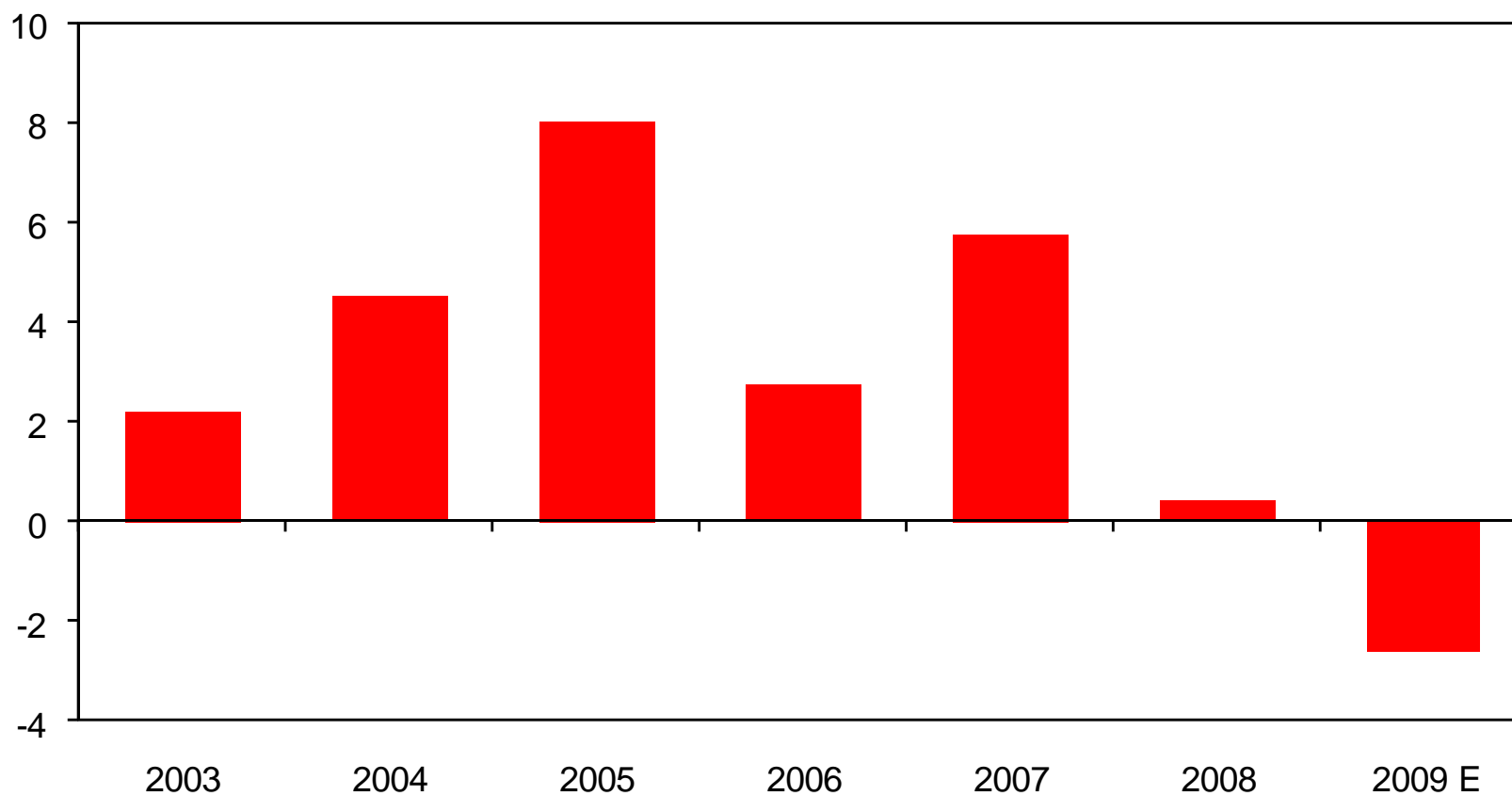


Evolution of main strategic markets



Europe - Latin America

Pax % YoY

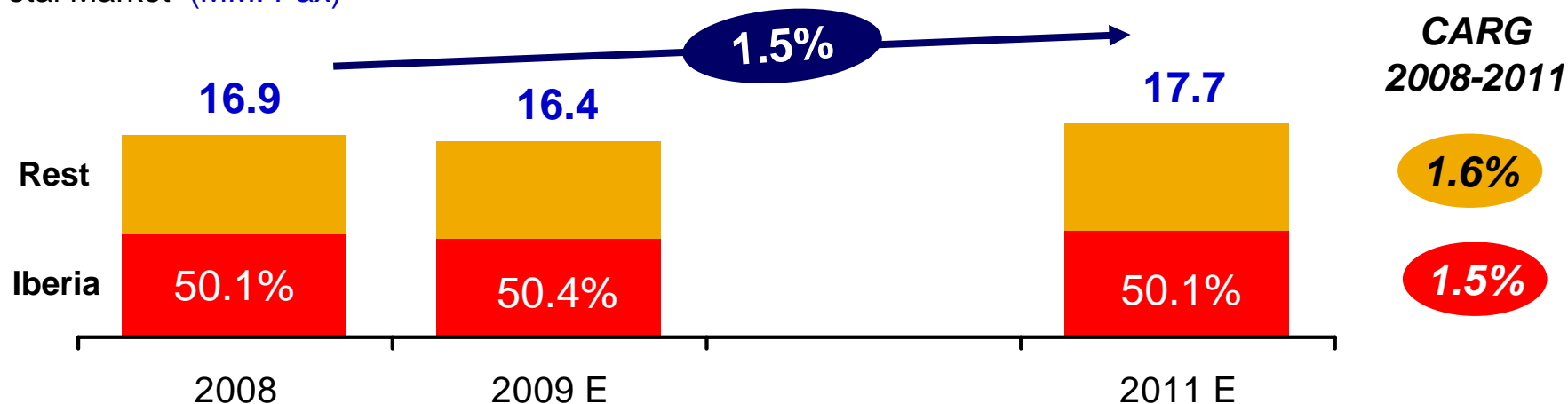


Main strategic markets: Evolution and targets



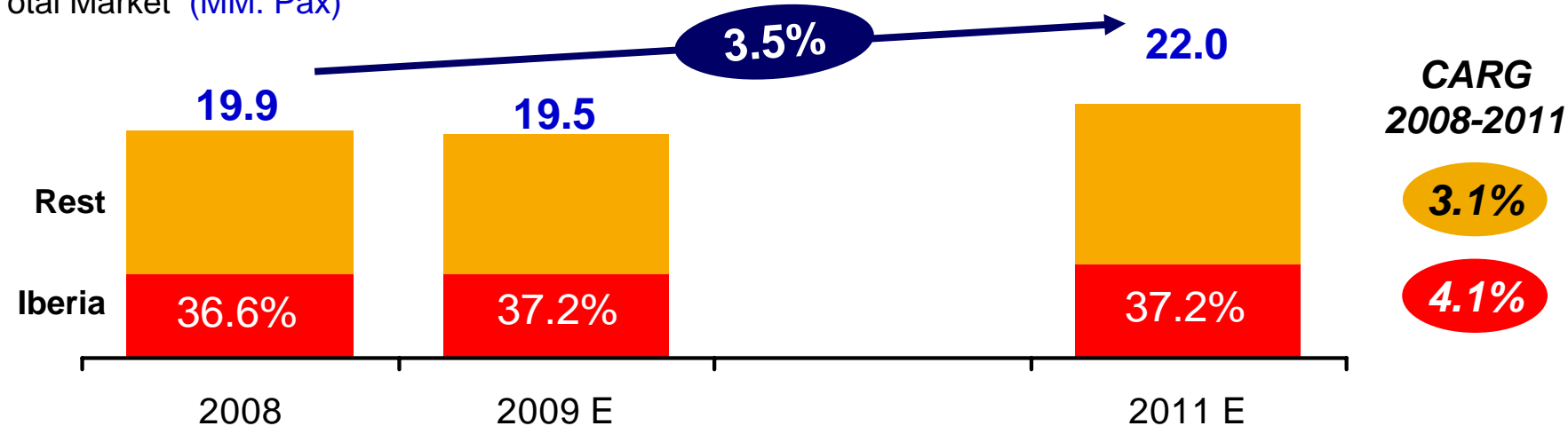
MAD - Domestic (Excl. MAD-BCN)

Total Market (MM. Pax)



MAD - Europe

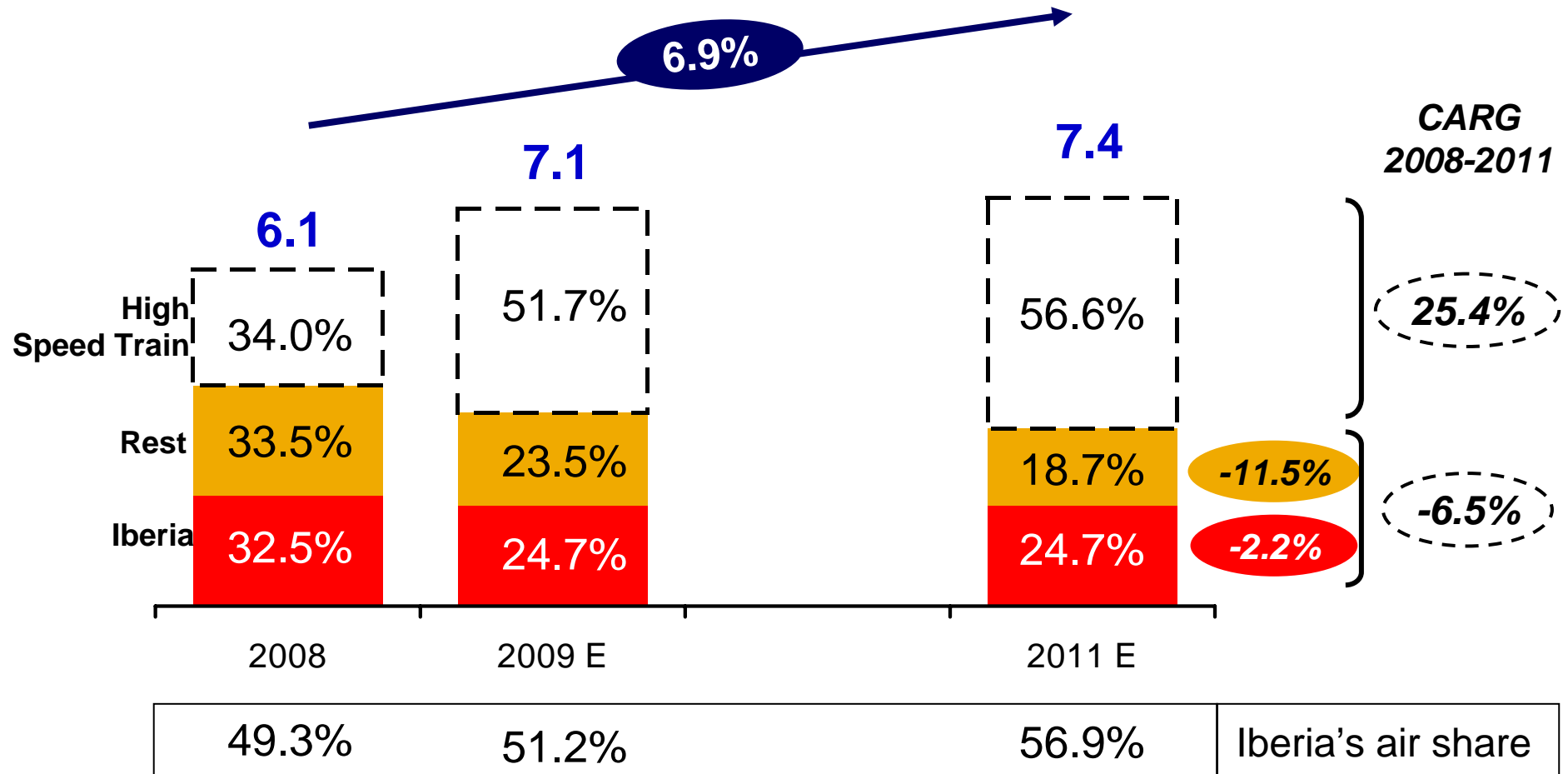
Total Market (MM. Pax)



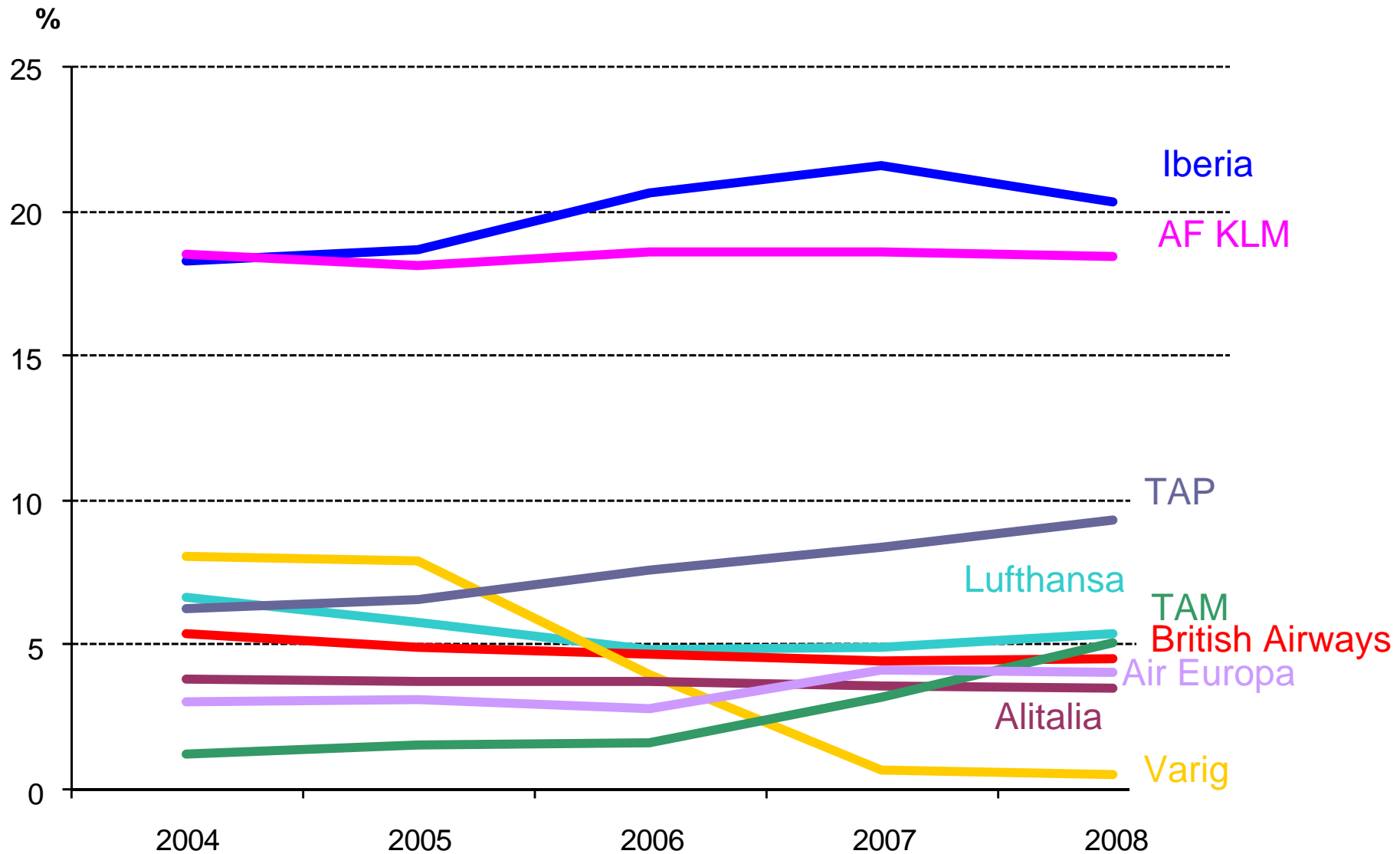
Madrid-Barcelona market: Impact of the High Speed Train



Total Market (MM. Pax)



Main strategic markets: Evolution of Europe - Latin America market shares

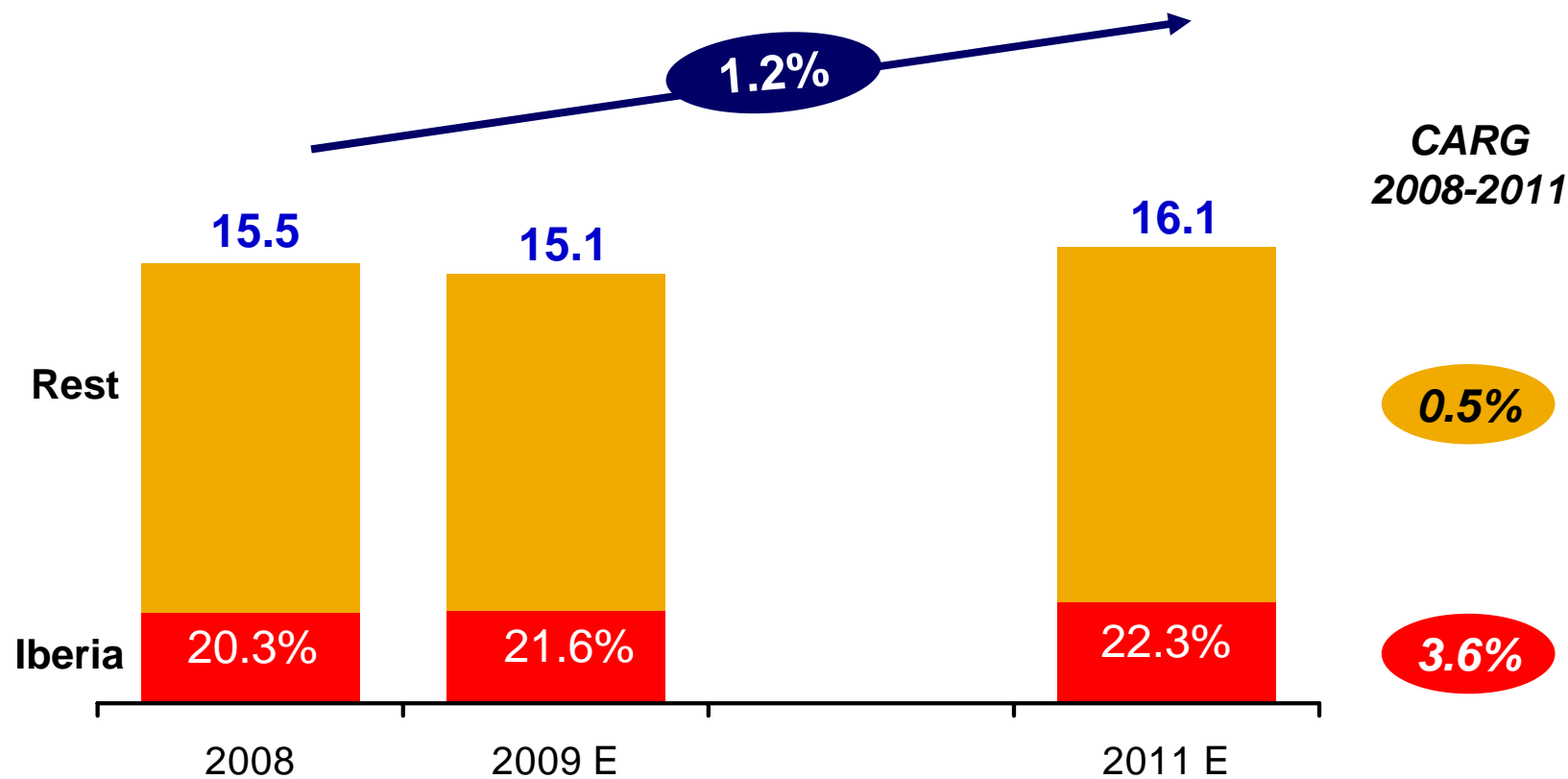


Main strategic markets: Evolution and targets



Europe - Latin America

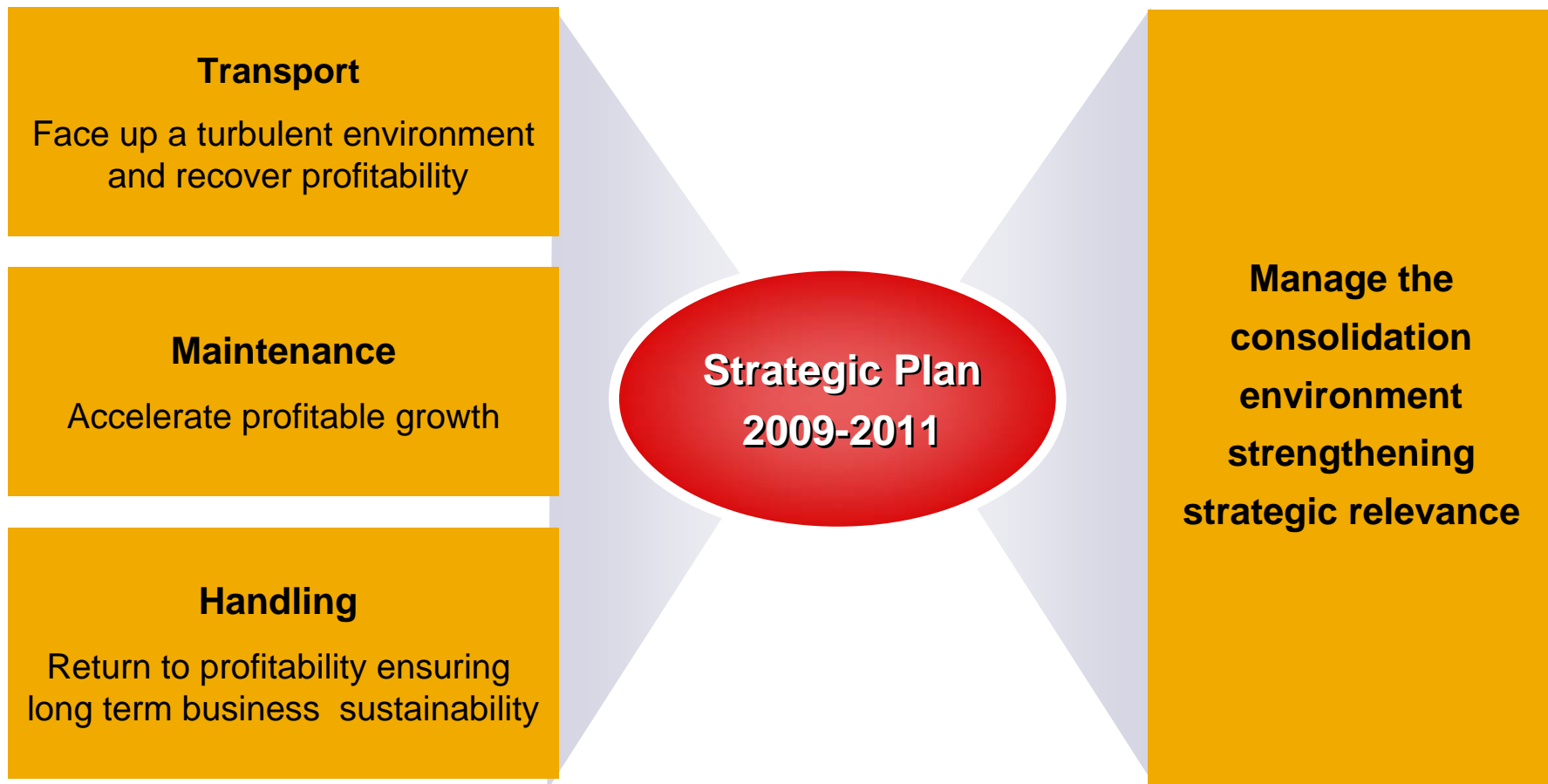
Total Market (MM. Pax)





Strategic Plan 2009-2011

Main targets





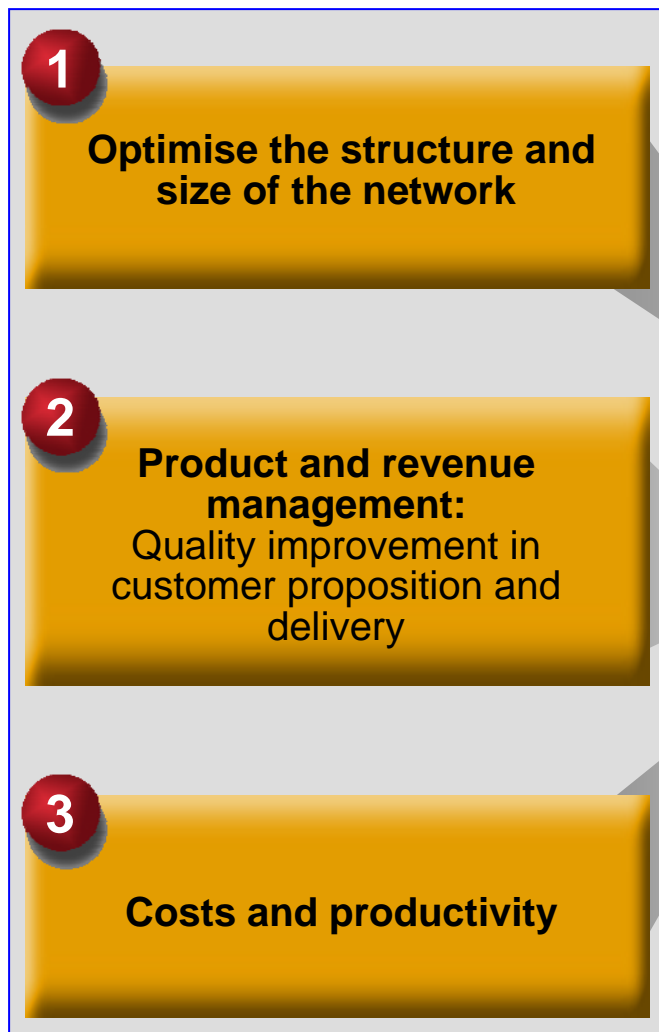
Strategic Plan 2009-2011

Transport Business

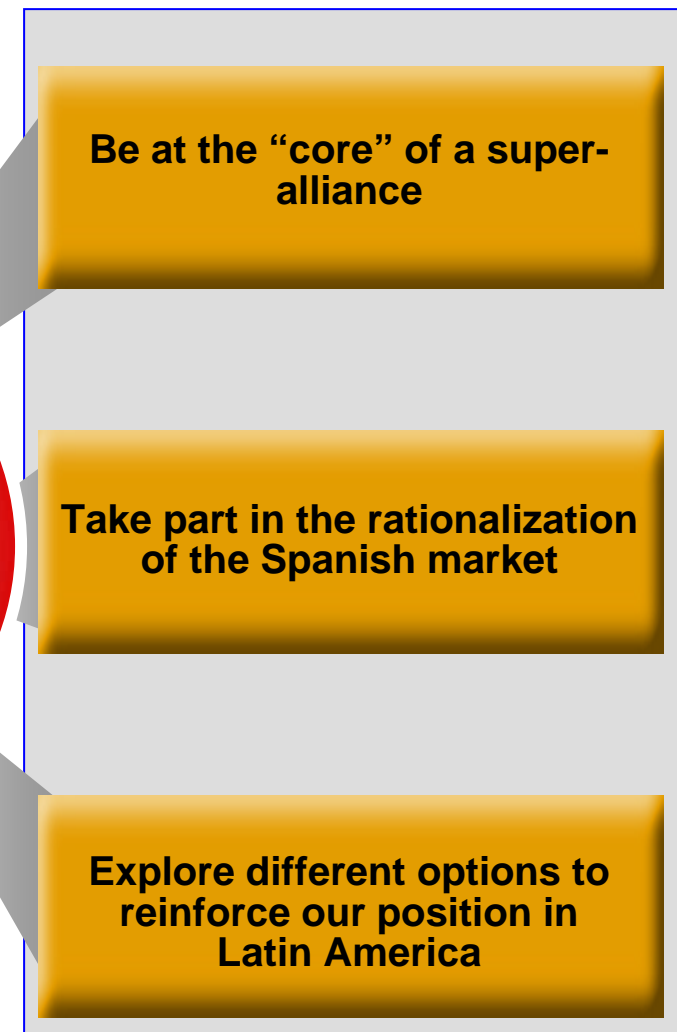
Main guidelines for the Transport business



Operational and business transformation



Strategic measures



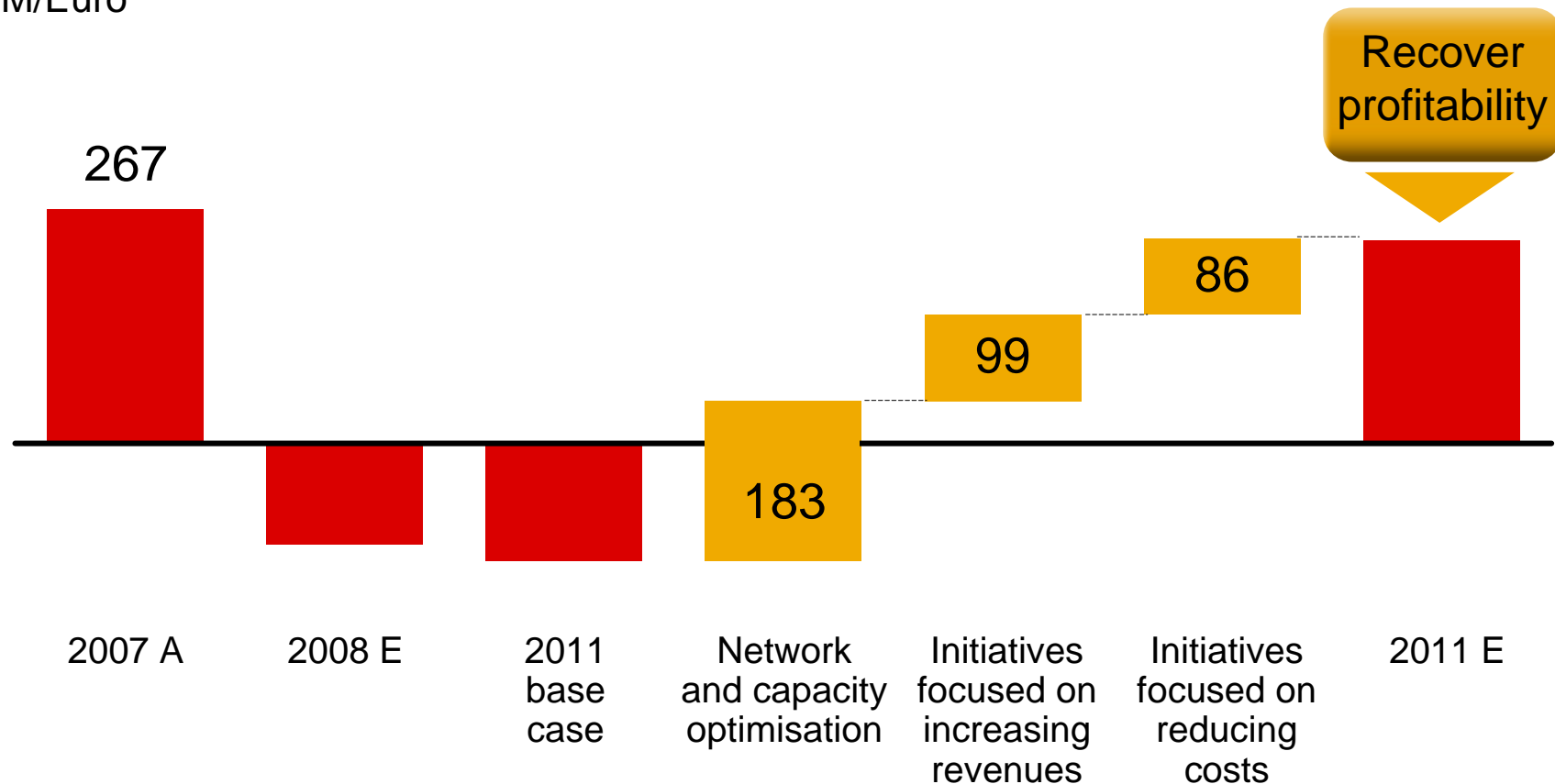
Face up a turbulent environment by encouraging strategic relevance and recovering profitability

Objective: Improve the airline's profitability, getting close to 2007 levels



Transport business EBIT

MM/Euro



Hypotheses used:




- Fuel: 800 \$/Tm
- Exchange rate: 1,25 USD/€
- Spanish avg. annual inflation rate 09-11: 3%

7 main guidelines for the Transport business



1

Optimise the structure and size of the network

-  Capacity Adjustment
-  Hub optimisation
-  Schedule seasonality

2009-2011
Strategic
Plan

1 Optimize the structure and size of the network

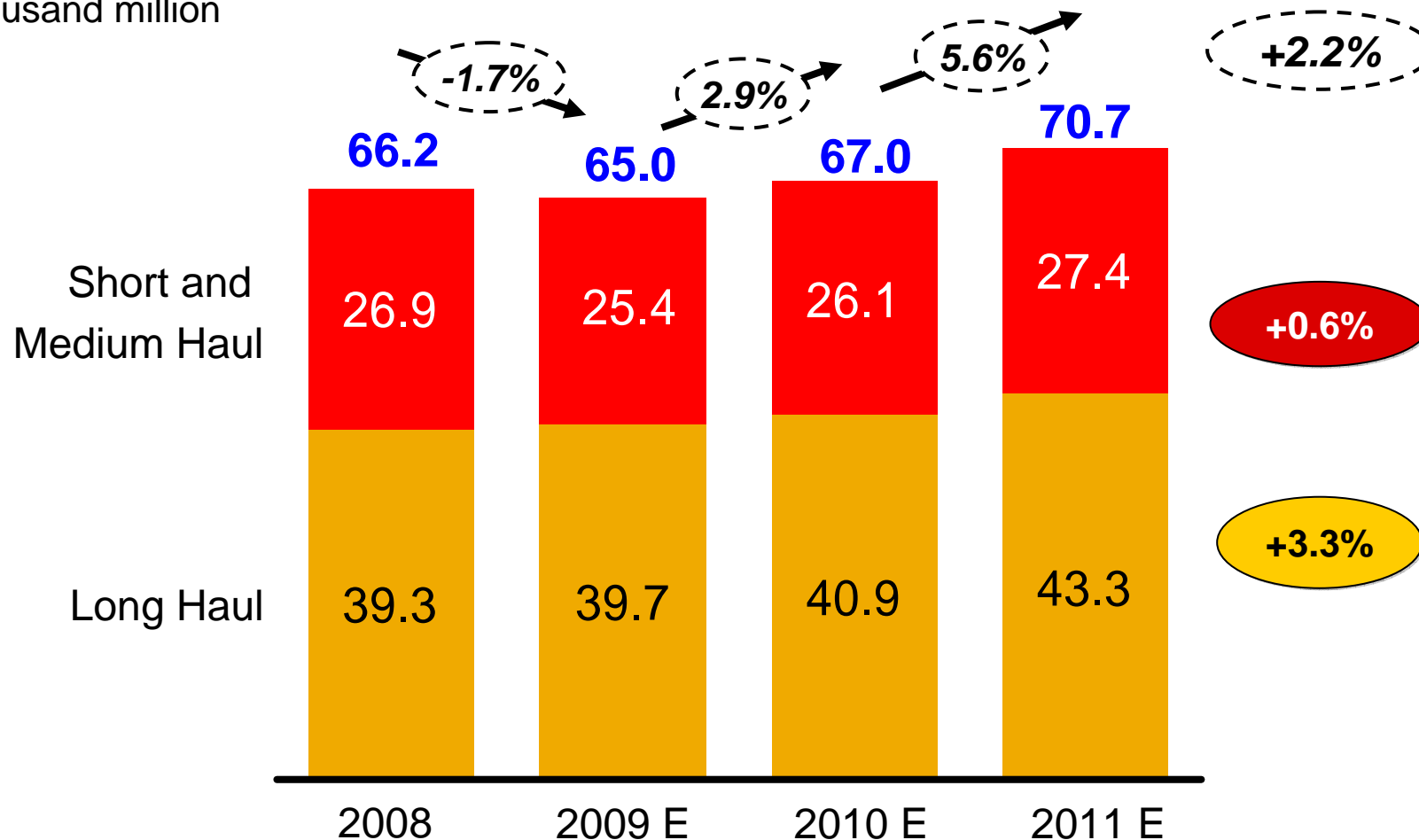
Capacity adjustment



ASK

Thousand million

CAGR 2008-2011



Long Haul weight	59.4%	61.0%	61.1%	61.2%
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1 Optimize the structure and size of the network
Capacity adjustment

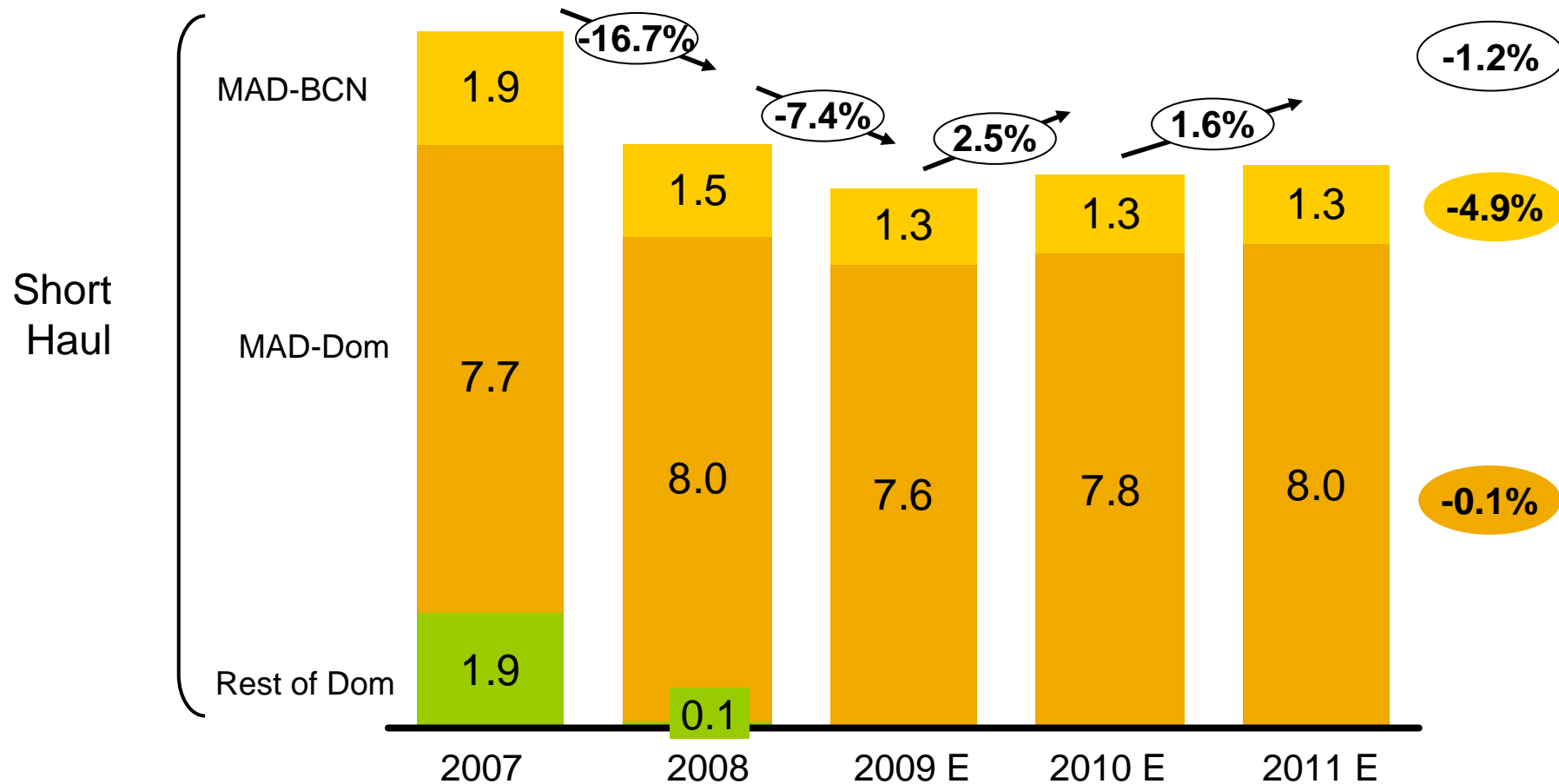


Domestic

ASK

Thousand million

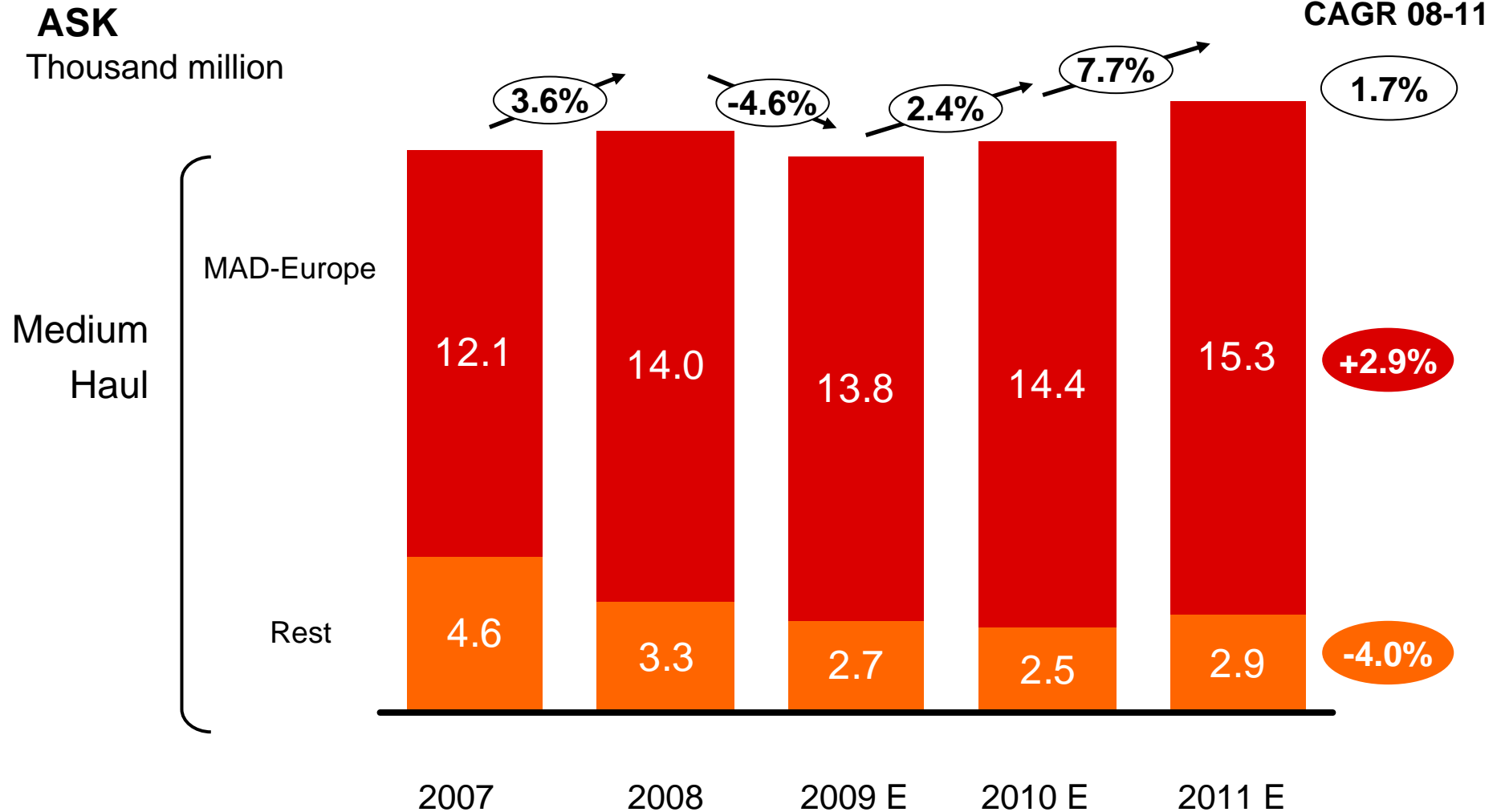
CAGR 08-11



1 Optimize the structure and size of the network
Capacity adjustment



Medium Haul



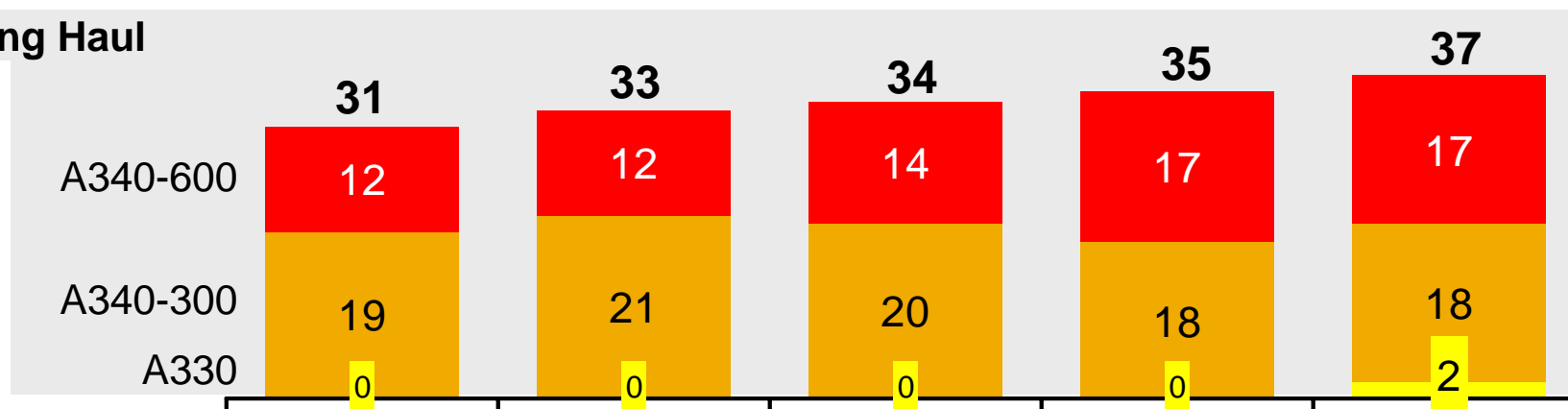
1 Optimize the structure and size of the network

Capacity adjustment

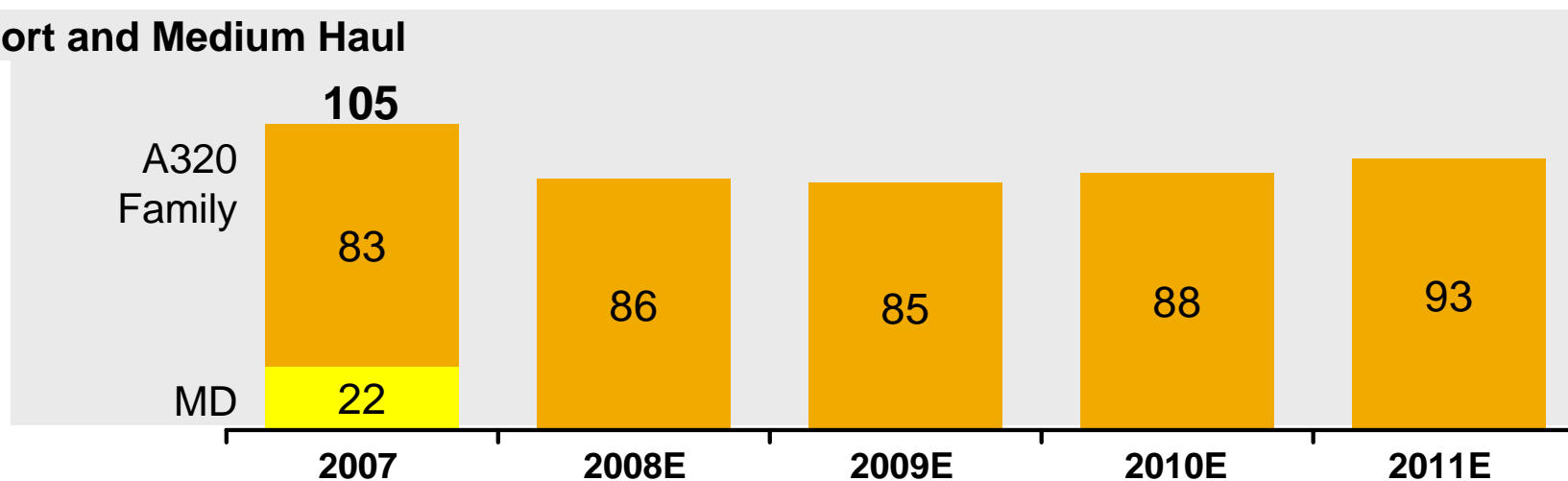


Fleet (end of the year)

Long Haul



Short and Medium Haul



Total	136	119	119	123	130
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7 main guidelines for the Transport business



Operational and business transformation

1

Optimise the structure and size of the network

-  Capacity Adjustment
-  Hub optimisation
-  Schedule seasonality

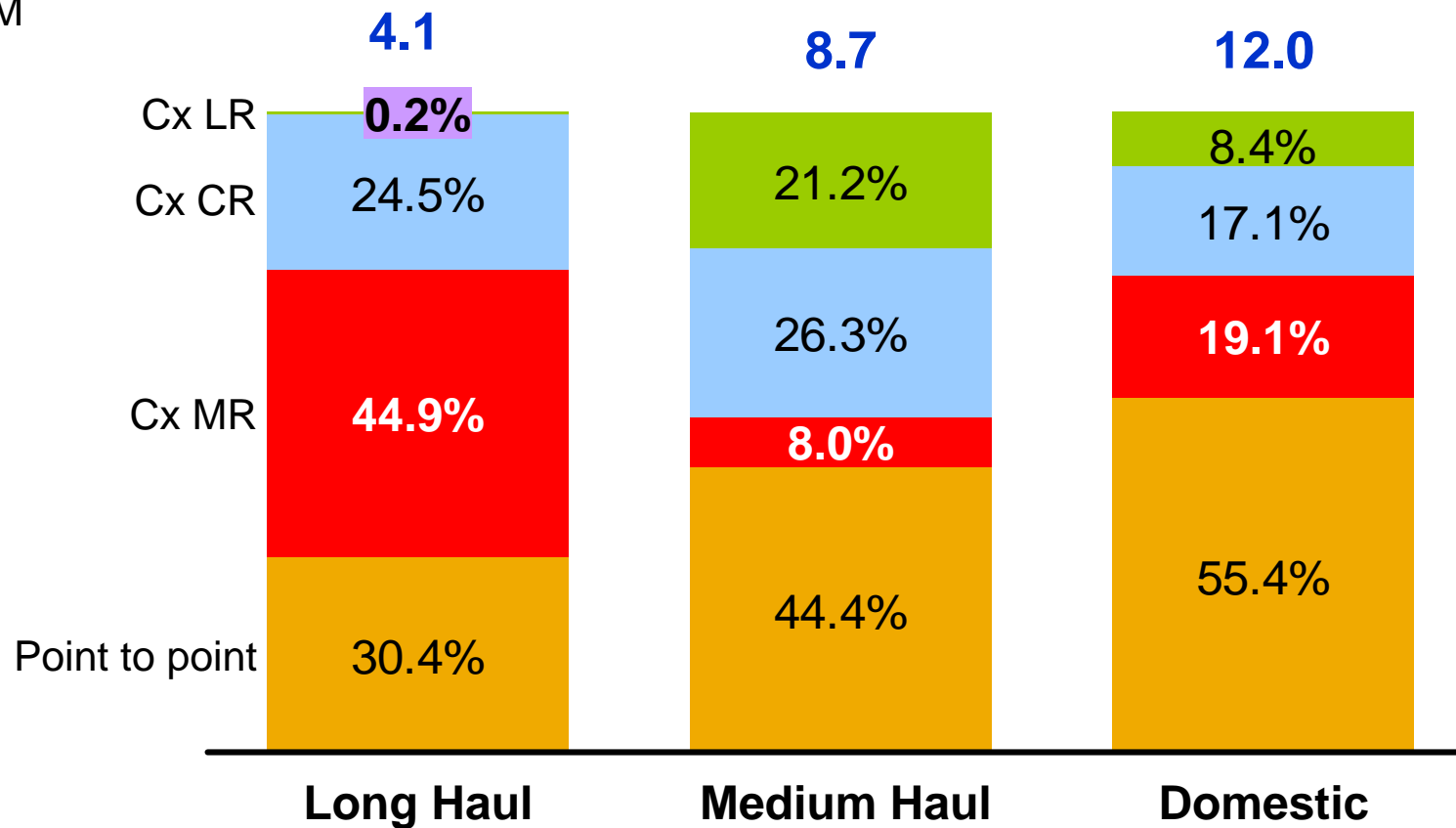
2009-2011
Strategic
Plan

1 Optimize the structure and size of the network
Hub optimisation



53% of our passengers are connections (+2 pp vs 07)

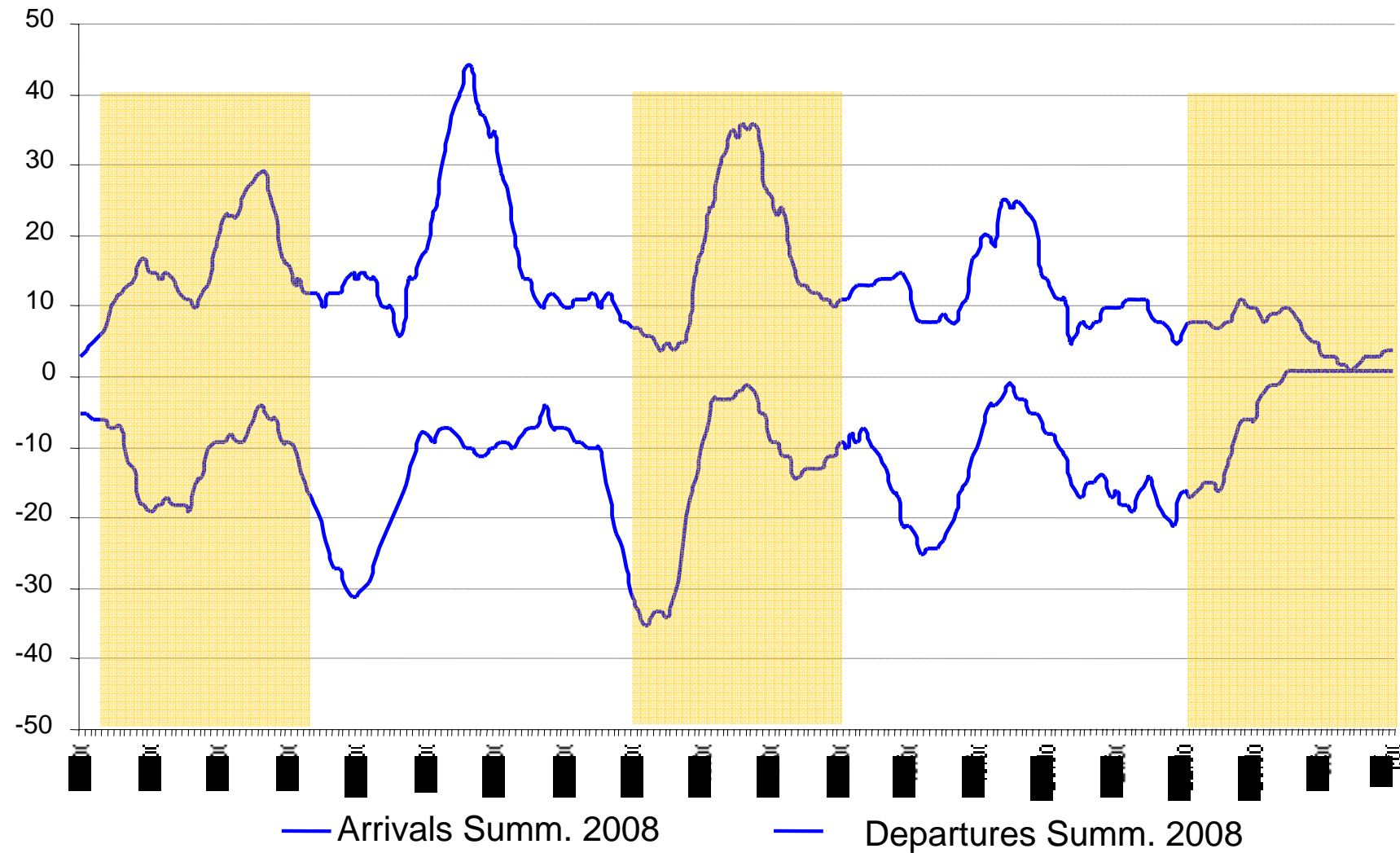
Total pax
MM



1 Optimize the structure and size of the network
Hub optimisation



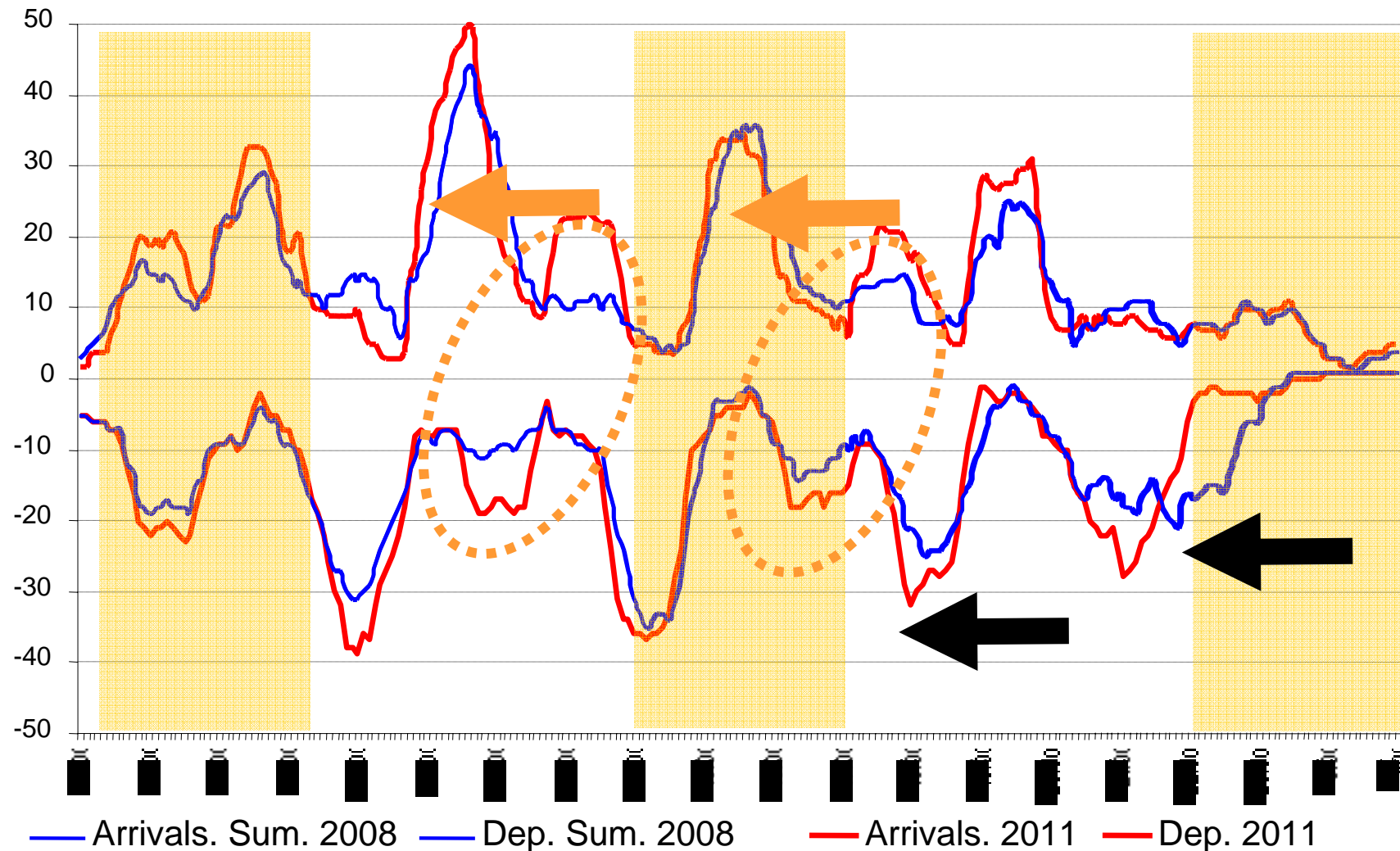
Improve connecting banks in Madrid



1 Optimize the structure and size of the network
Hub optimisation



Madrid Hub objective 2011: From 7.500 to 8.370 weekly hits






7 main guidelines for the Transport business



Operational and business transformation

1

Optimise the structure and size of the network




-  Capacity Adjustment
-  Hub optimisation
-  Schedule seasonality

2009-2011
Strategic
Plan

1 Optimize the structure and size of the network
Schedule seasonality



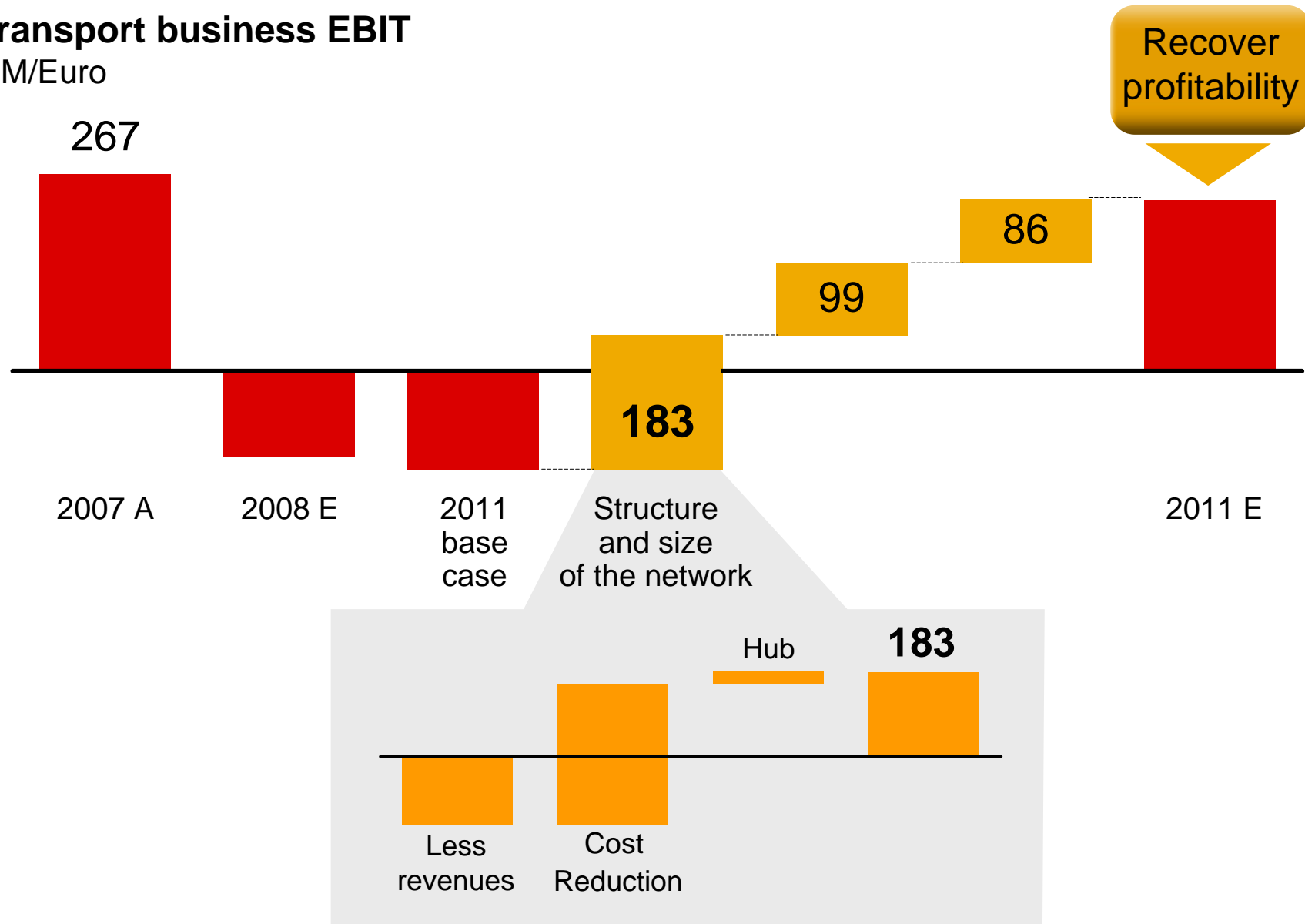
Reinforce the seasonality of the yearly schedule
to improve the results:

-  More differentiation between weekends/labour days
-  More differentiation between summer peaks and rest of the year taking advantage of vacational peak demand
-  Improve balance between North Atlantic and Latin America capacity across the year

1 Optimize the structure and size of the network
Margin improvement breakdown



Transport business EBIT
MM/Euro






Main guidelines for the Transport business



Operational and business transformation

2

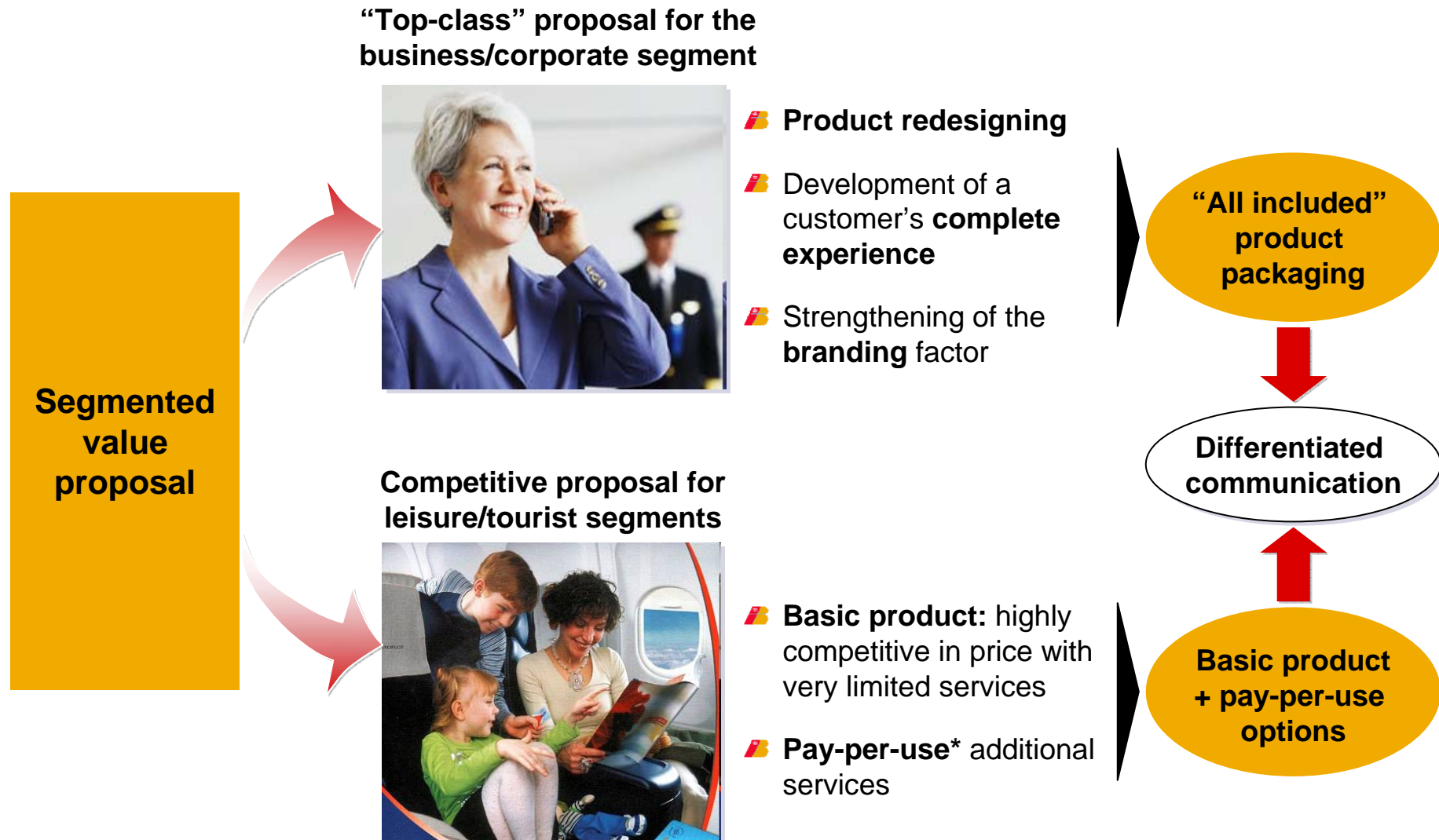
Product and revenue management:

-  **Develop a differentiated and segmented customer proposition**
-  Improve the quality of the customer service
-  Apply best practices in revenue management

2009-2011
Strategic
Plan

2 Product and revenue management

Develop a segmented customer proposition






Main guidelines for the Transport business



Operational and business transformation

2

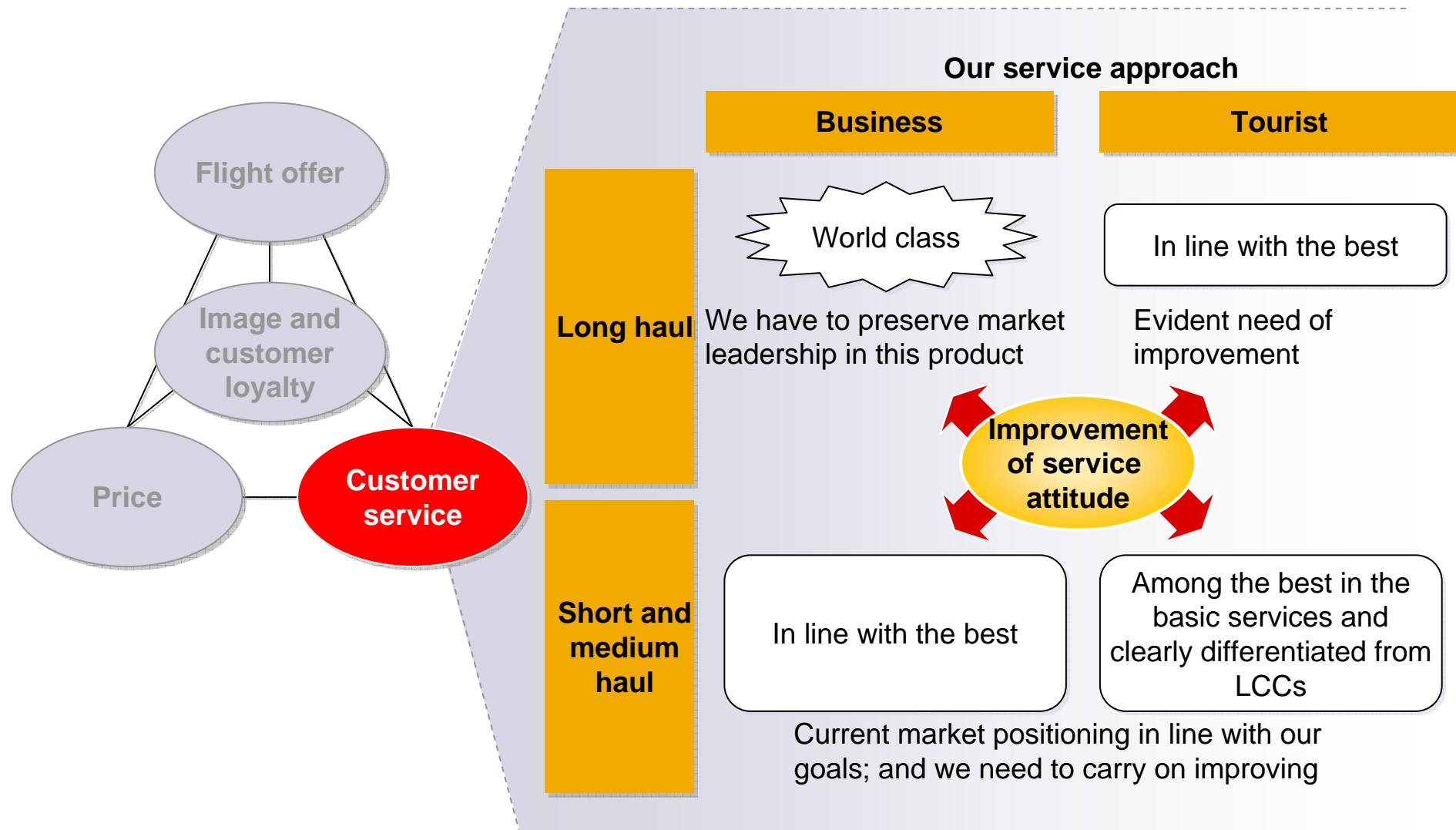
Product and revenue management:

-  Develop a differentiated and segmented customer proposition
-  Improve **the quality of the customer service**
-  Apply best practices in revenue management

2009-2011
Strategic
Plan

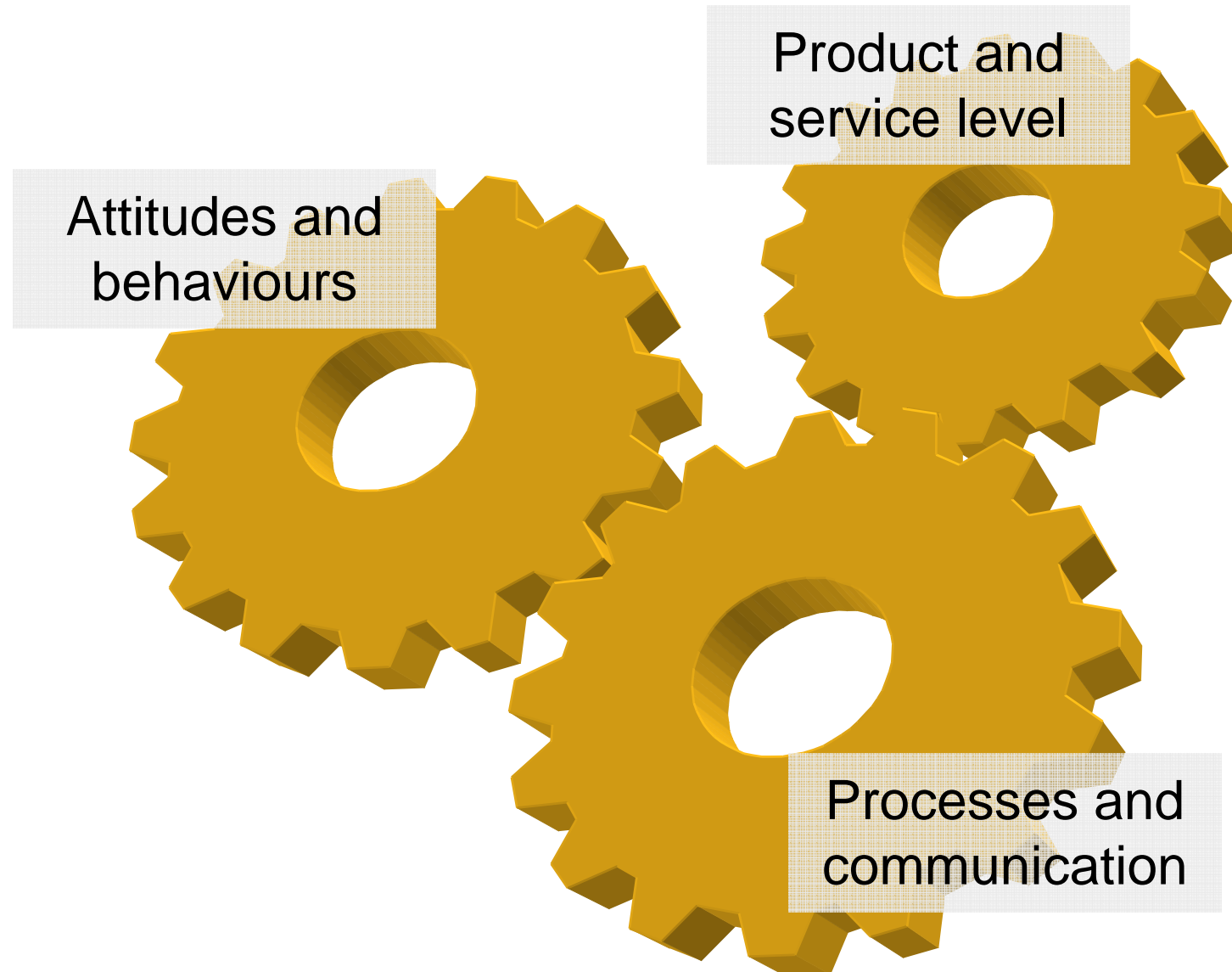
2 Product and revenue management

Improve the quality of our customer service



2 Product and revenue management

3 main intervention guidelines



2 Product and revenue management

Make a qualitative step forward in our customer service attitude

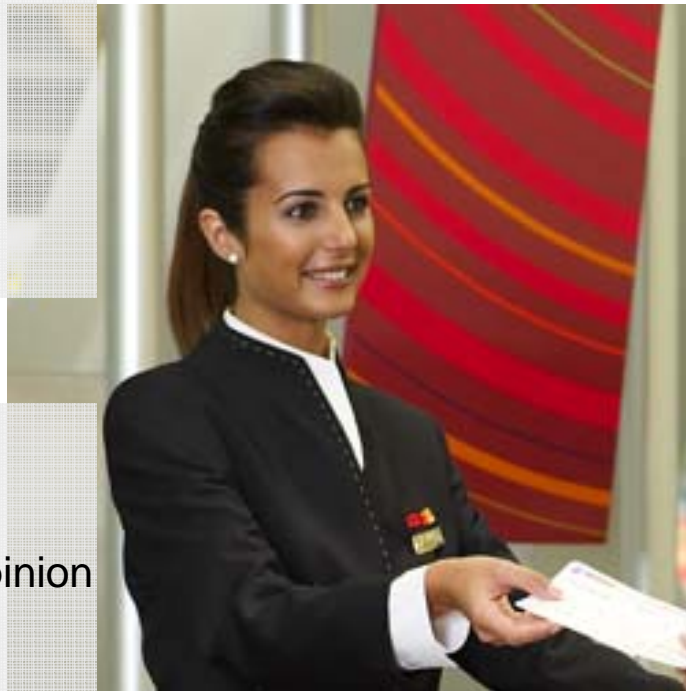


Communication

- IB **Definition of our service values**
- IB Highlight the **pride** for the work well done

Mobilization

- IB Structured planning of **symbolic actions**
- IB **Raise** managers and opinion leaders' **awareness**
- IB Spreading of **success stories**
- IB Encourage the “**voice of the customer**”



Support and monitoring

- IB **Supervision** reinforcement
- IB **KPIs**
- IB **Get managers involved**

Training and involvement

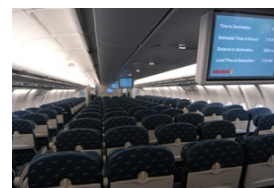
- IB Alignment of **selection** processes
- IB Workshops aimed at increasing **awareness**
- IB Adaptation of **training** sessions


2 Product and revenue management

Product investments and improvements



 **New Long haul Business** product for 2011



 **Enhanced intercontinental tourist cabins**




 **VIP lounges** in key destinations




 **Presence of flight attendants** in the cabin




 **"Fast-track"** in MAD, BCN and key international **airports**



 **Automation of the check-in and boarding process**



 **Waiting time reduction** in the baggage collection **at T4**



 **Service recovery**



 **Maintenance and interior cleaning** processes



 **Airplanes exterior cleaning**

**Foreseen investment
~150 M€**

Main guidelines for the Transport business



Operational and business transformation

2

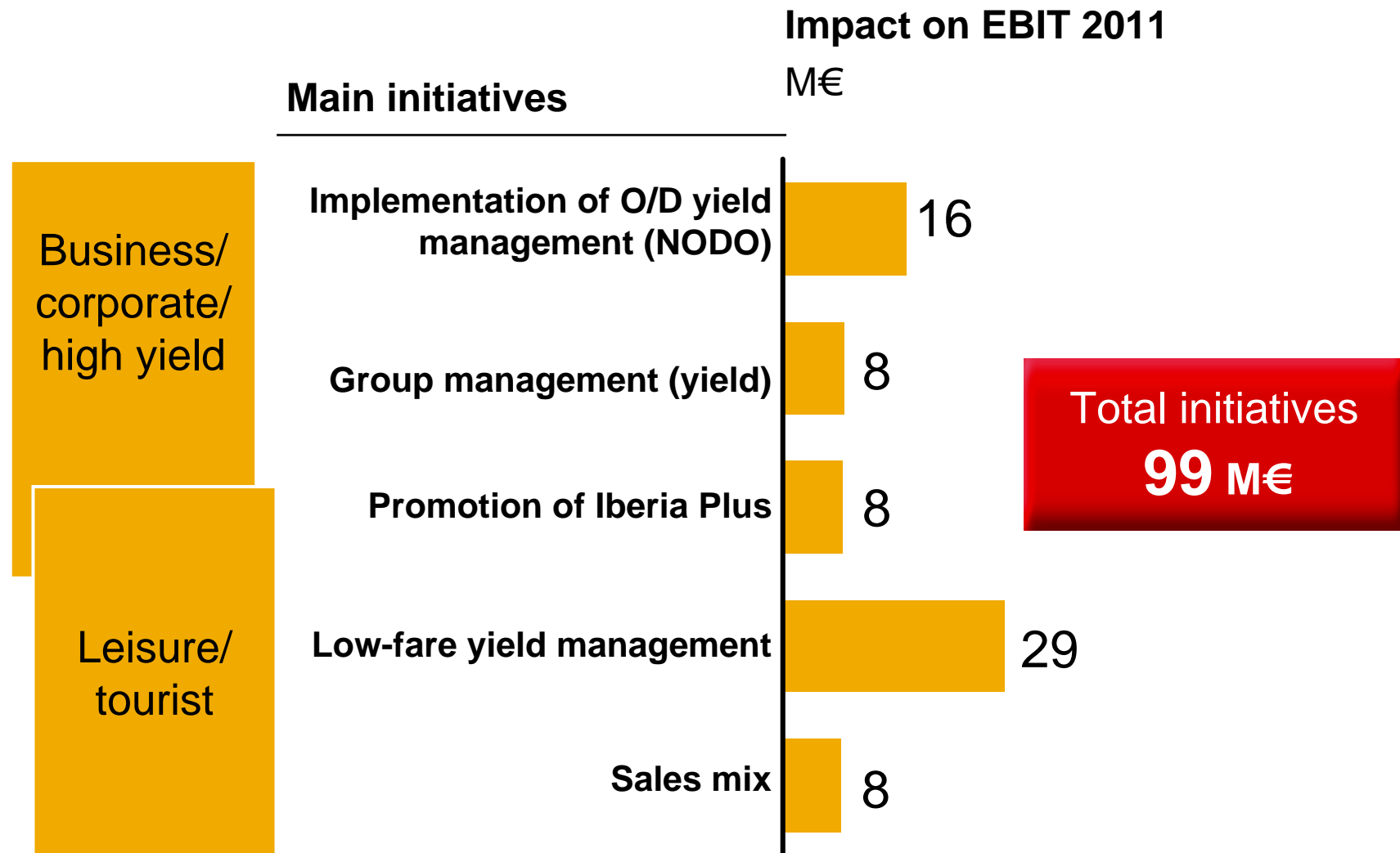
Product and revenue management:

-  Develop a differentiated and segmented customer proposition
-  Improve the quality of the customer service
-  Apply best practices in revenue management

2009-2011
Strategic
Plan

2 Product and revenue management

Apply best practices in revenue management





2 Product and revenue management

Apply best practices in revenue management



Yield management (NO-DO, low fare, groups)

-  Dynamic revenue management based on origin-destination according to the network availability for each request
-  Point to point revenue management in a low cost environment to avoid the spiral-down effect (depending on the traffic segment)



Introduction date: 30th September 2008

2 Product and revenue management

Iberia Plus promotion



Iberia Plus in figures

Number of customers

3,750,000

On line customers (iberia.com)

2,100,000






Number of partners

90 Partners = 26 MM €

Iberia Plus is one of Iberia's most efficient marketing tools

Service improvement developments within
oneworld programs

Revenue increase

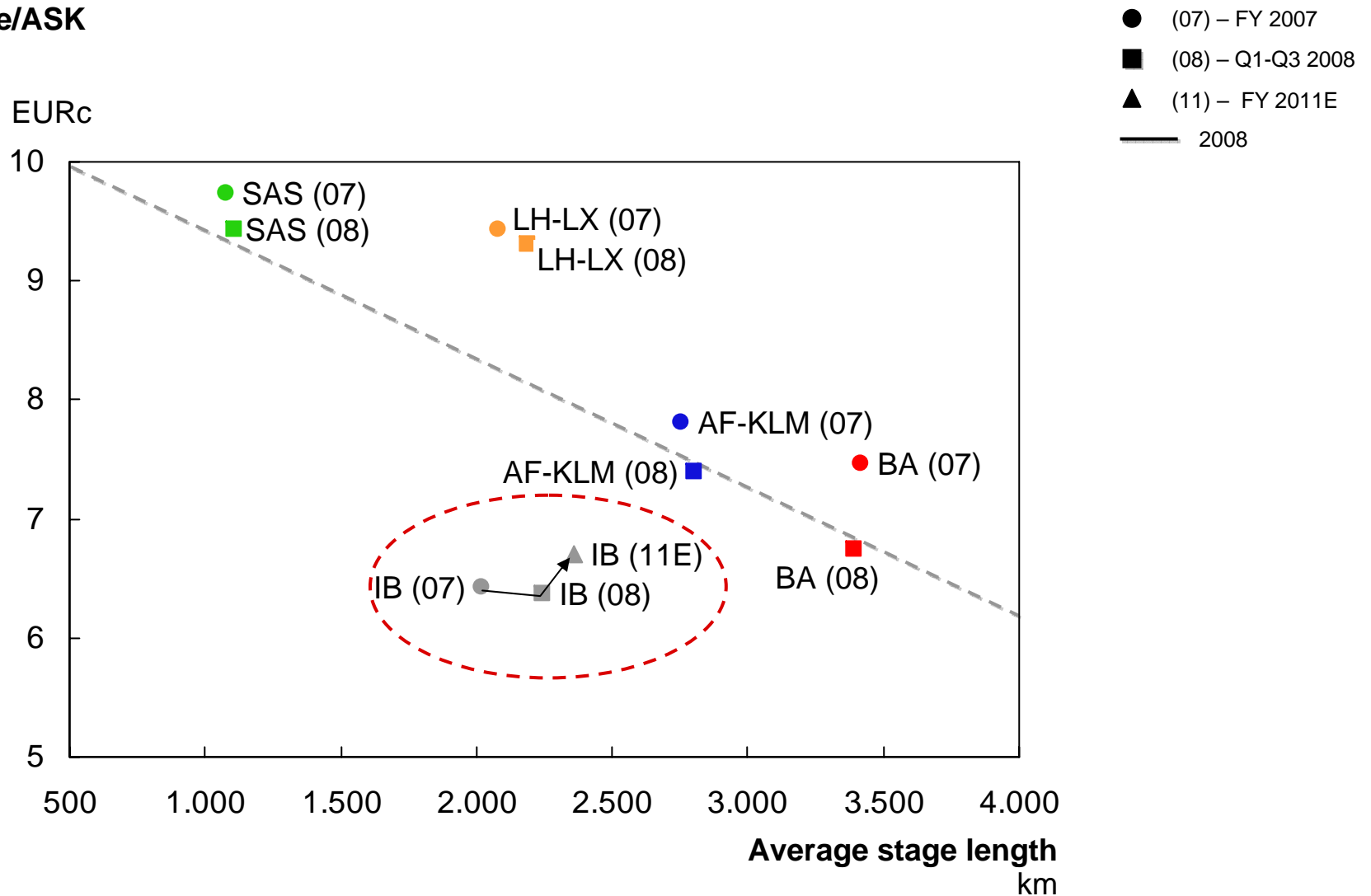
-  Increase number of partners from the financial sector (methods of payment)
-  Increase products/services offered:
 -  Possibility to buy points
 -  Possibility to extend points expiry date
 -  Point transfers between Iberia Plus accounts

2 Product and revenue management

Iberia's relative position will be improved in terms of unit passenger revenues



Pax Revenue/ASK



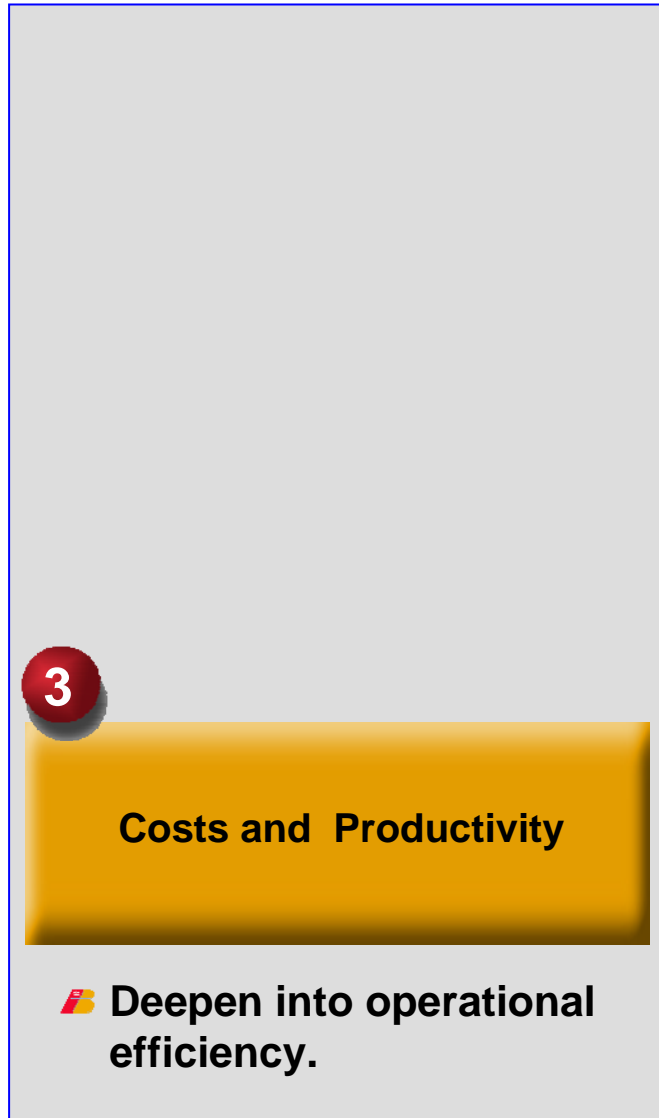
Note: GBPEUR: 1,35; SEKEUR: 9,2

Source: Airline reports

Main guidelines for the Transport business



Operational and business
transformation



2009-2011
Strategic
Plan

3 Costs and Productivity

Deepen into operational efficiency



	Main initiatives	Impact on EBIT 2011 (M€)
Distribution	<ul style="list-style-type: none"> Fees Advertising 	20
Productivity	<ul style="list-style-type: none"> Pilots Flight Attendants Redundancy Plan (Flight attendants) 	28
Logistic	<ul style="list-style-type: none"> Signature in MAD and BCN Crew Fix Assets (Maintenance) 	10
Fuel	<ul style="list-style-type: none"> Maintenance actions Airways Mach number Operative measures 	12
Cargo	<ul style="list-style-type: none"> Canary Islands cargo aircraft Cargo Handling 	6






Total initiatives
91 M€

3 Costs and Productivity






Deepen into operational efficiency



Cockpit crew productivity

-  Long Haul number of pilots/flight from 3.05 to 2.91
-  Crew scheduling driving aircraft rotations
-  Implementation of operations disruption optimizer module
-  Implementation man power planning module
-  A330-340 fleet commonality

Cabin crew productivity

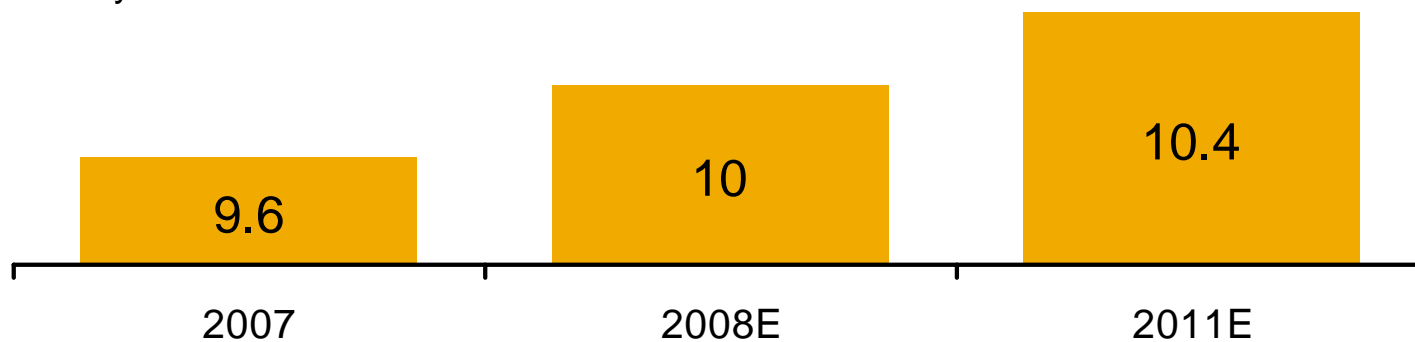
-  Crew scheduling driving aircraft rotation
-  Implementation of operations disruption optimizer module
-  Implementation man power planning module
-  Leave (absence management)
-  Standby crew commonality A320/A340

Productivity improvements in Transport



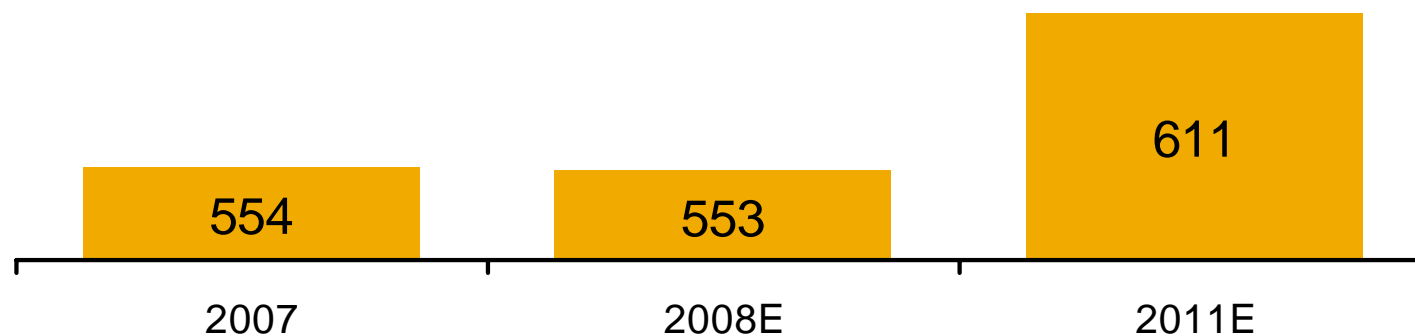
Fleet utilisation

Block Hours/Day



Employee productivity

Operating revenue (€thousand) / FTE's

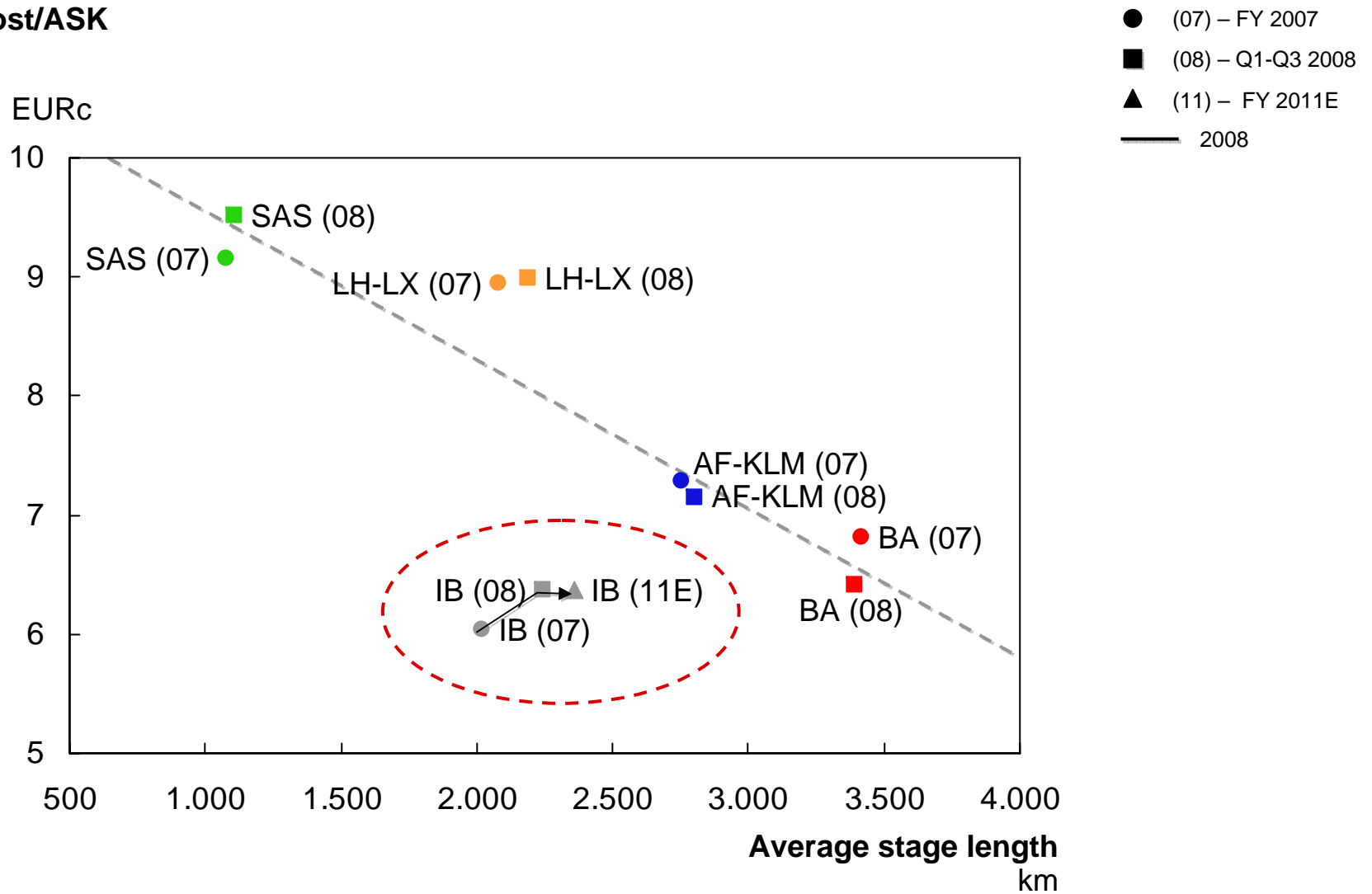


3 Costs and Productivity

Iberia will maintain its competitive advantage in terms of costs



Operating cost/ASK



Note: GBPEUR: 1,35; SEKEUR: 9,2

Source: Airline reports



IBERIA 

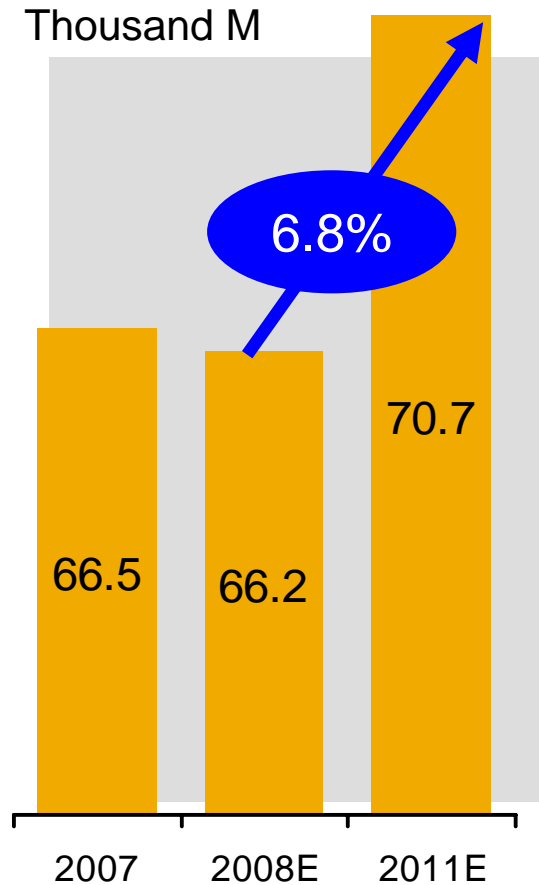
In summary...

Traffic data



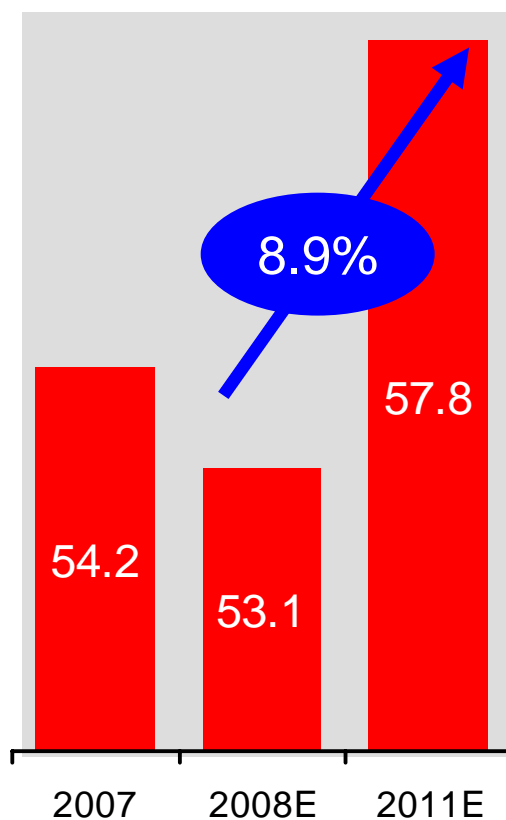
ASK

Thousand M



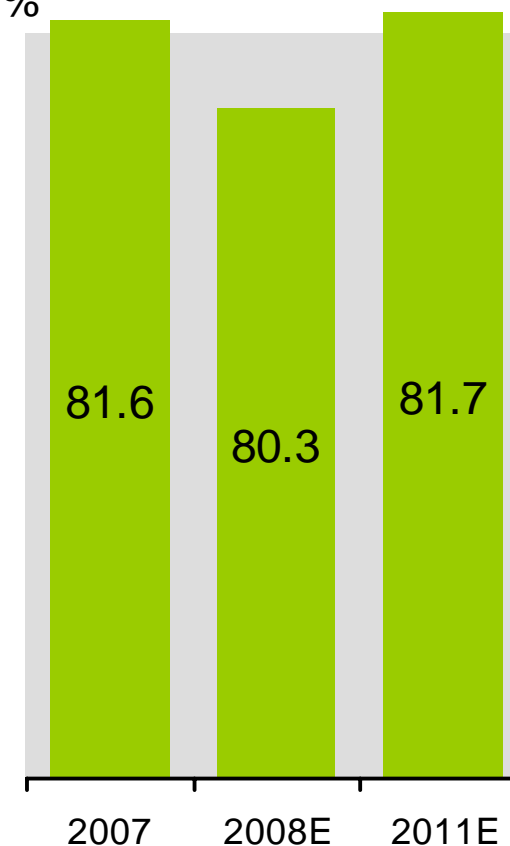
RPK

Thousand M



Load Factor

%



Containing costs and increasing revenues to recover the profitability of the Transport Business

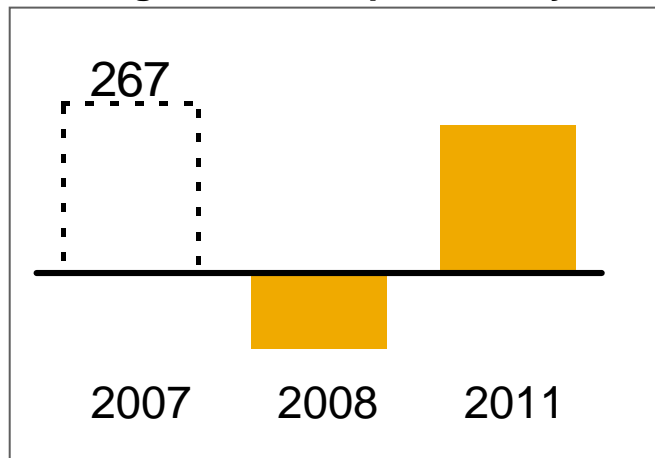


Hypotheses used:

- Fuel: 800 \$/T
- Exchange rate: 1.25 USD/€
- Spanish average annual inflation rate for 09-11: 3%

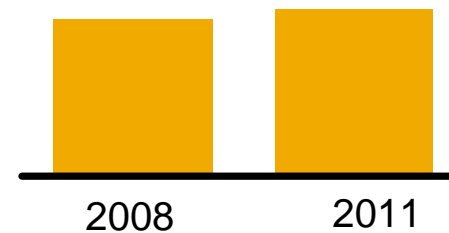
EBIT

Target: Recover profitability



Revenue/ASK

€ cents



CAGR 08-11

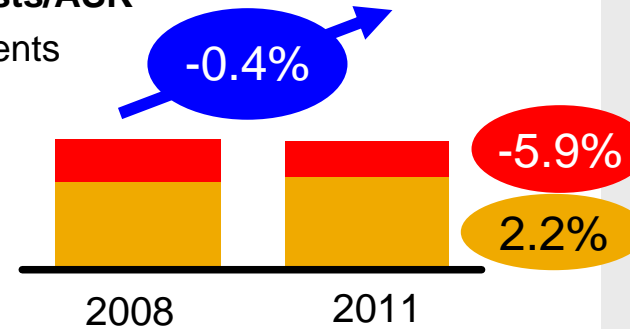


CAGR 08-11 at constant exchange rate

-2.7%

Costs/ASK

€ cents



-14.2%

-2.2%

Fuel



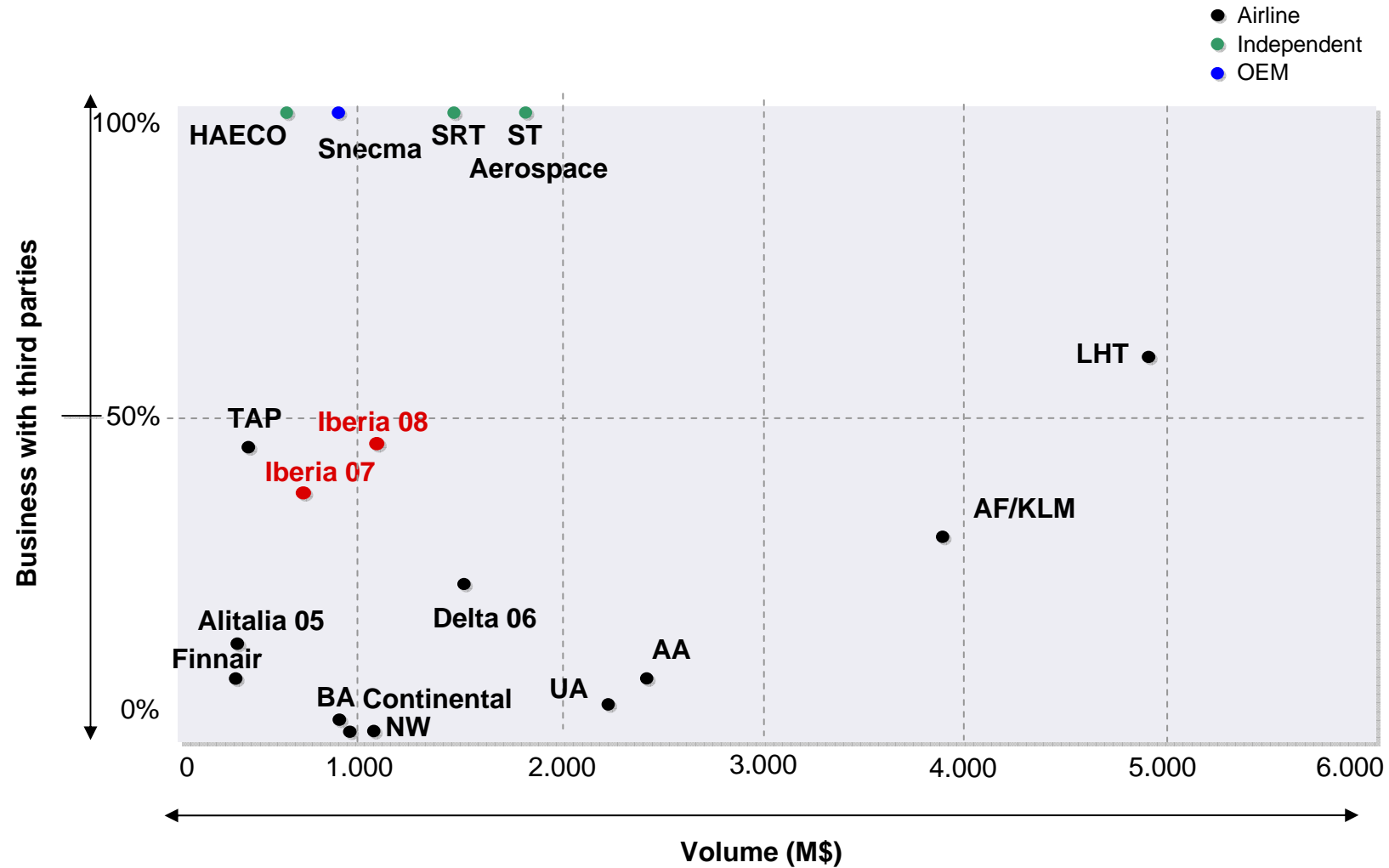
Strategic Plan 2009-2011

Maintenance

Position of Iberia in the MRO business



2007

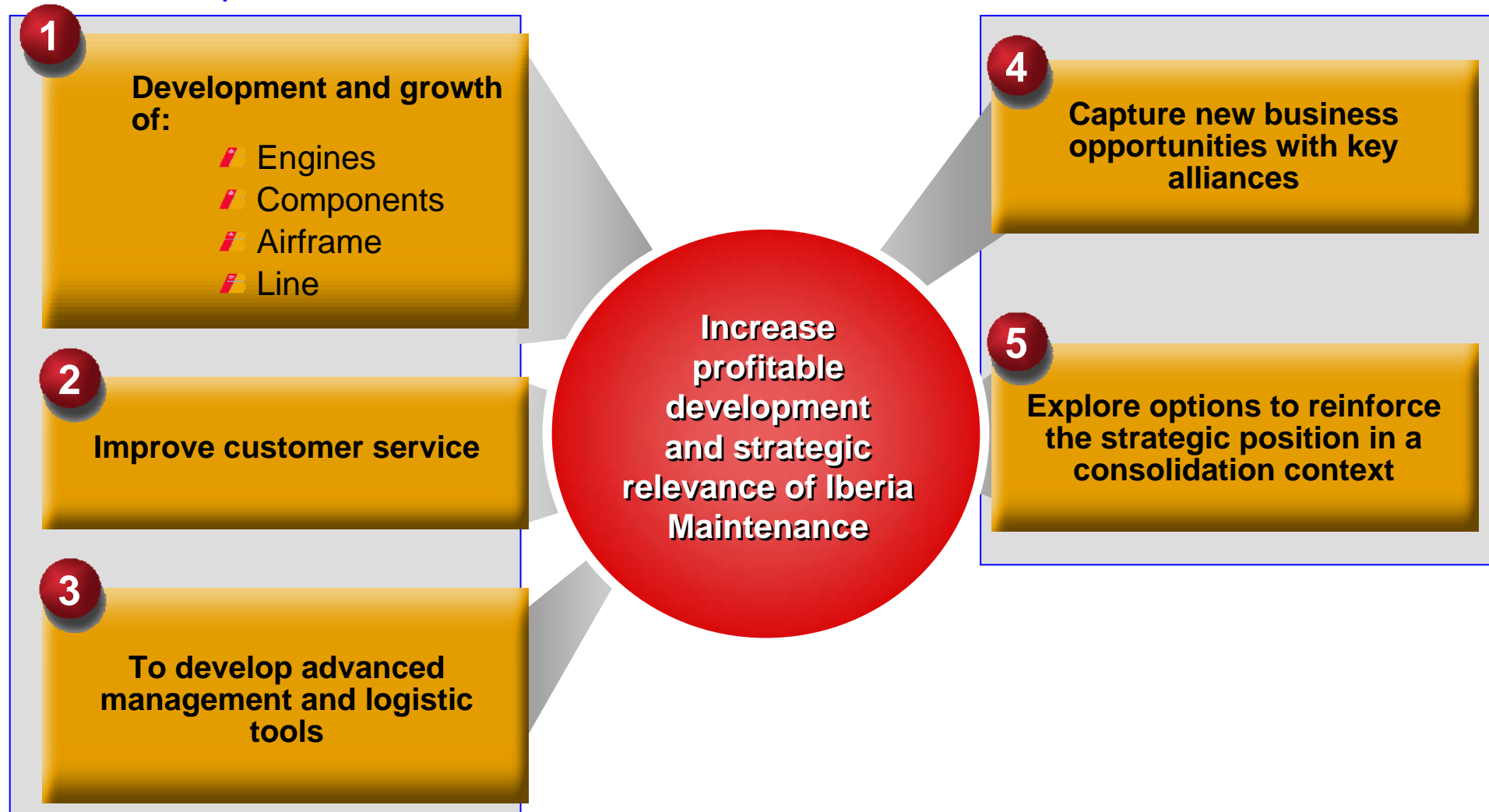


Main guidelines for Maintenance



Commercial and operative improvement

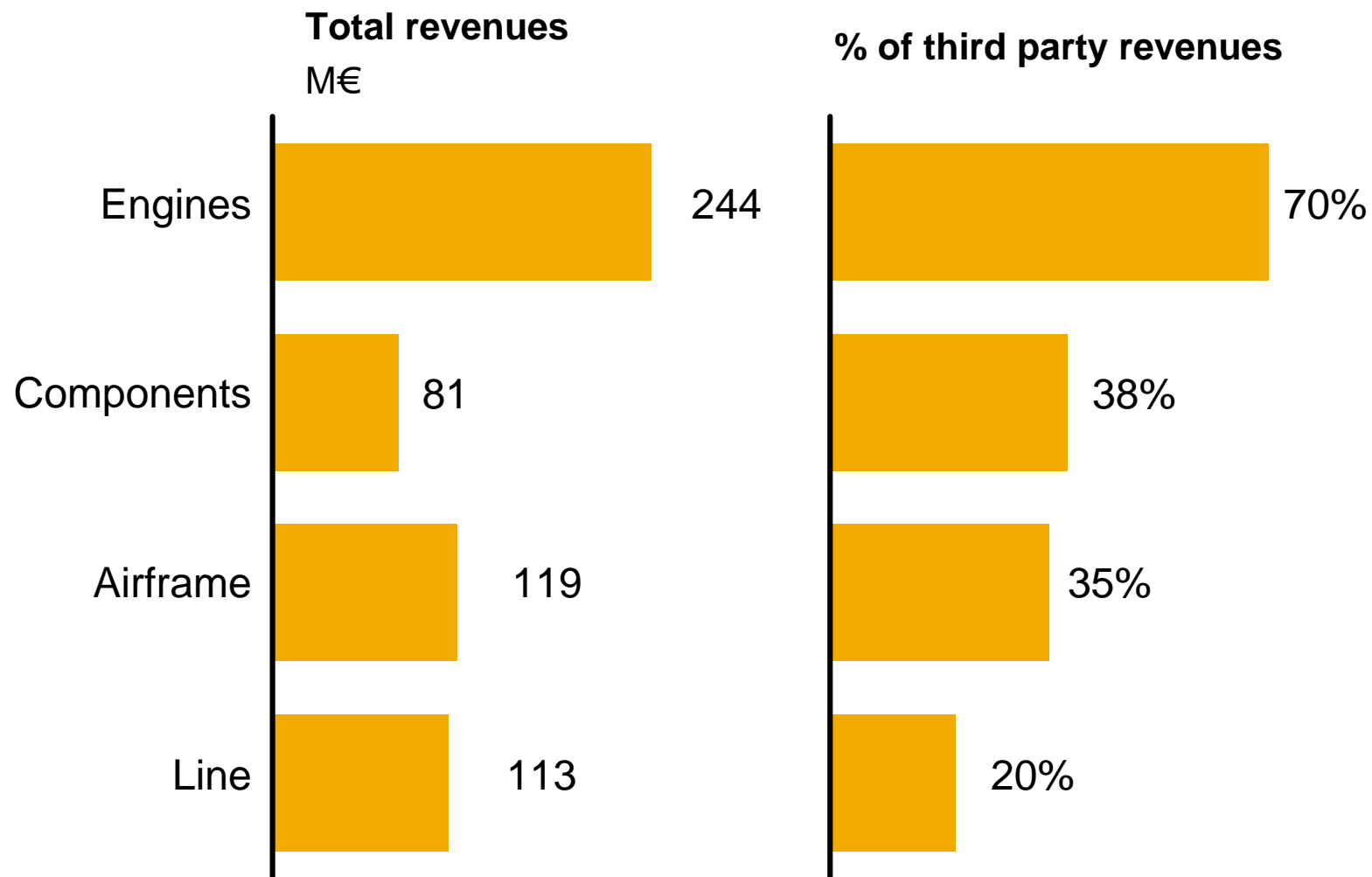
Strategic actions



Development and growth of production activities



2008 E



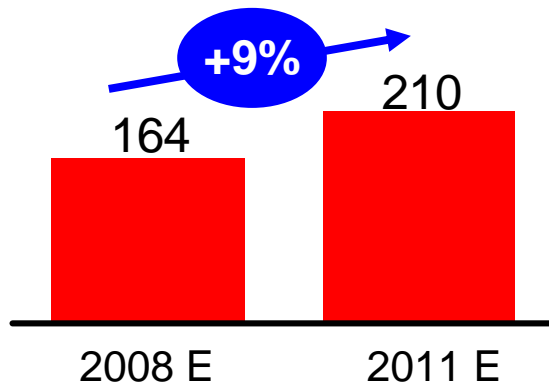
Development and growth of production activities



Engines: Increase productive capability to grow further

Capability increase of existing facilities

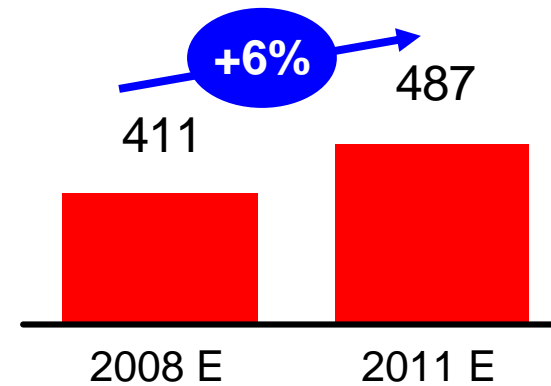
Number of visits



Productivity improvement

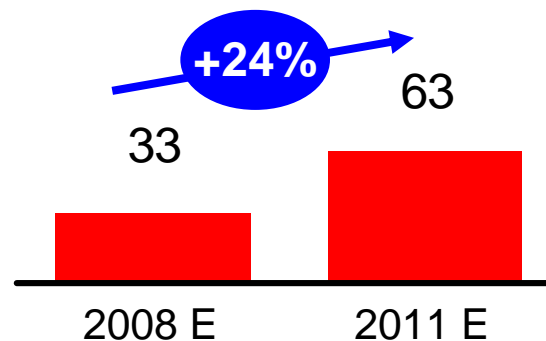
Revenue/FTE (thousand €)

CAGR



Components: Strong growth of third party revenues

Third party revenues M€



Development and growth of production activities



Airframe:

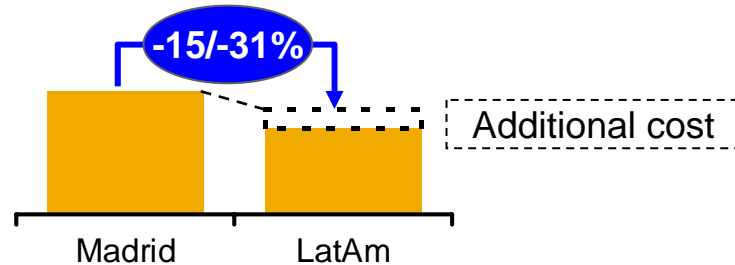


Transformation of production centres

To explore options for offshoring the more intensive workforce activity

Cost by D wide body check

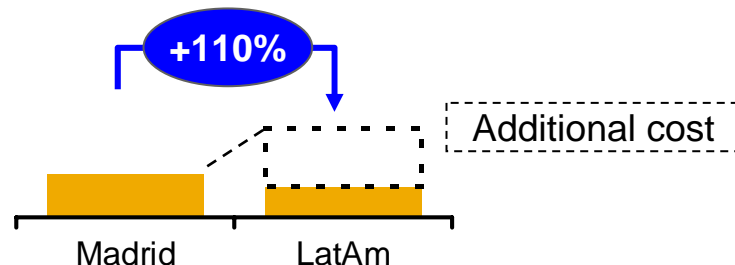
Thousand€



To increase competitive activities for development in Spain

Cost by C narrow body checks

Miles EUR



To develop greater value added/higher margin activities for MAD facilities

- Defence projects (330 tanker conversion)
- Cargo transformation
- "Customize" conversions and upgradings (e.g.: 340/330/757/767)

To develop a competitive maintenance centre in Barcelona

- ClickAir / Vueling (Potential)
- Airlines around BCN and Mediterranean/EU
- Iberia checks

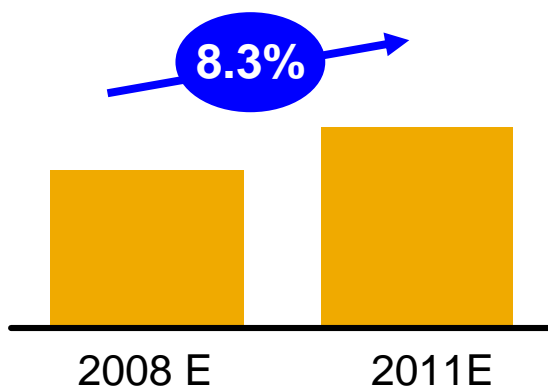
Maintenance main figures



% CAGR

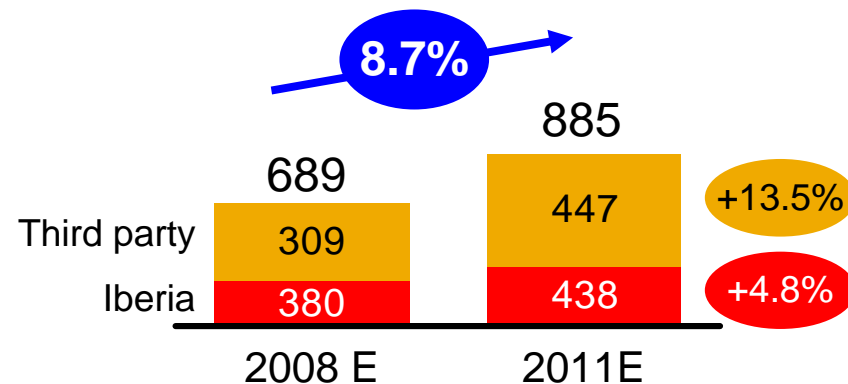
Profitability

EBIT. M€



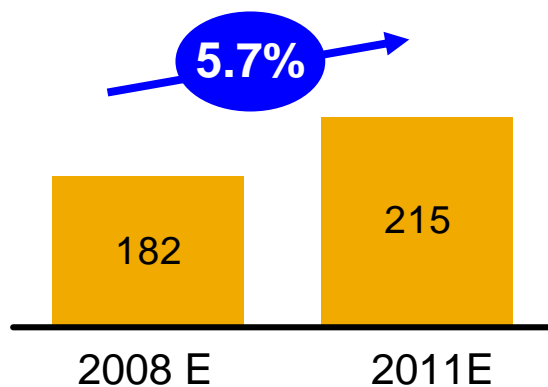
Revenue

M€



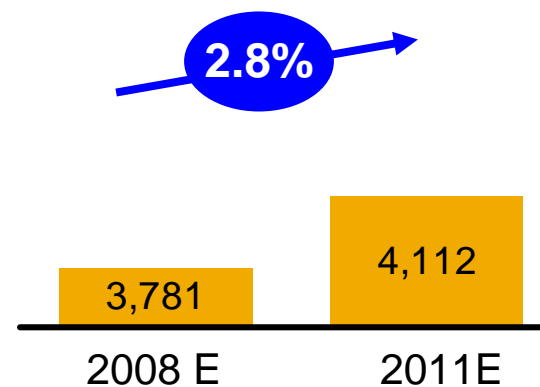
Productivity

Revenue/FTE (thousand €)



Human Resources

FTE





Strategic Plan 2009-2011

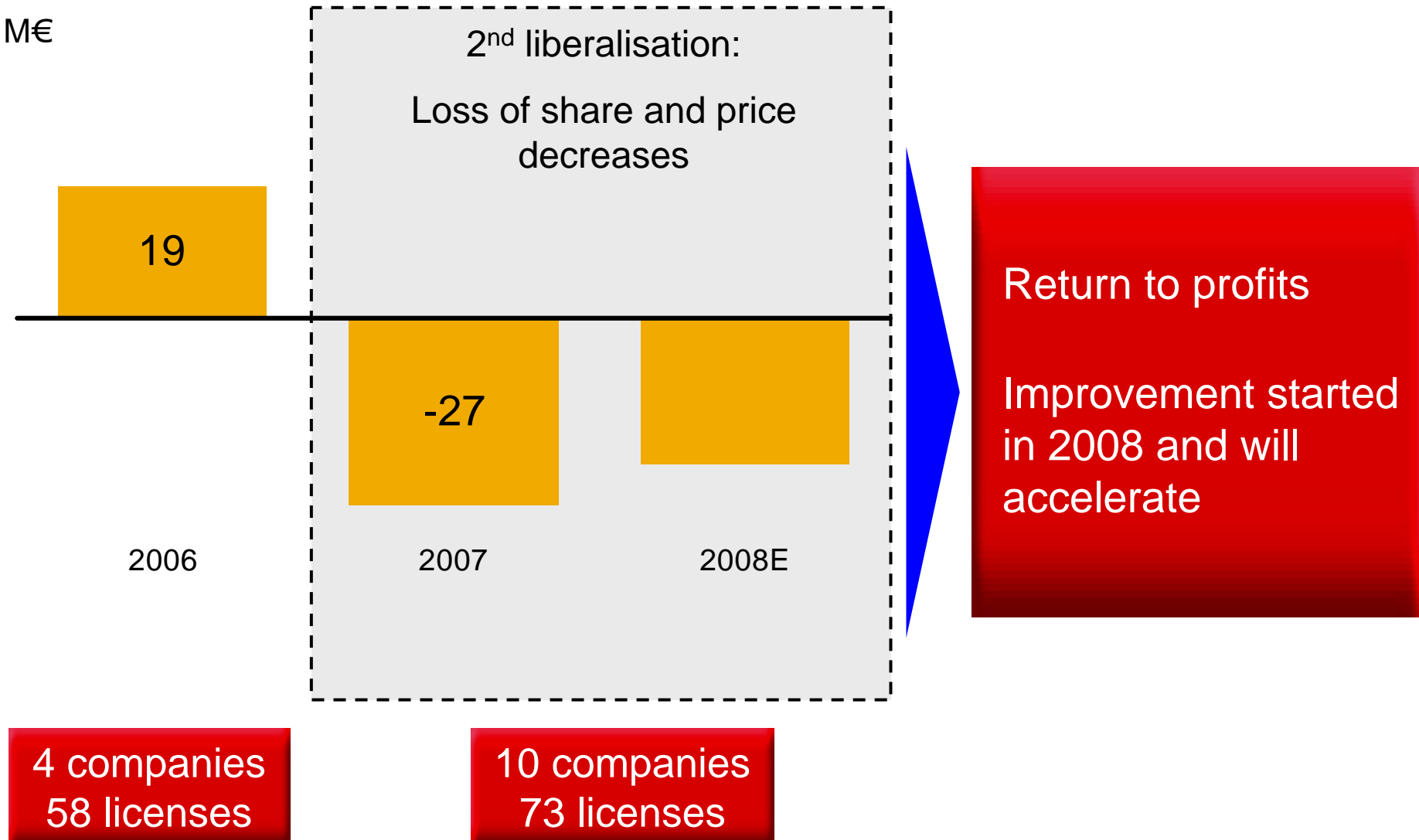
Handling

Main challenge in Handling is to return to profitability

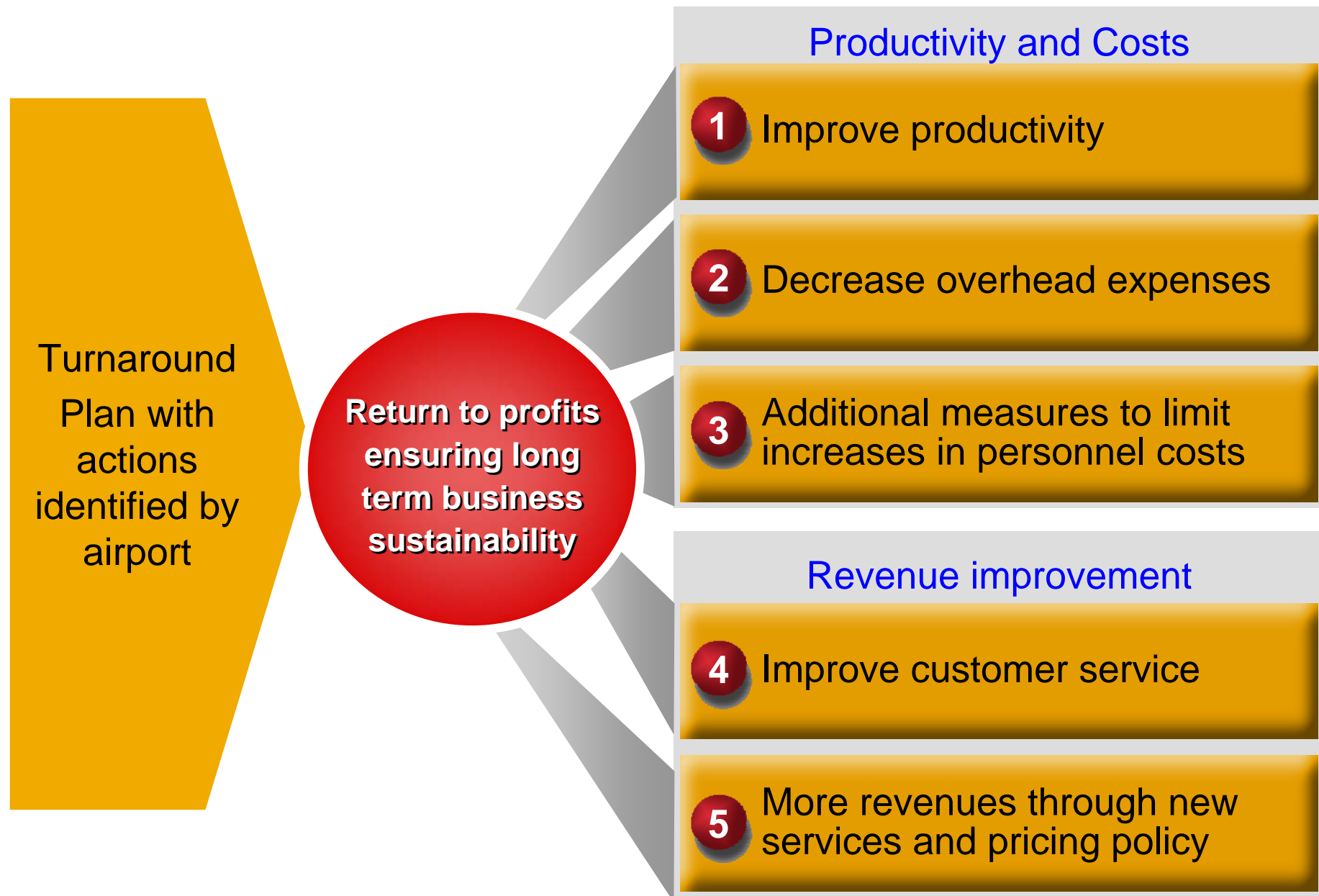


EBIT

M€



Main guidelines for the Handling Business



We expect a moderate increase in prices...

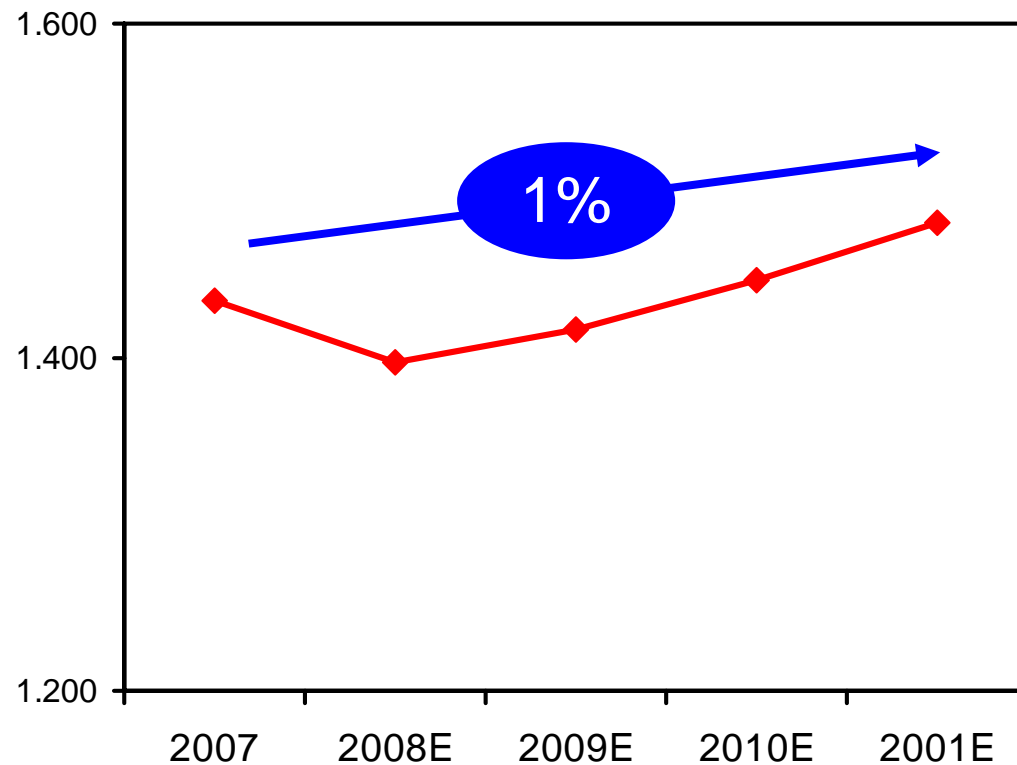


% CAGR

Rational price/share evolution:

- ✈ Competitors stabilisation
- ✈ Employee subrogation impacts competitors' costs

Average price/aircraft
€

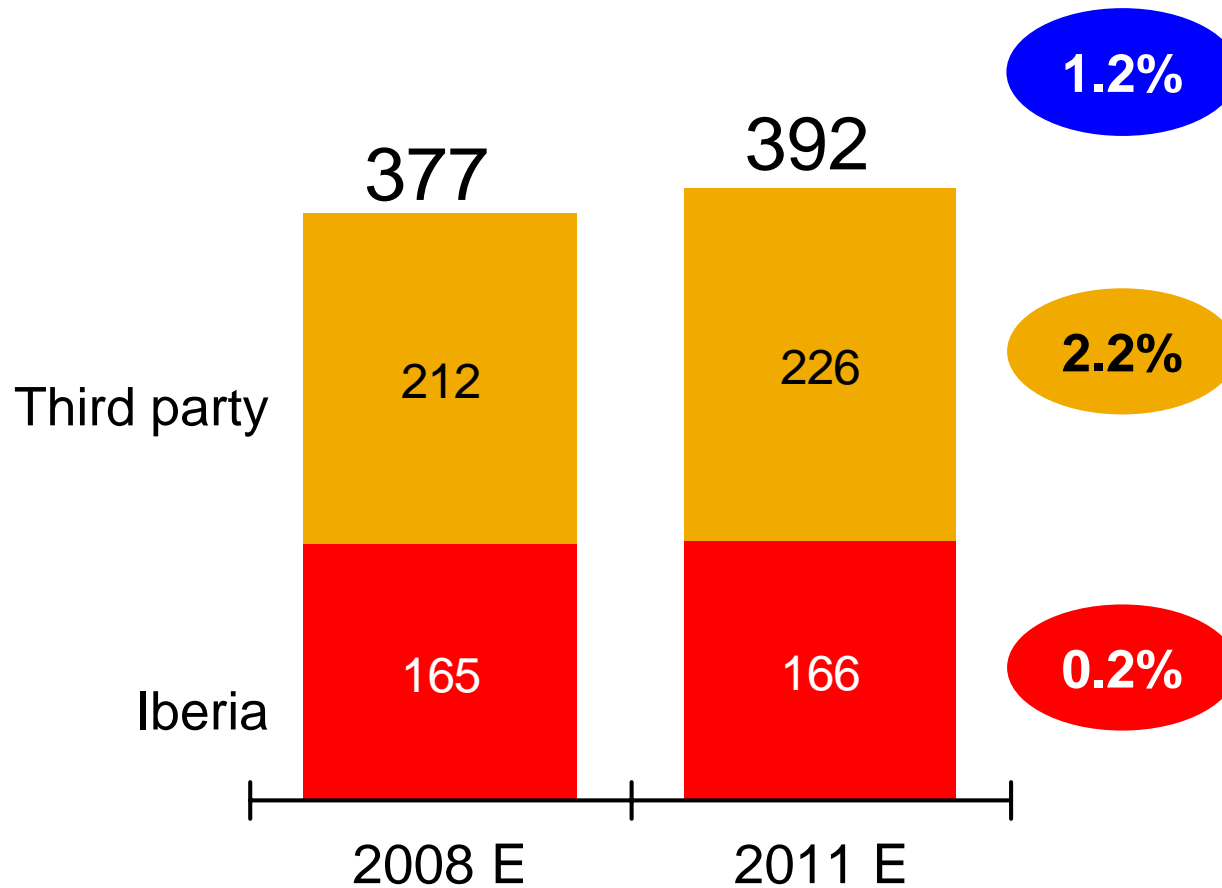


...with practically flat volumes



Equiv. Aircraft handled
Thousand

CAGR
2008-2011



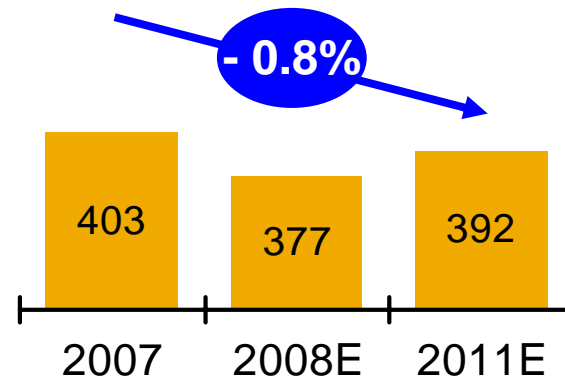
Main figures



% CAGR

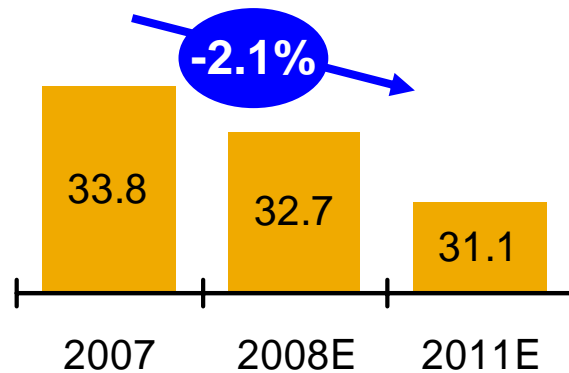
Activity

Equiv. Aircraft Handled. Thousand €



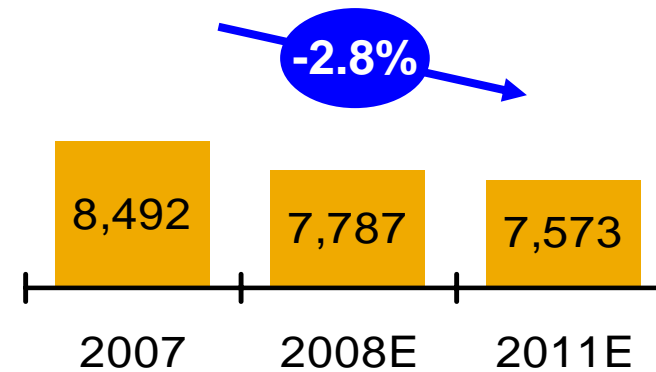
Productivity

MH/Equiv.Aircraft handled



Human Resources

FTEs



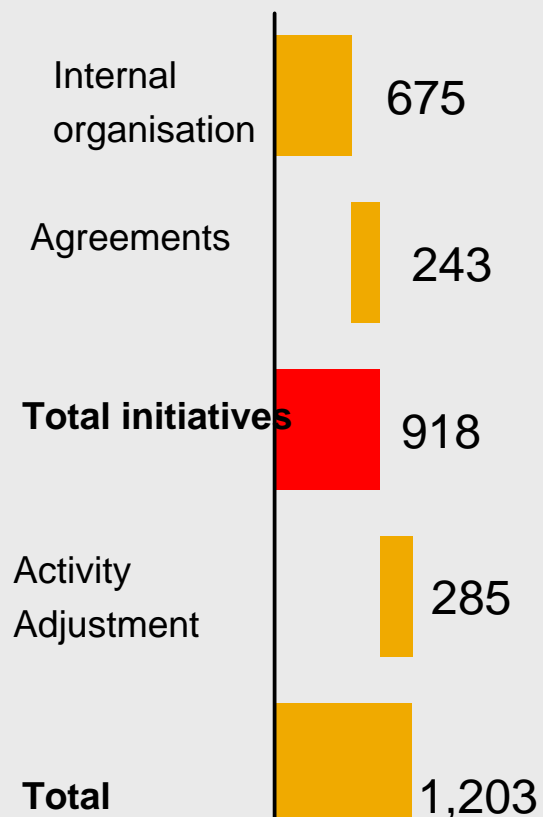
Main actions



Productivity improvement

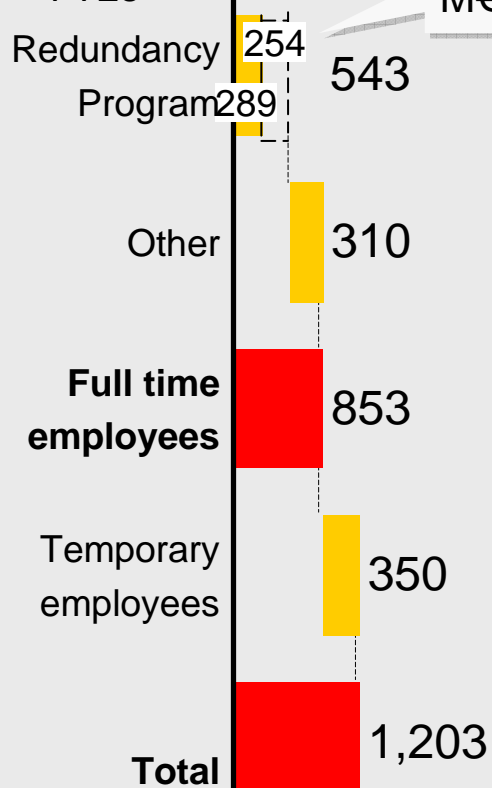
Potential redundancies

FTEs



Right sizing

FTEs



Total cost of ~75 M€, ~40 M€ already provisioned

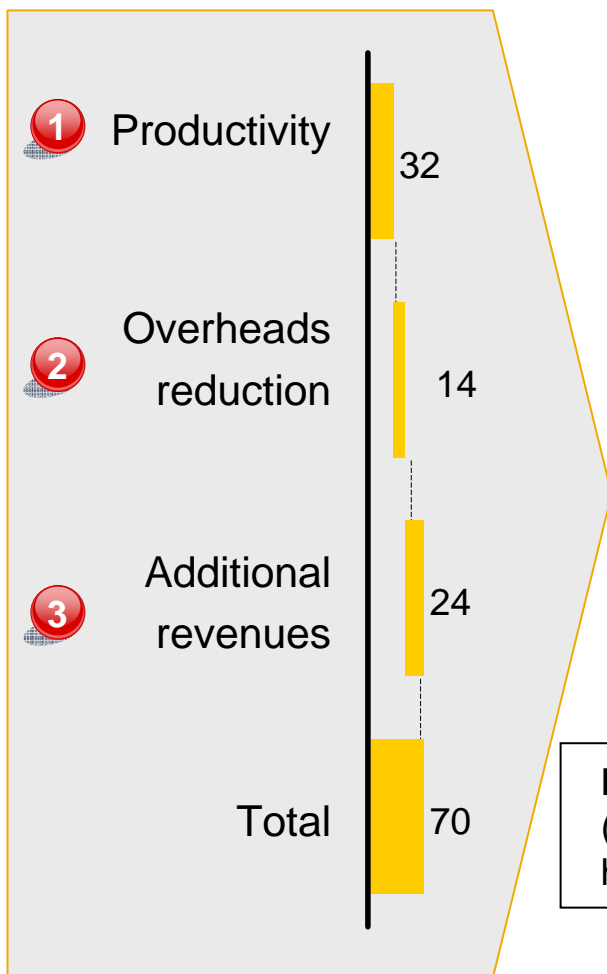
Reduction of
unproductive
resources

Handling will reach profitability



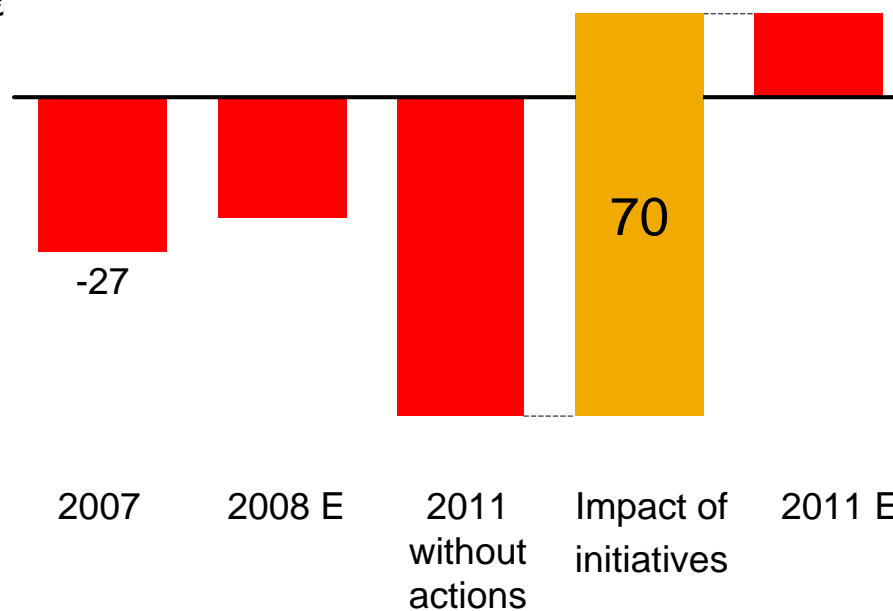
Main impact

EBIT 2011 M€



Profitability

EBIT 2011 M€



Productivity
(MH/Equiv.
handled aircraft)

34

33

34

31



Strategic Plan 2009-2011

Summary

The different initiatives of the three businesses amount to 480 M€



	Impact EBIT 2011. M€	Main initiatives	
Optimise the structure and size of the network	183	<ul style="list-style-type: none">Capacity managementHub optimisationSchedule seasonality	38%
Product and revenue management	135	<ul style="list-style-type: none">Yield managementSales mixIncrease third party revenues in MaintenanceRevenue enhancement in Handling	28%
Productivity and costs	170	<ul style="list-style-type: none">HandlingPilot and Flight attendantsRedundancy Plan Flight AttendantsOverheadsSalary seniority	35%

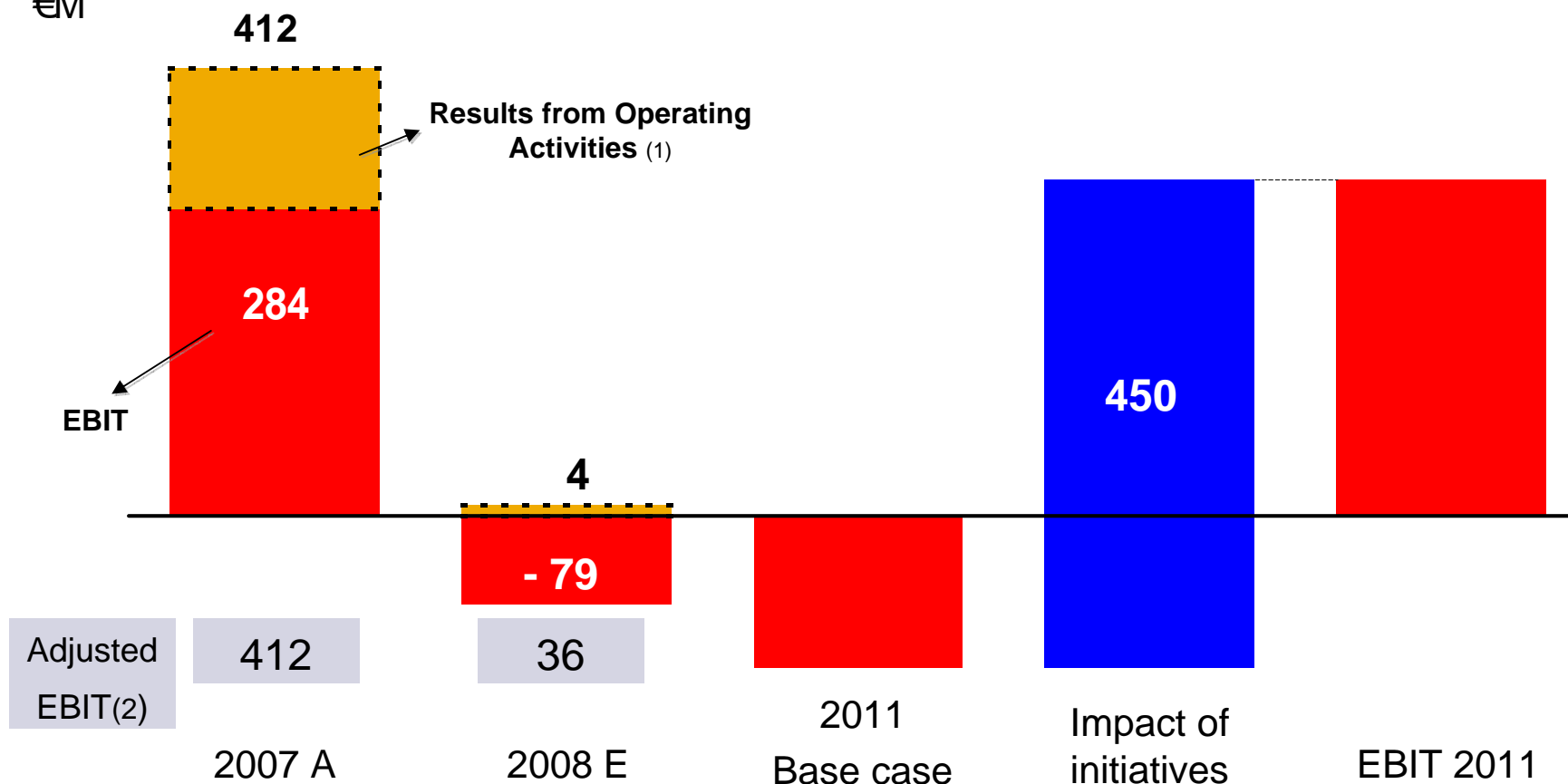
Profitability will be recovered with the Strategic Plan initiatives



450 €M EBIT improvement over the base case

Iberia Group

€M



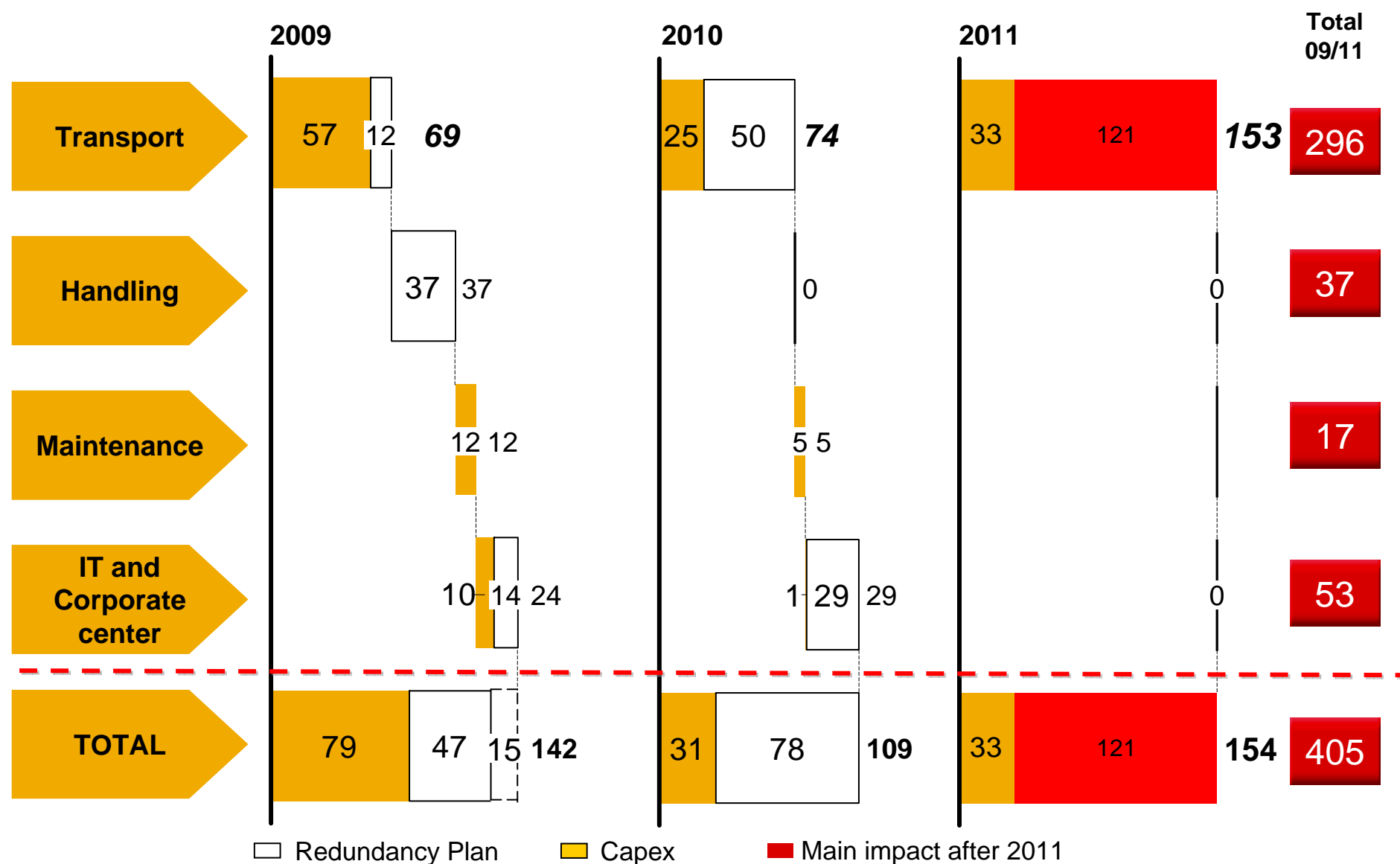
(1) Including non recurring items

(2) EBIT + 33% operating leases

The three year Plan requires capex and non recurring costs amounting to ~ 400 €M, on top of the 100/120 €M/year of maintenance capex



€M



Initiatives will improve profitability ratios...



EBITDAR margin ¹	15-17%
EBIT margin ²	4-6%
Adjusted EBIT margin ³	6-8%
Return on Equity ⁴	>12%

1 EBITDAR / Operating income

2 EBIT / Operating income

3 EBIT + 33% of aircraft rentals (dry lease + 50% of wet leases)

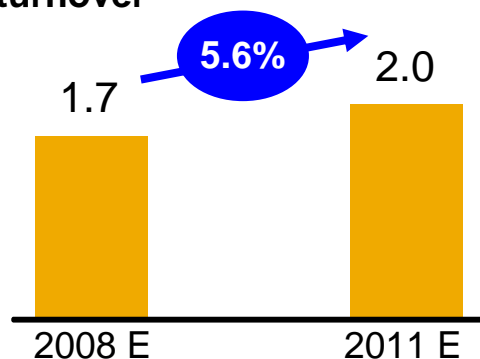
4 Net result / Equity average during the year; without adjustment for Amadeus sale in 2007 it will be 16.3%

...as well as the rest of financial ratios

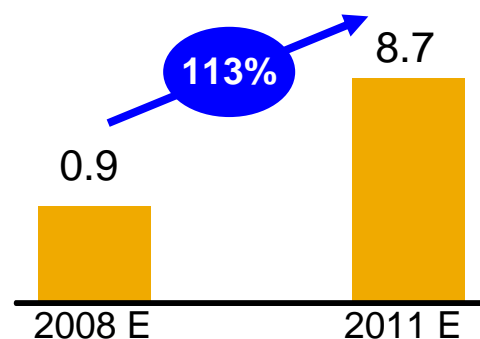


Assets

Total assets turnover¹
Multiple

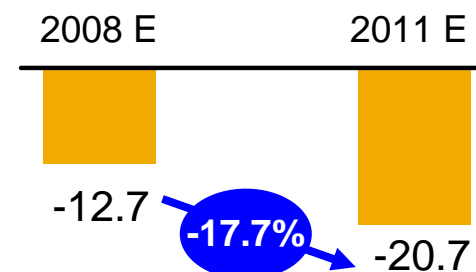


Adjusted ROA
(Return over assets)²
%

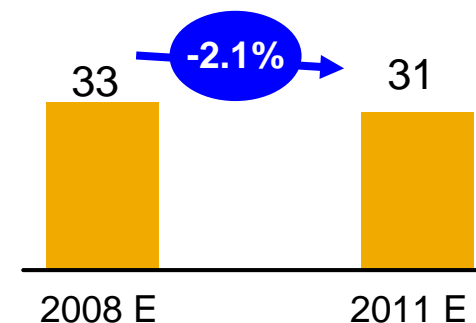


Debt & Solvency

Debt ratio³
%



Leverage⁴
%



1 Operating income (revenues) / Average assets during the year

2 (Net result + Payment of interest) / Average assets during the year

3 (Total debt – liquidity available) / operating revenue

4 (Total debt – liquidity available + capitalized fleet renting) / Total CE



Strategic Actions



Strategic directives are focused on three action lines...



Main actions

1

Rationalization
of the Spanish
market

2

To be in the
"hard core" of a
super-alliance

3

To improve
our position in
Latin America



We expect a rationalisation in the Spanish market

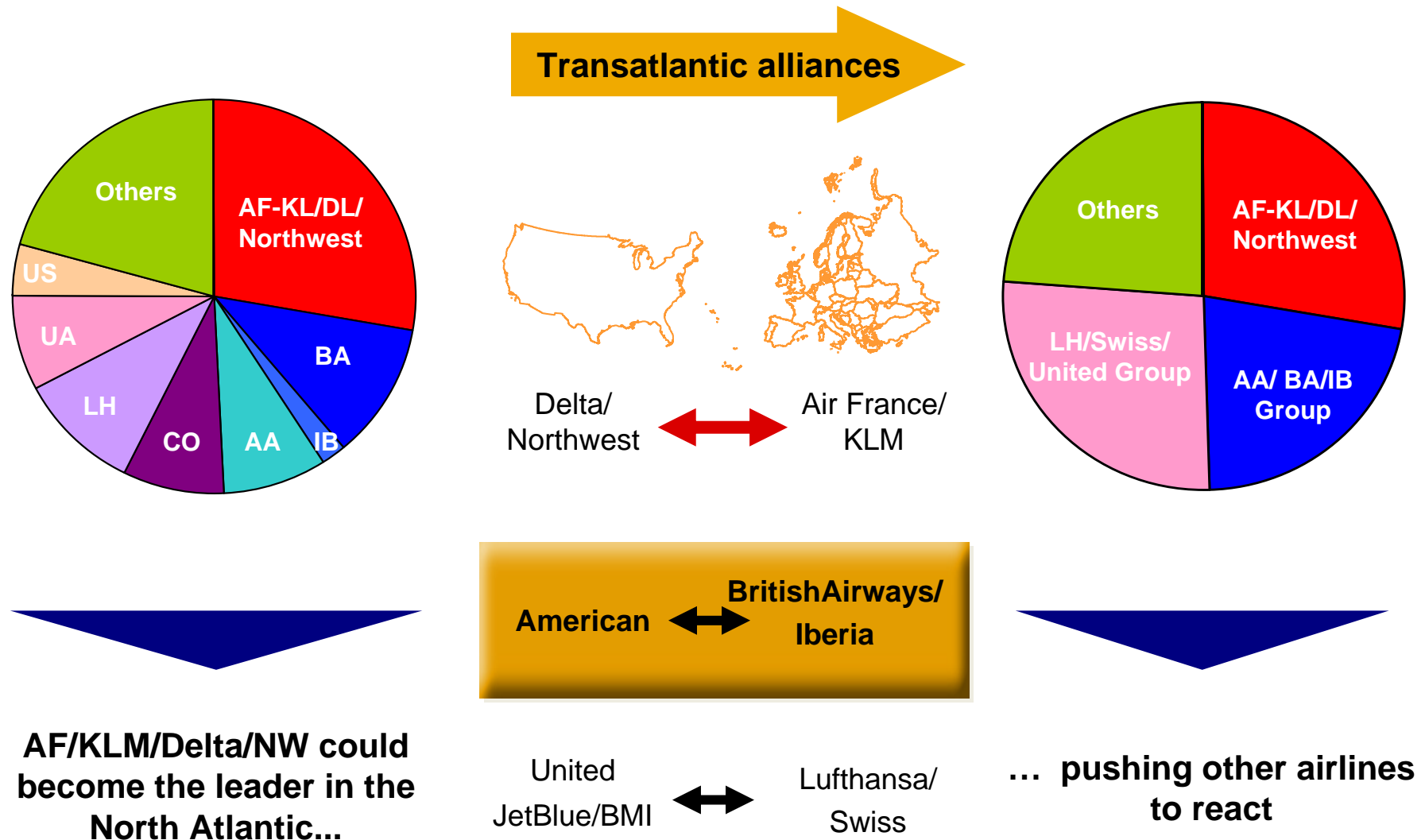


	Competitors in 2008	Expected in 2011
Network carriers	→ Iberia	→ Stability
LCCs and New generation	→ European: Easyjet, Ryanair → Domestic: Vueling, Clickair	→ Moderate growth → Merger, optimisation, profitability and possible growth
Other Carriers	→ Spanair → Air Europa	→ Uncertain viability → Dependence on group business
High Speed Train	→ Madrid-Seville → Madrid-Barcelona → Madrid-Málaga	→ Strong growth: Madrid-Valencia Madrid-Bilbao

Transatlantic alliances between European and North American carriers enhanced by Open Skies Agreement



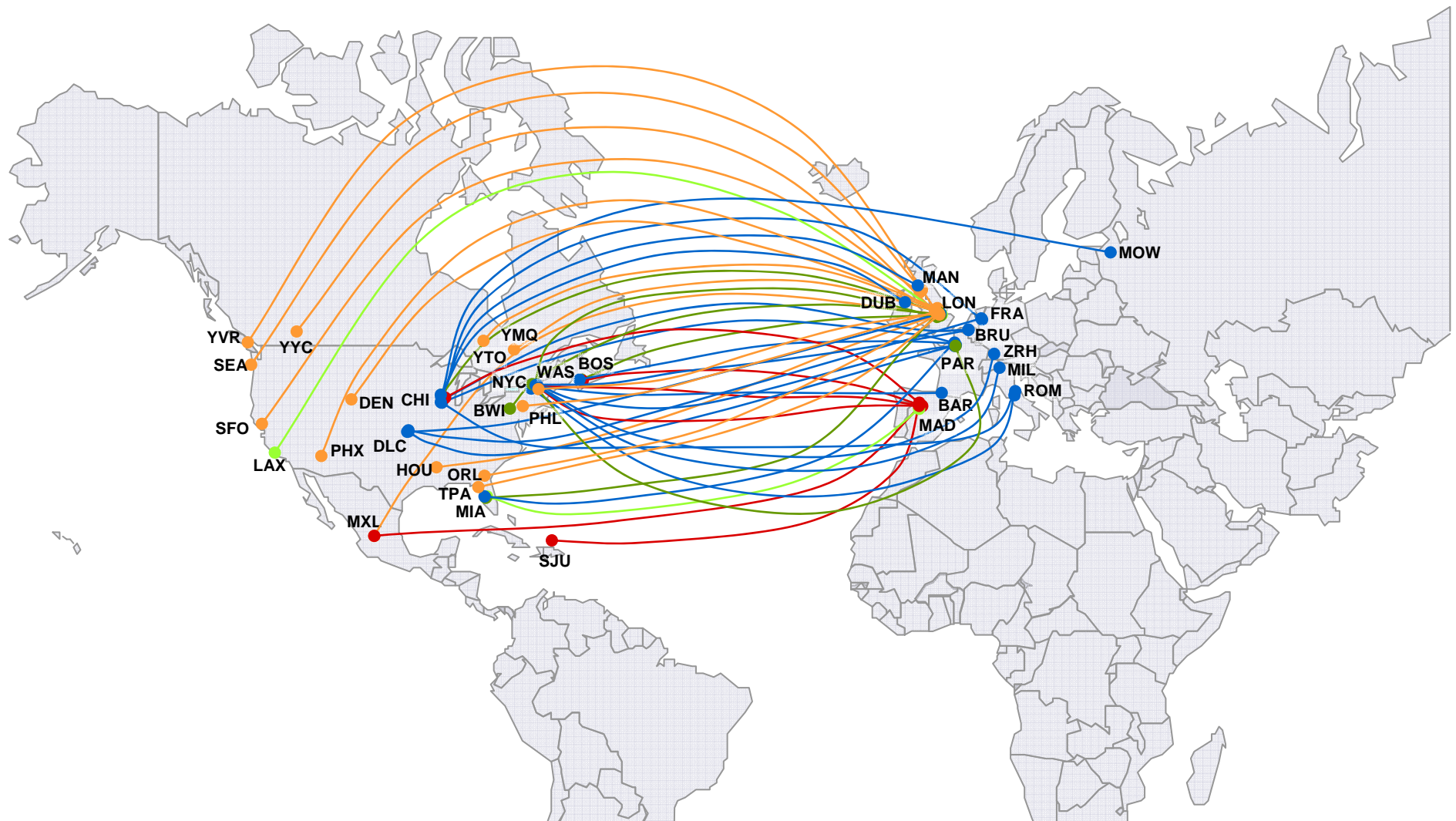
% of bookings



Joint Business Agreement



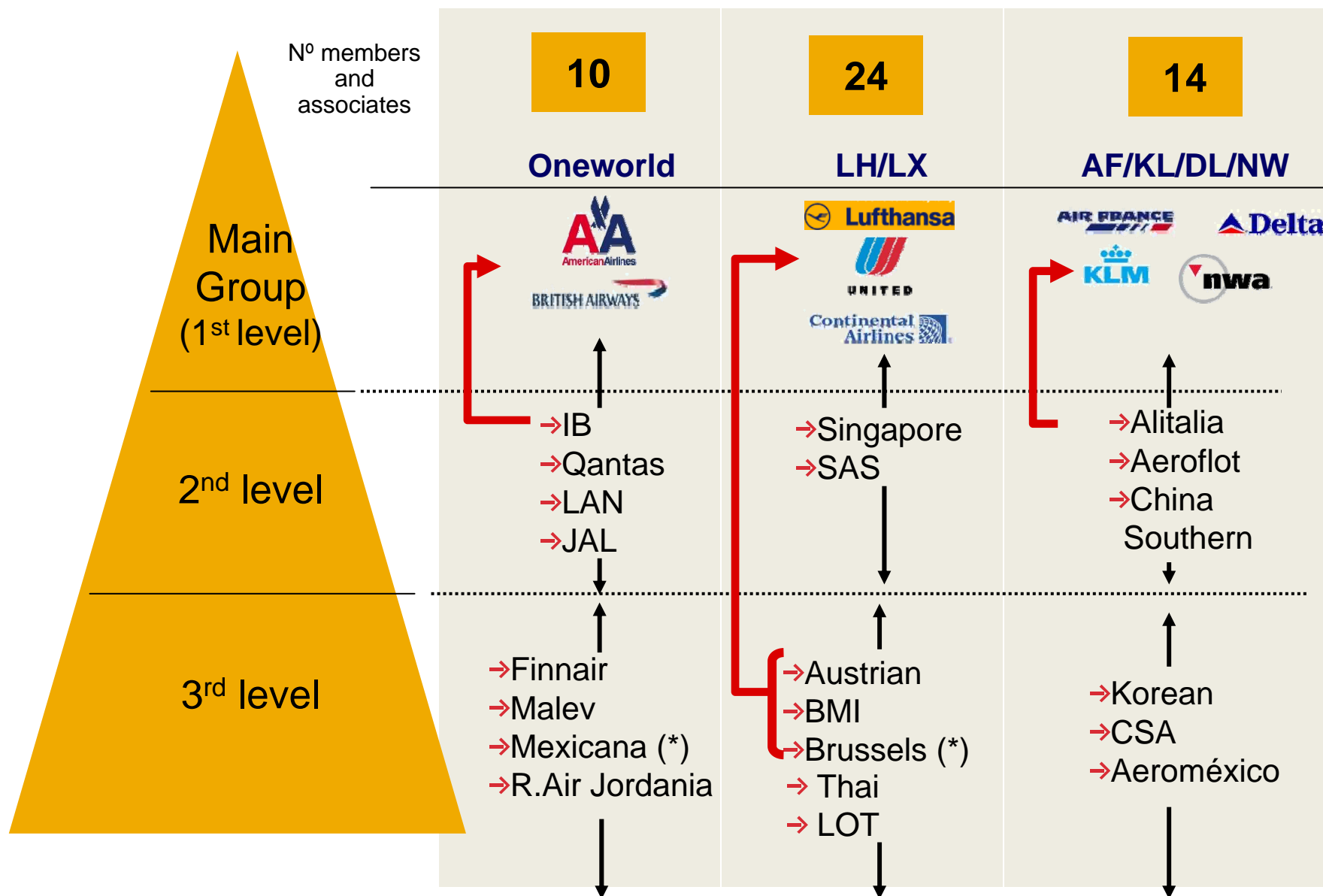
— AA — AA/BA — AA/IB — BA — IB



The Agreement for the Spanish market



European and North American consolidation will become the core of Global “Super-Alliances”

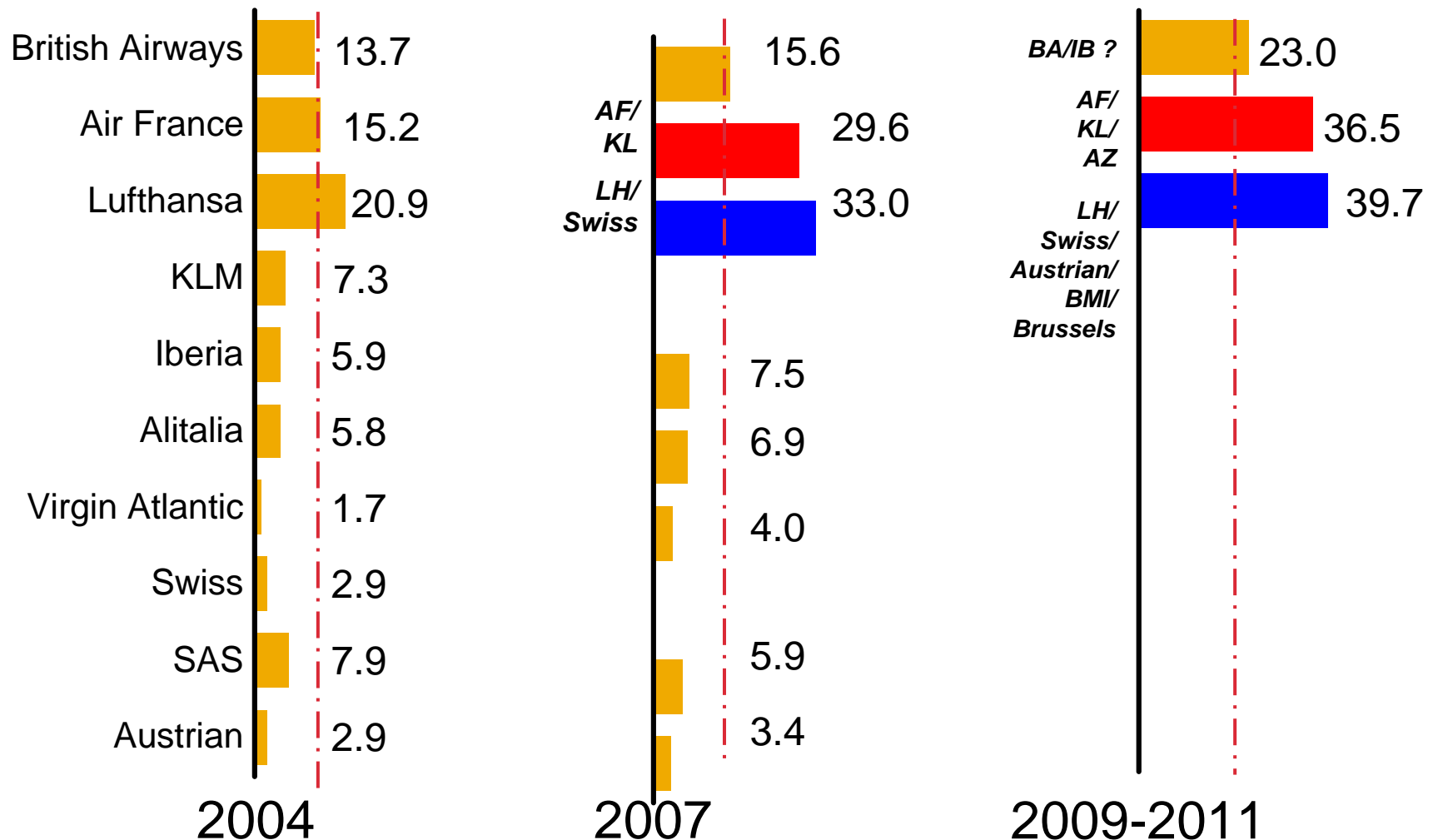


(*) Incorporations announced

AF-KLM and LH-Swiss have changed the balance in Europe

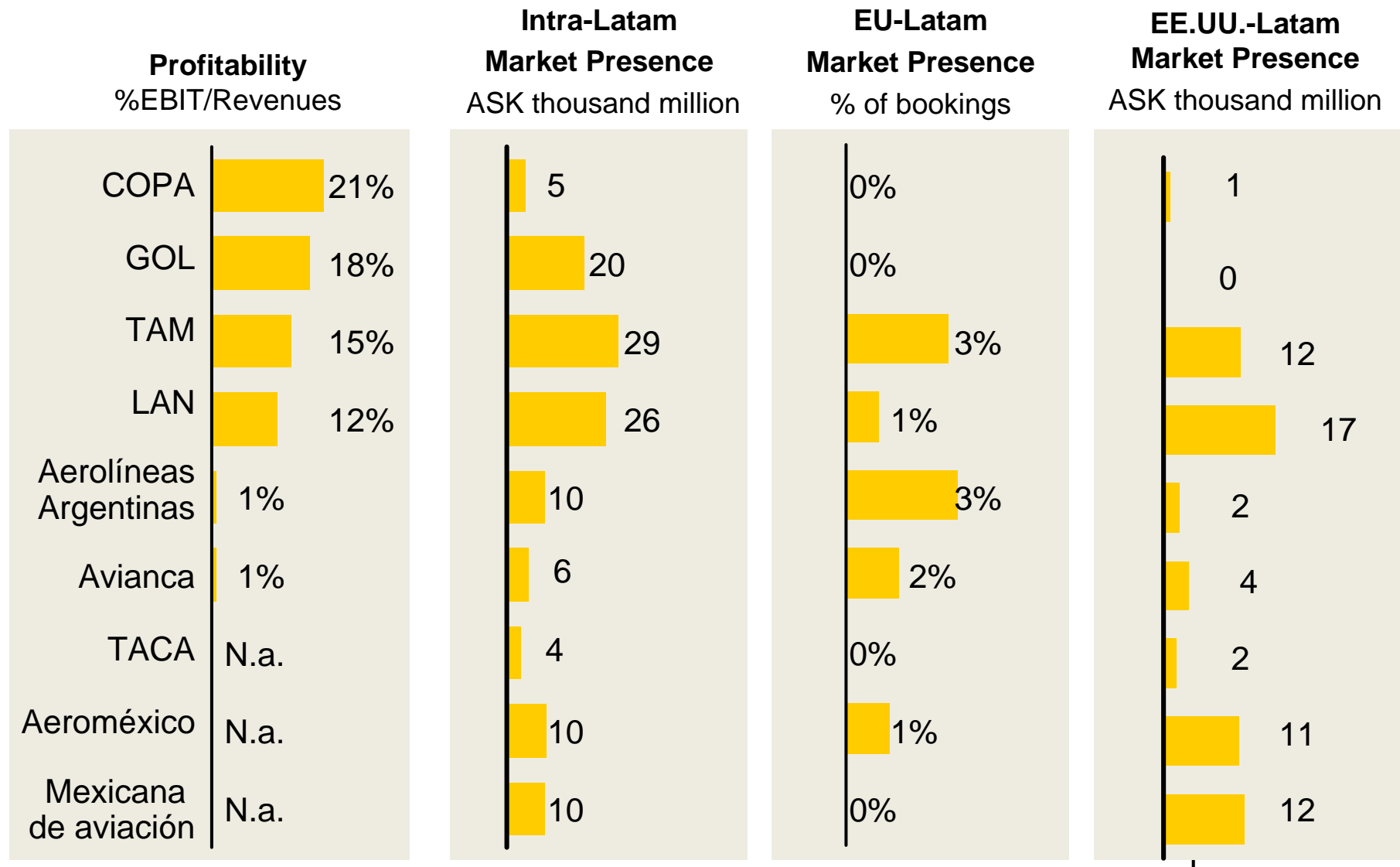


Operating revenue, USD billion



(*) Source: IATA ; ATI

In Latin America Iberia could take advantage of other consolidation/ JVs options with efficient local carriers



(*) Source: IATA ; ATI

Summary of the main consolidation actions in progress

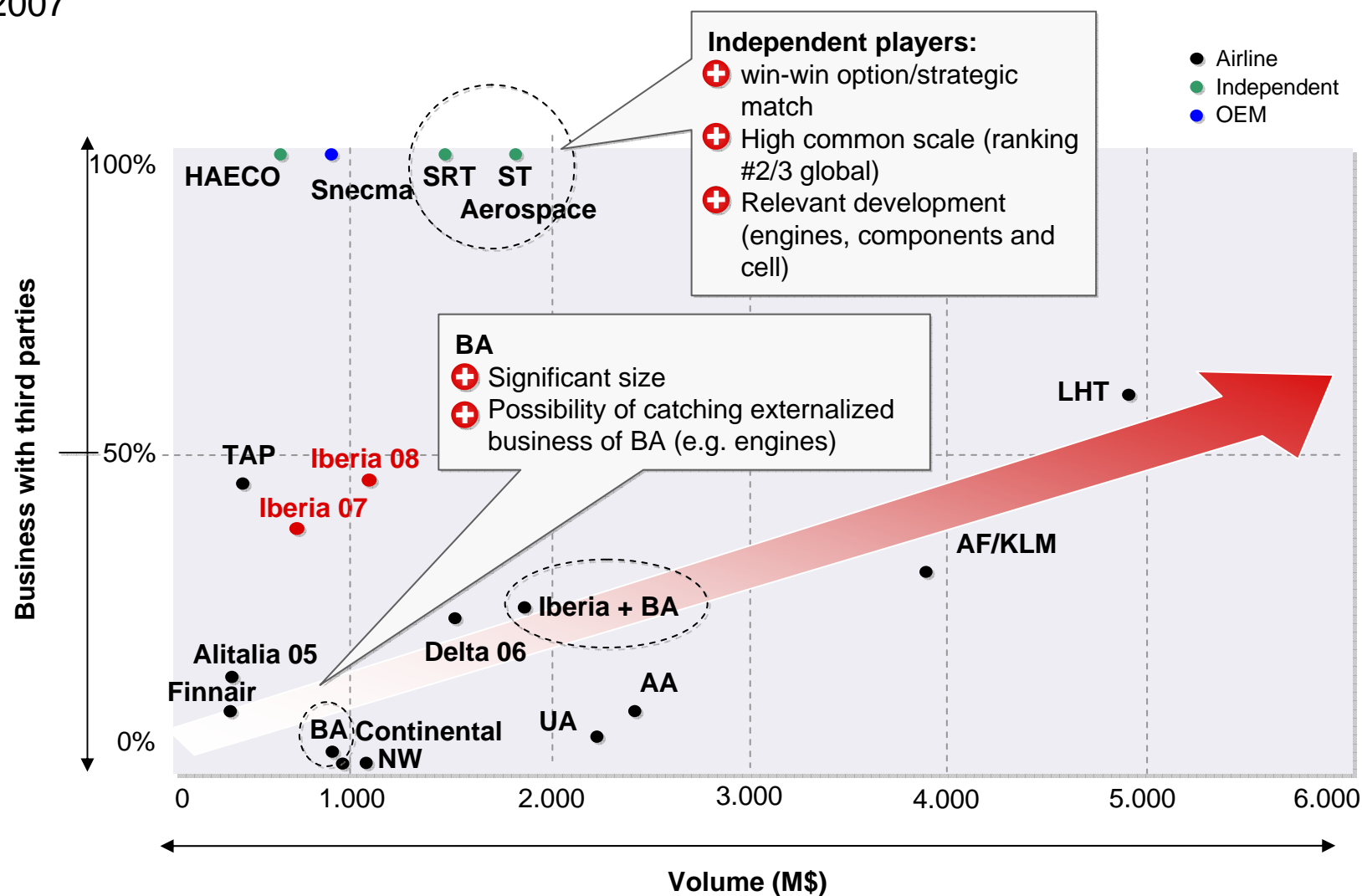


Main actions	Activities performed	Activities in progress
Vueling-Clickair	<ul style="list-style-type: none">→ Due-diligence finished→ Production plan specified→ Viability plan finished→ 2009 viability plan detailed→ Brussels approval (9th Jan 09)	<ul style="list-style-type: none">→ Negotiation of adjustments previous to the merge closing→ Board of Directors and General Shareholder Assembly approval in April 09
British Airways	<ul style="list-style-type: none">→ Synergies identified and quantified	<ul style="list-style-type: none">→ Negotiation of agreement terms<ul style="list-style-type: none">→ Corporate Government→ Relative Valuation
IB-AA-BA Joint Venture	<ul style="list-style-type: none">→ Presentation to the Department of Transport (DOT) and Brussels	<ul style="list-style-type: none">→ Approval from the Department of Transport and Brussels

Strategic environment for Maintenance



2007

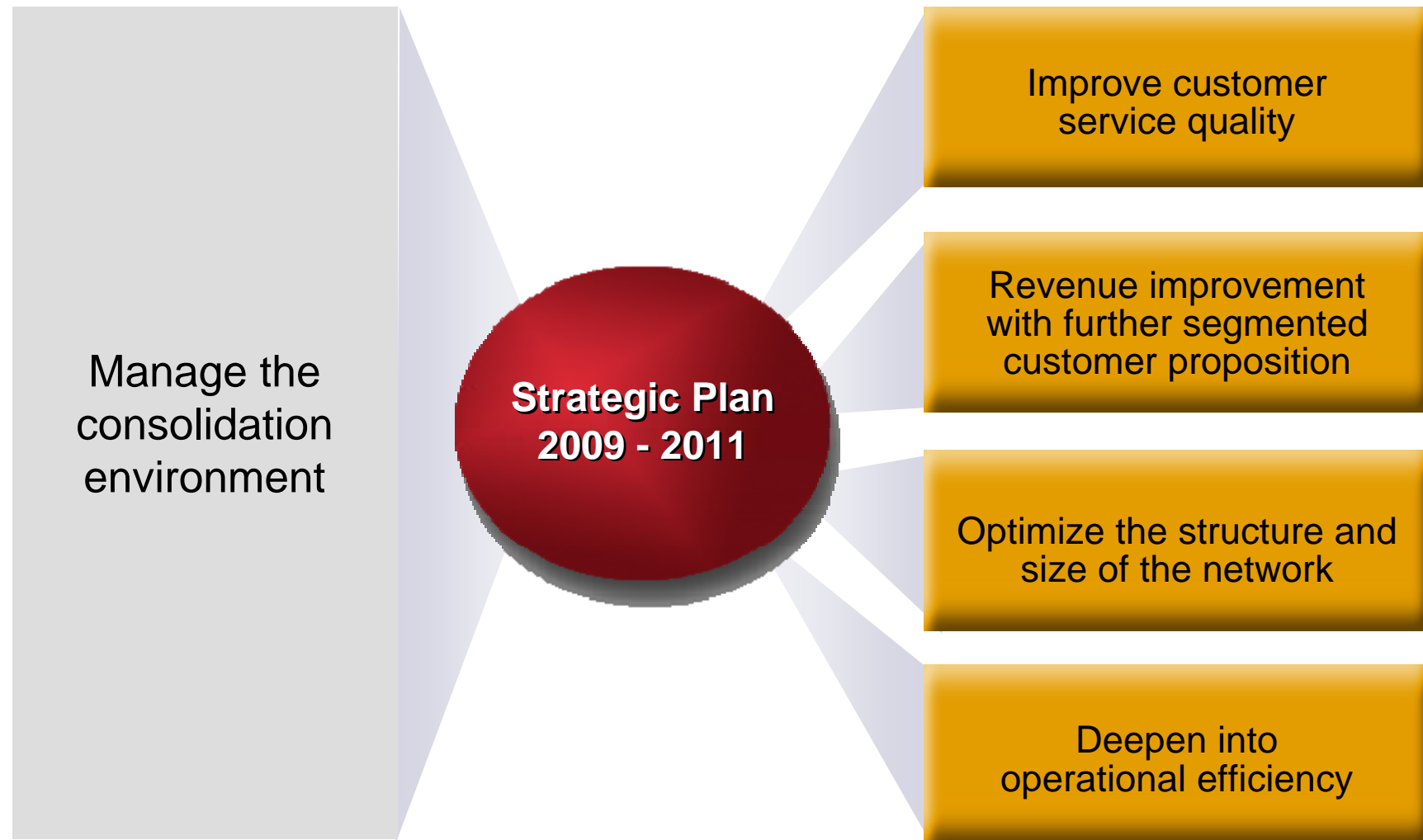




Conclusions and Outlook 2009



Main targets






Conclusions ...



We have set up ambitious targets needed to compete and grow

We have a detailed Plan with initiatives and specific actions for each business that will allow us to:

-  Reinforce our leadership in our core markets
-  Recover profitability in a difficult environment
-  Strengthen our strategic relevance in a dynamic and changing sector





2009 Forecasted capacity evolution



2009 E	ASK
Domestic	-7.4%
Europe	-5.2%
Other Int. Medium Haul	+1.6%
Long Haul	+0.9%
Total	-1.7%

Outlook 2009, a difficult year



-  Costs will further reduce
-  Financial strength
-  Low visibility of demand
-  Rational behavior of competitors, some of them under restructuring
-  Facing uncertainty, flexibility to adapt

**14th consecutive
year of net profits**