ROADSHOW
NOVEMBER 2005

DIRECTOR PLAN
2006 - 2008

Main Challenges and Opportunities for Iberia in 2006-08

Airline

Short and Medium Haul

- Growing competitive pressure: Low Cost Carriers (LCC)
- New infrastructure developments: Airports and trains

Long Haul

- Positioning Madrid as the hub to Latin America
- Traffic growth in Europe-Latin America

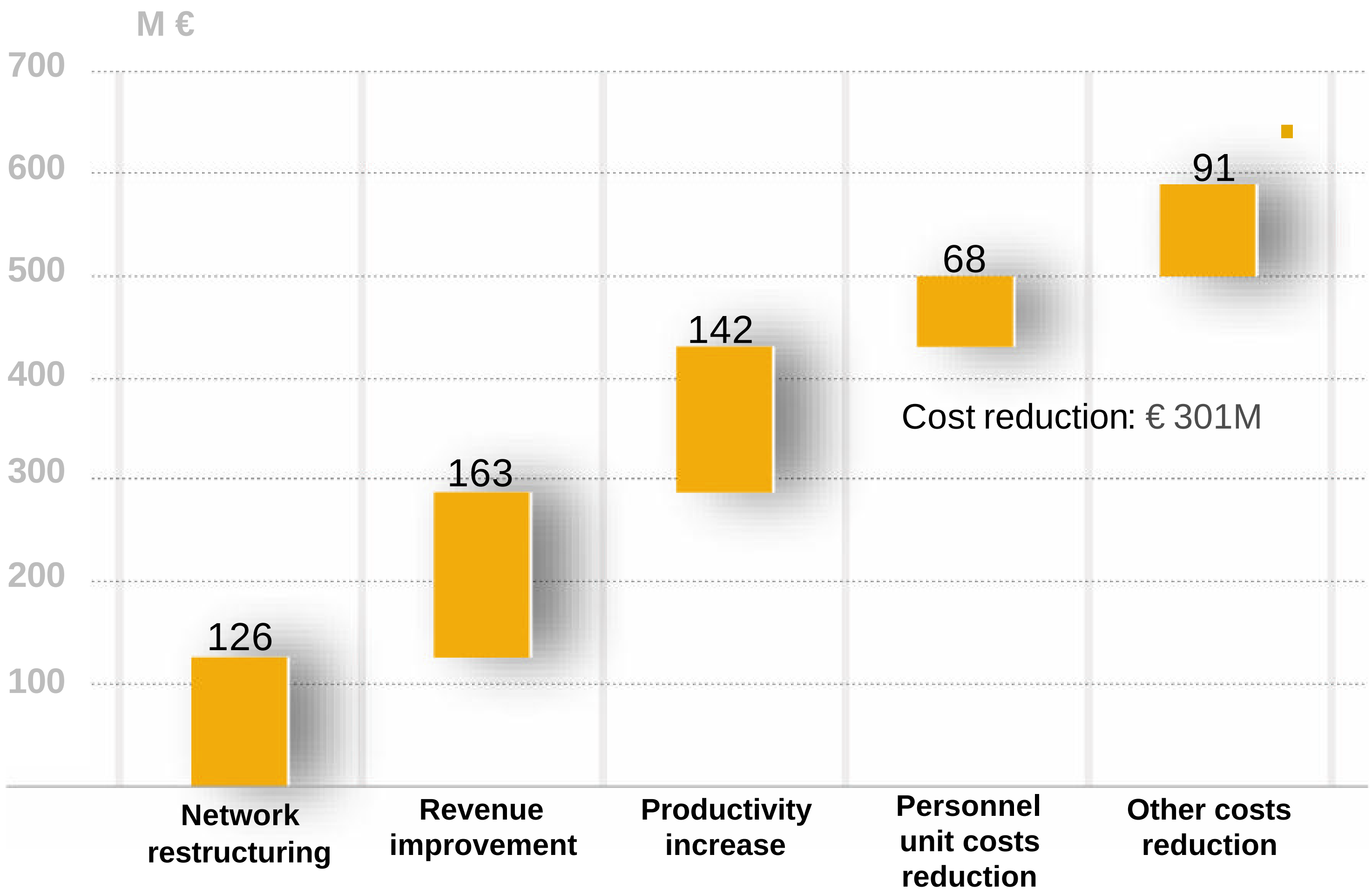
Other business

- New tenders for handling contracts
- Growth opportunities in Maintenance

The New Director Plan is based in Four Pillars

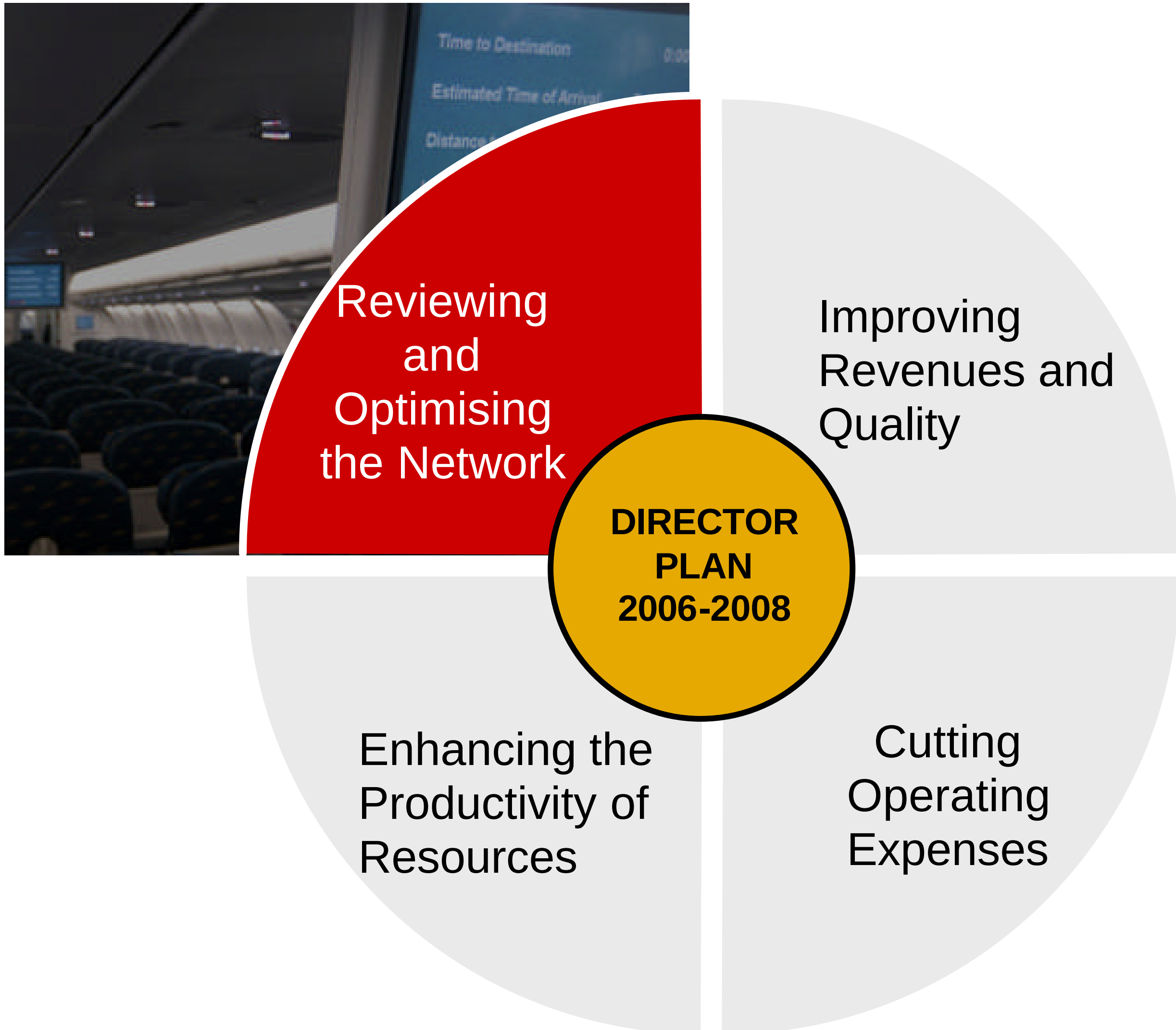
Director Plan initiatives will maintain profitability

€ 600 M of additional margin in 2008 (1)



(1) Over base case 2008

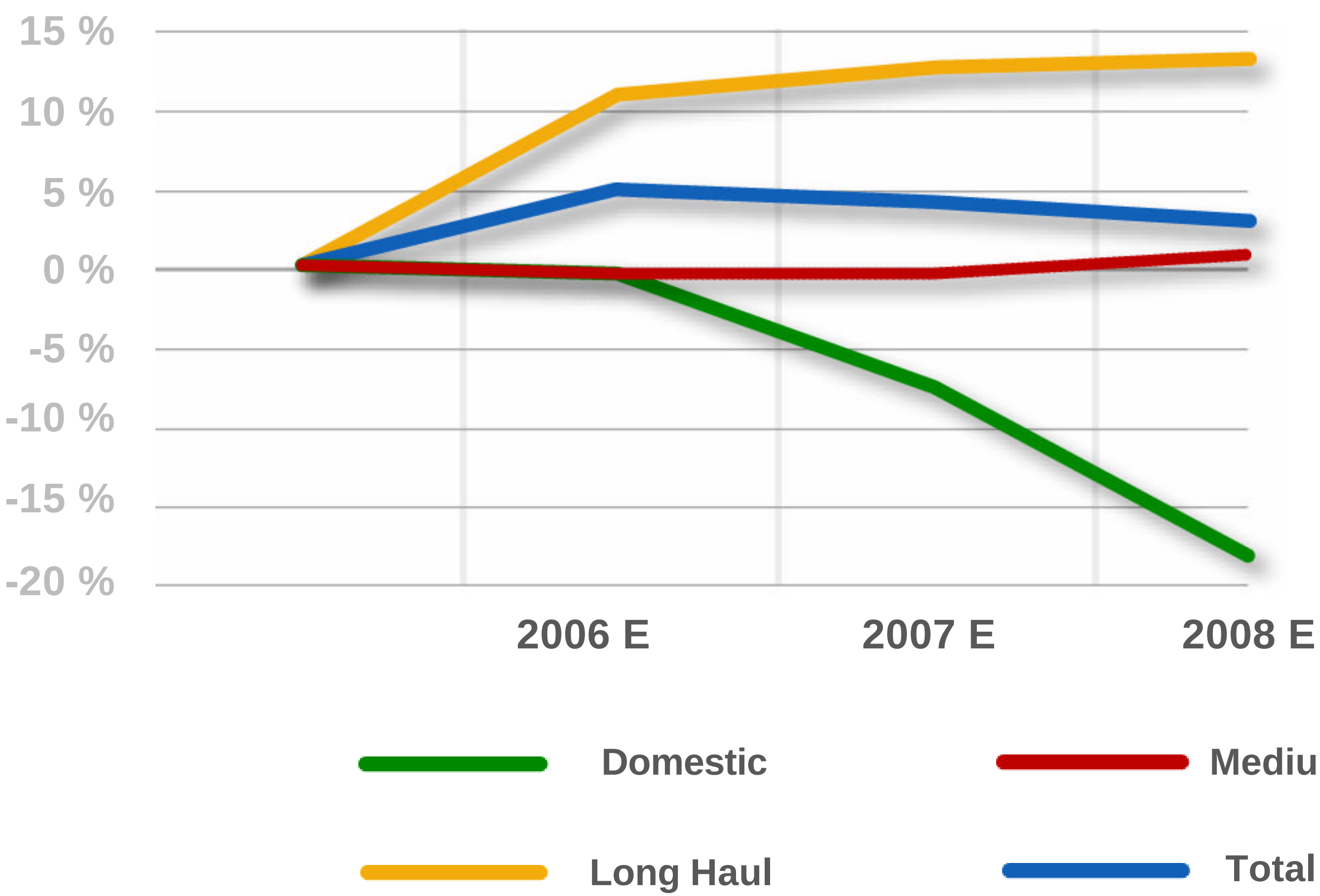
Pillars of the new Director Plan



Capacity forecast

% 08/05

Accumulated



Domestic -17.6%

Medium Haul +0.7%

Long Haul +13.0%

Total +2.8%

Capacity increase in 2006

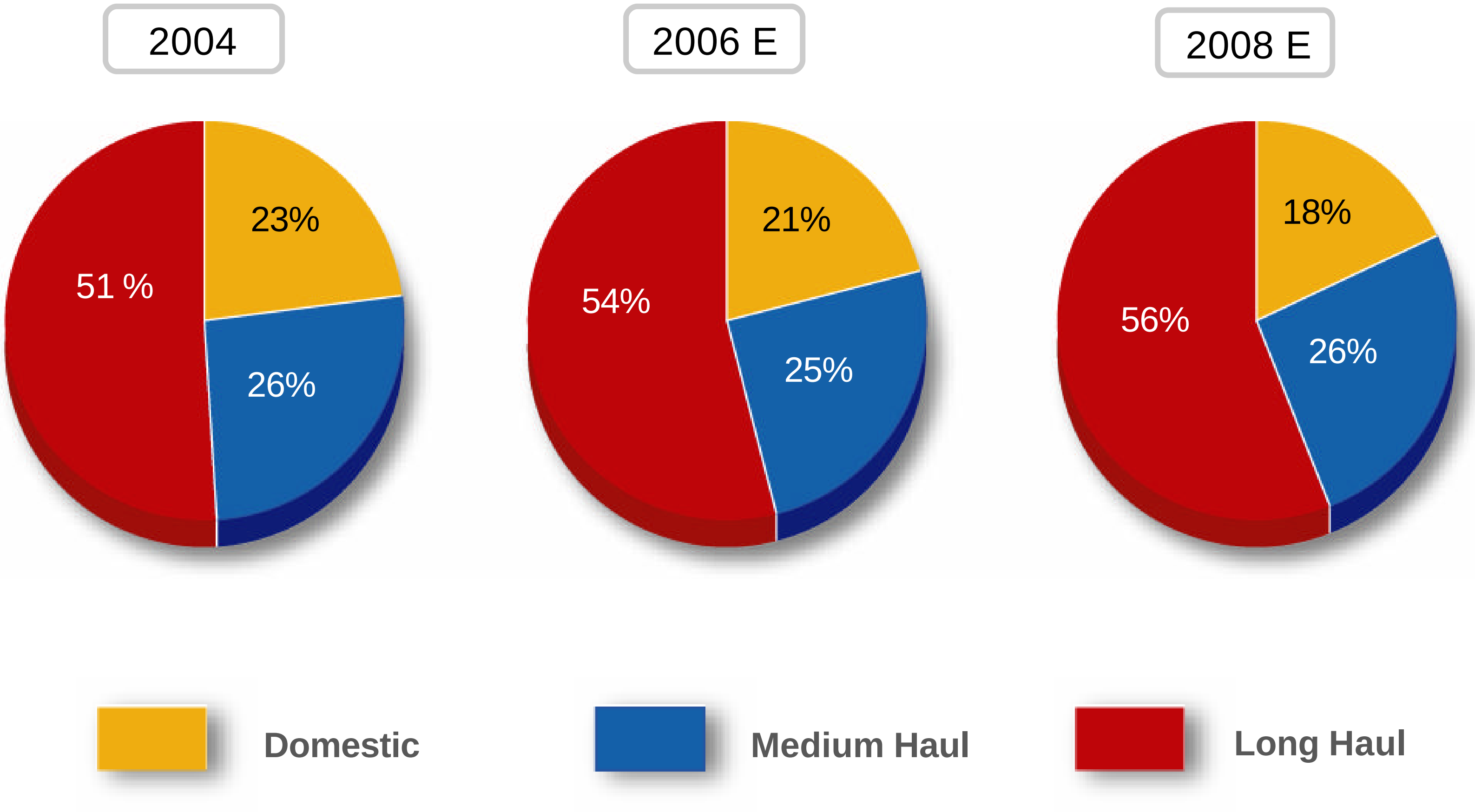
Domestic	0 %
Medium haul	- 0.6 %
Long haul	+ 10.7 %
Total	+ 4.7 %

Effect of the seat reconfiguration

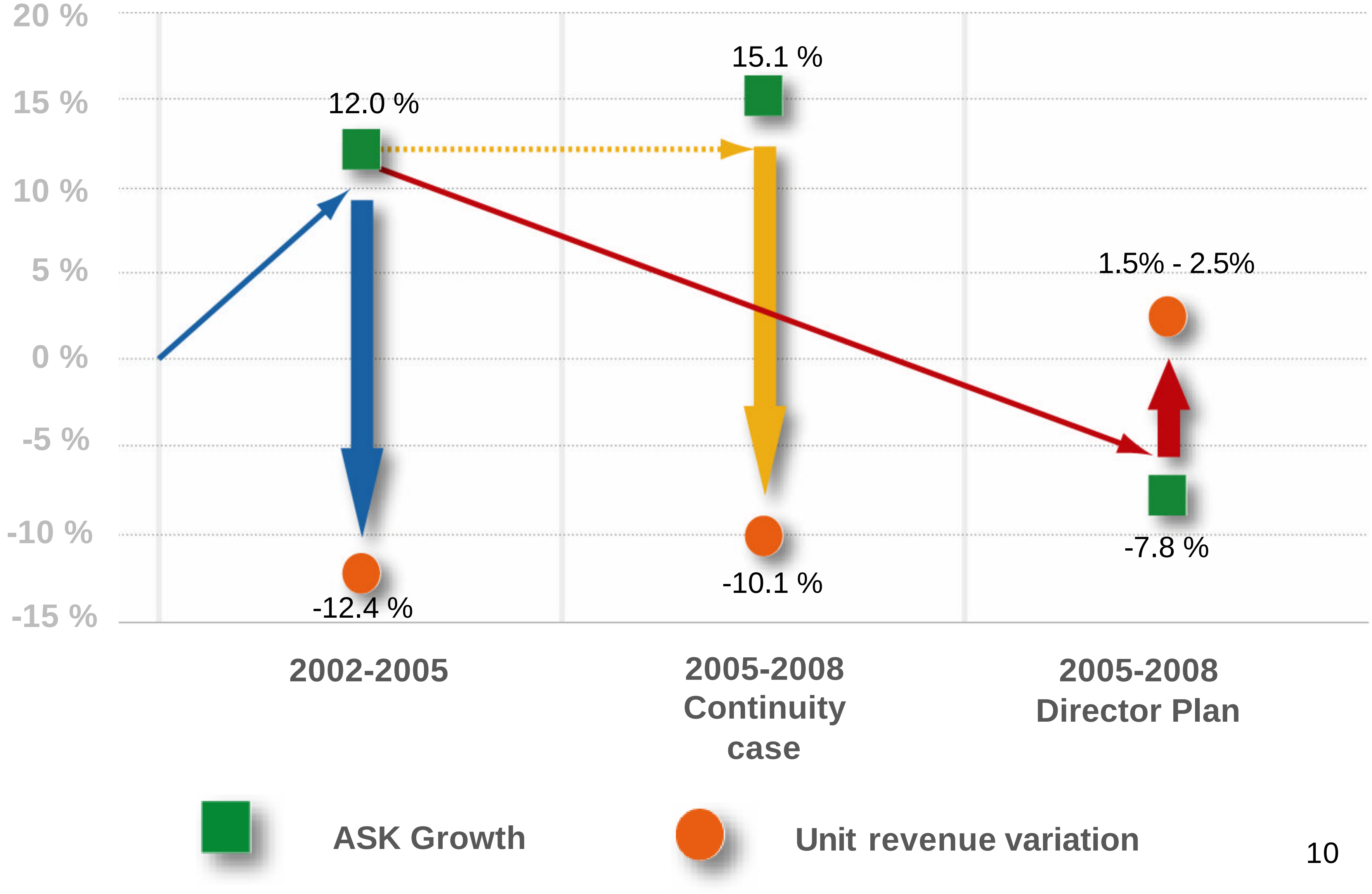
Short and medium haul	+ 4.6 %
Long haul	+ 1.6 %
Total	+ 3.1 %

Long Haul will gradually increase its weight

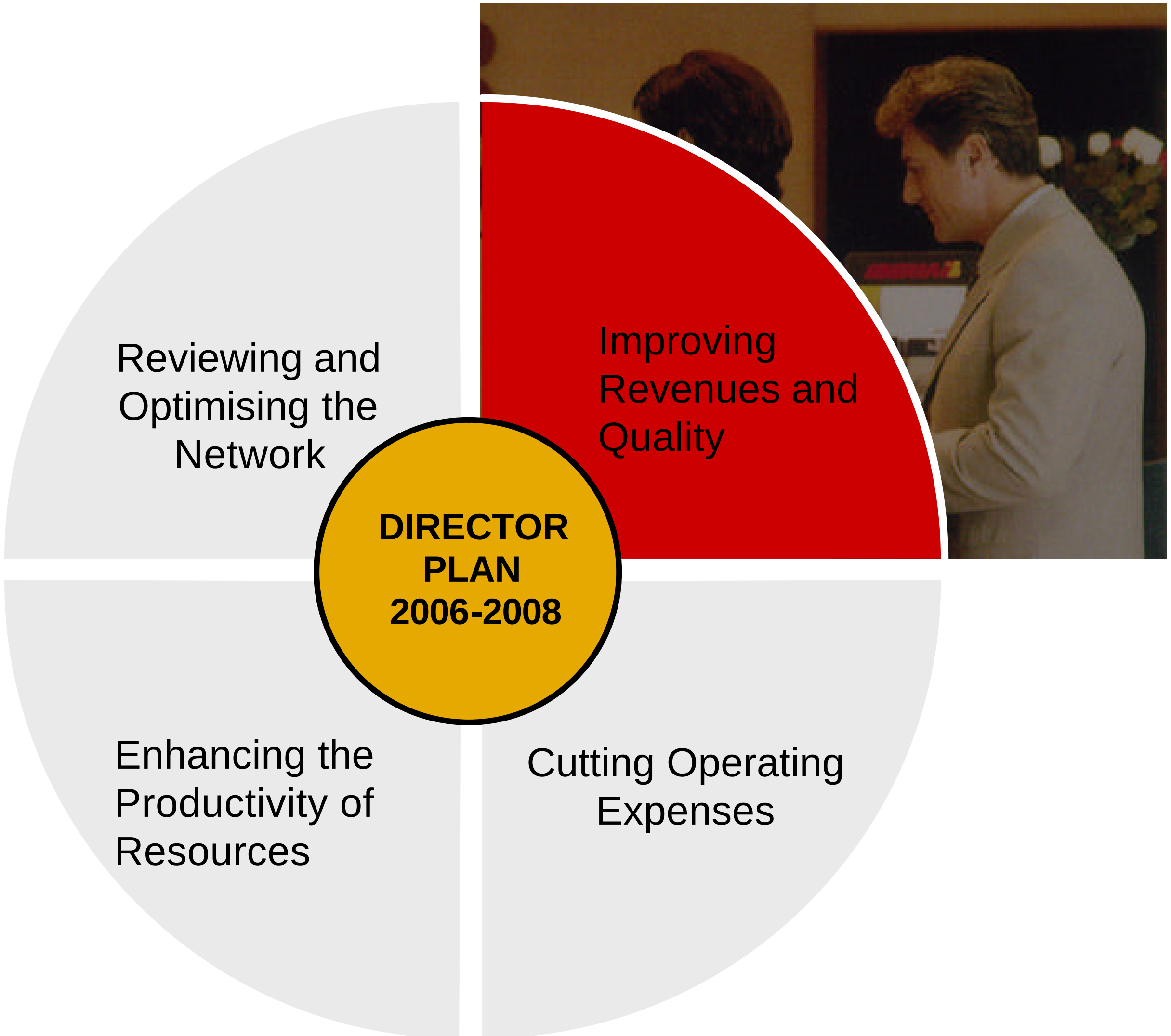
Strengthening the competitive advantage that the presence in these markets represents for Iberia



Impact in short and medium haul



Pillars of the new Director Plan



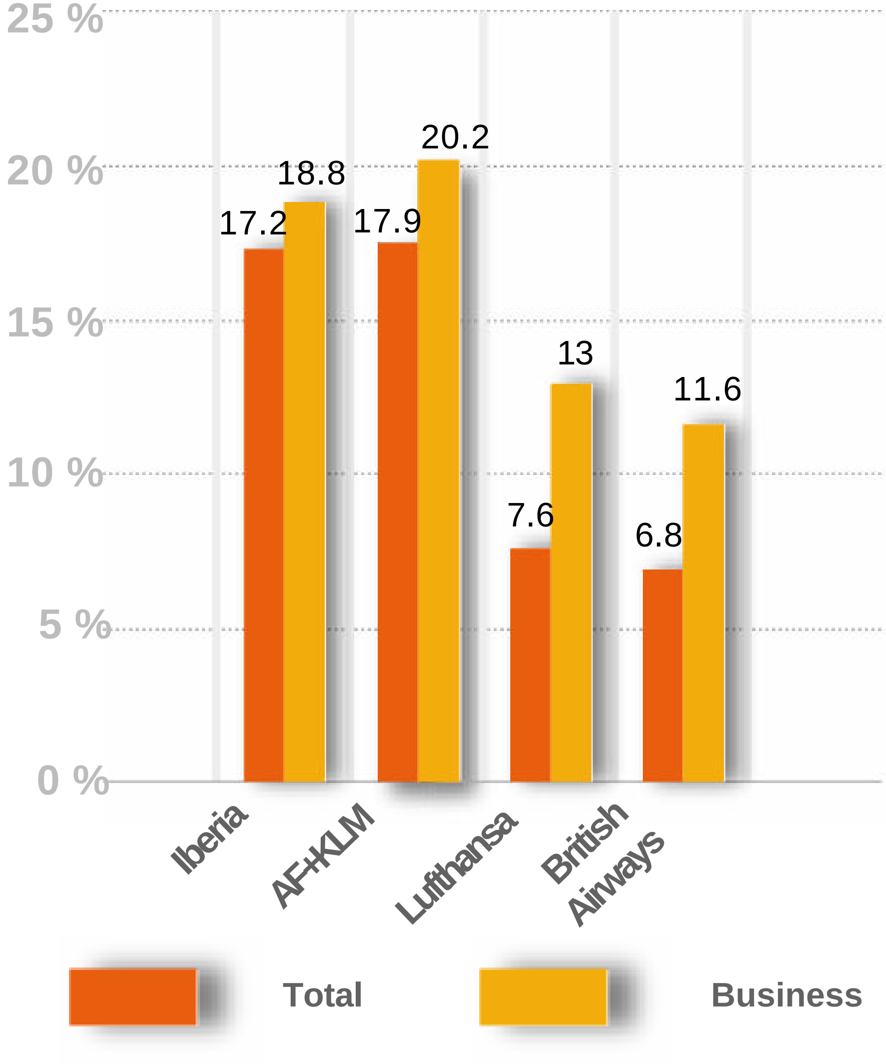
Quality Plan

The Director Plan establishes a set of measures to ensure a differential service

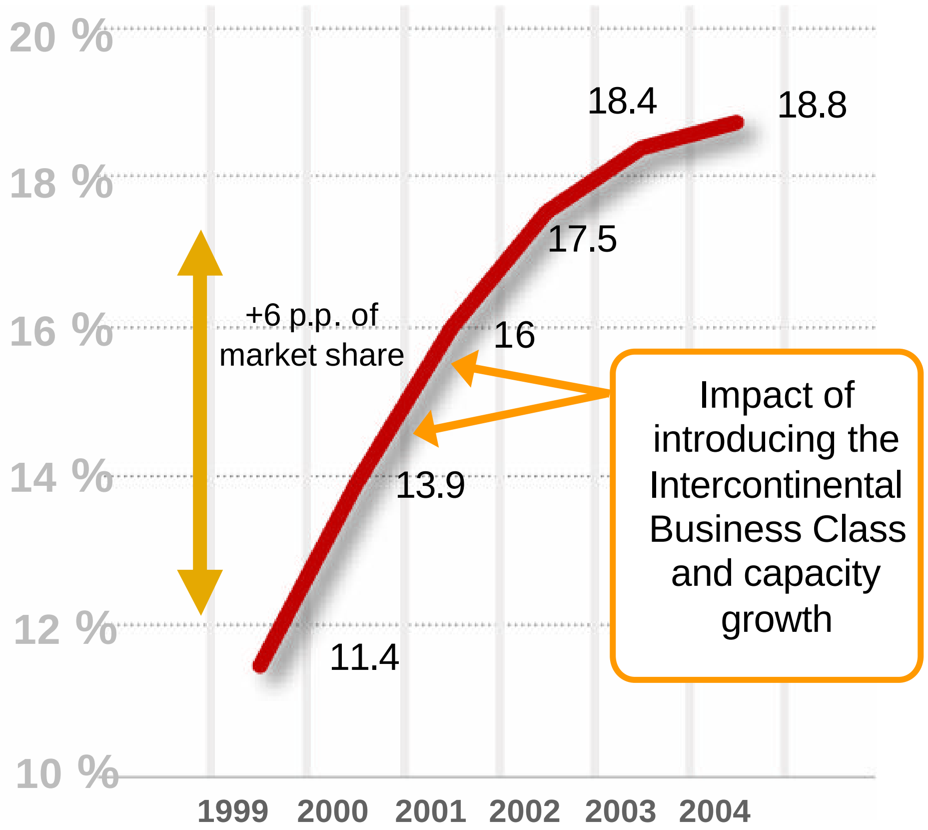
- Improvement of on board service quality
- Automation
- Personalized attention to help with flight connections
- Simplification: Just one document to board aircraft
- Information, check-in/boarding, entertainment
- Improvement of the VIP lounges

Improvement of the long haul mix: Business Plus

Market share Europe-Latin America 2004



Increase of business market share in Europe-Latin America



Source: DDR

Improvement of the long haul mix: Business Plus

- Fully implemented in spring 2006, 80% by the end of 2005

- Opportunity to improve:
  - Long haul mix
  - Business market share in Latin America

Targets 2008

+ 2.5 pp in business class market share (1)

+ 5 p.p. of load factor (1)

€ 19 M of additional passenger revenues

(1) Over 2005 E

New revenue management model

New revenue management system origin/destination

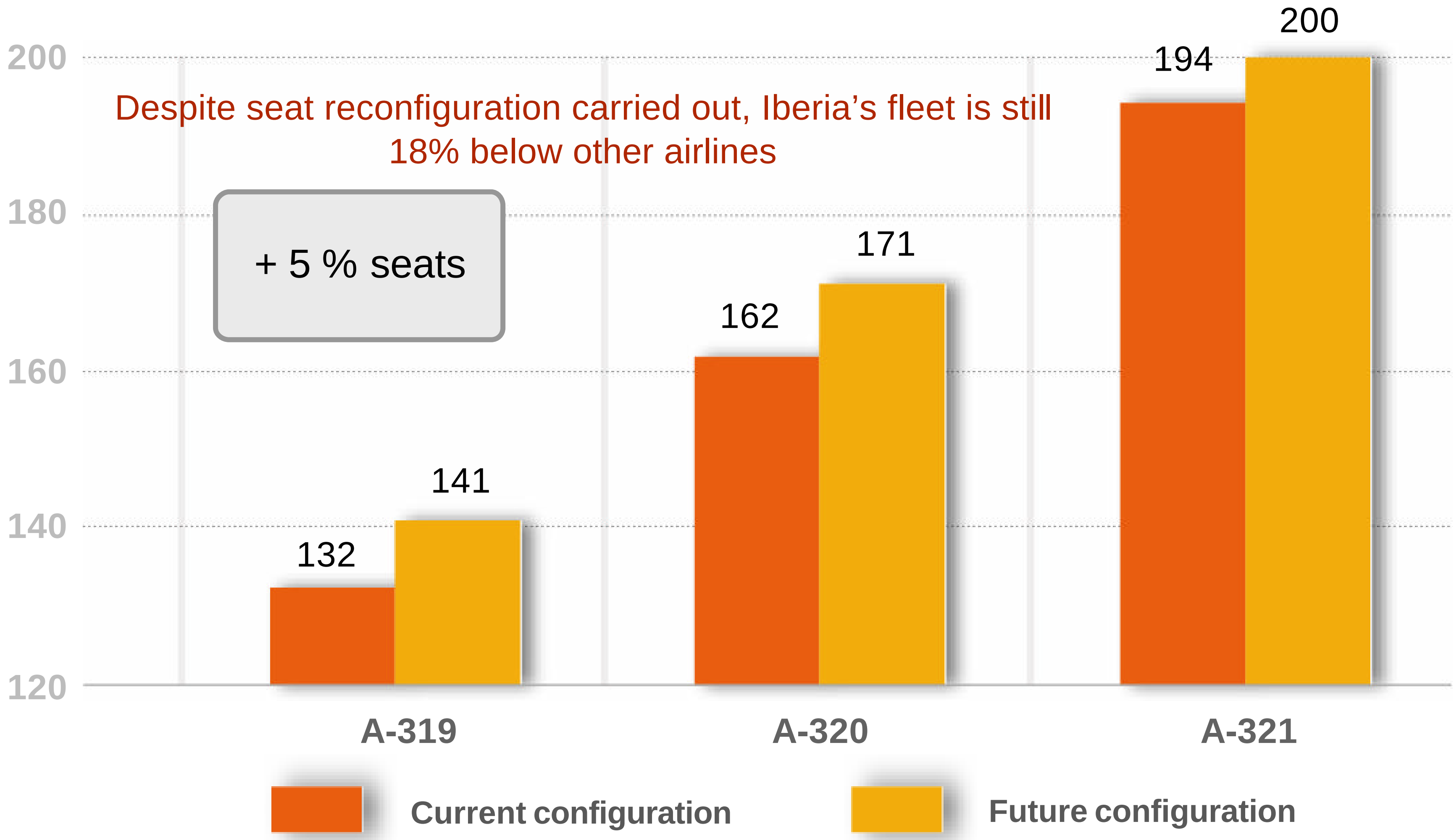
Improvement of traffic selection with a more optimized balance between network traffic and point-to point traffic

New point-to-point revenue optimization model

Specific to address demand under new fare structure (low cost model)

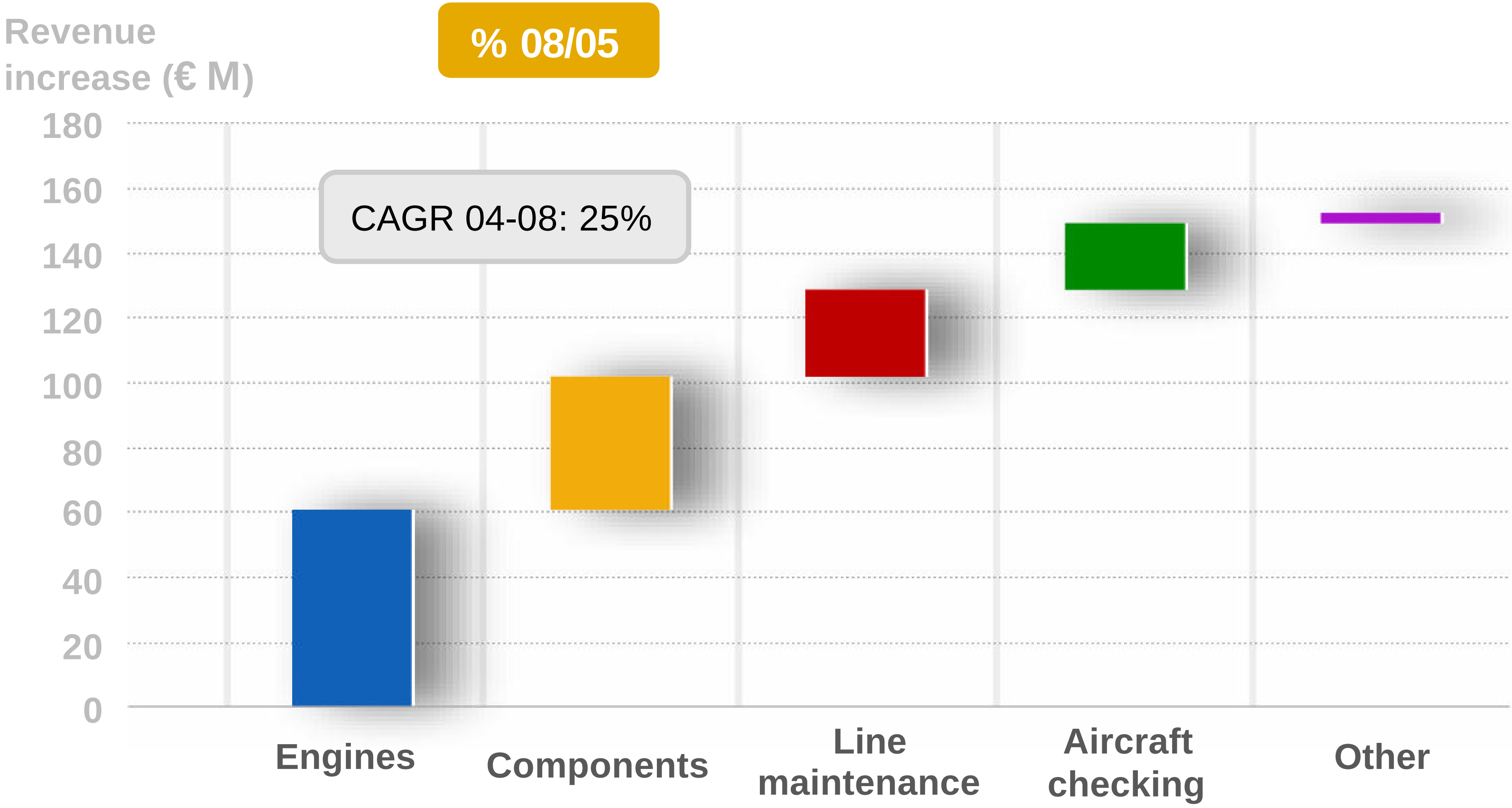
Margin improvement of 1.8%

Short and medium haul cabin optimization



€ 20 M of additional passenger revenues in 2008

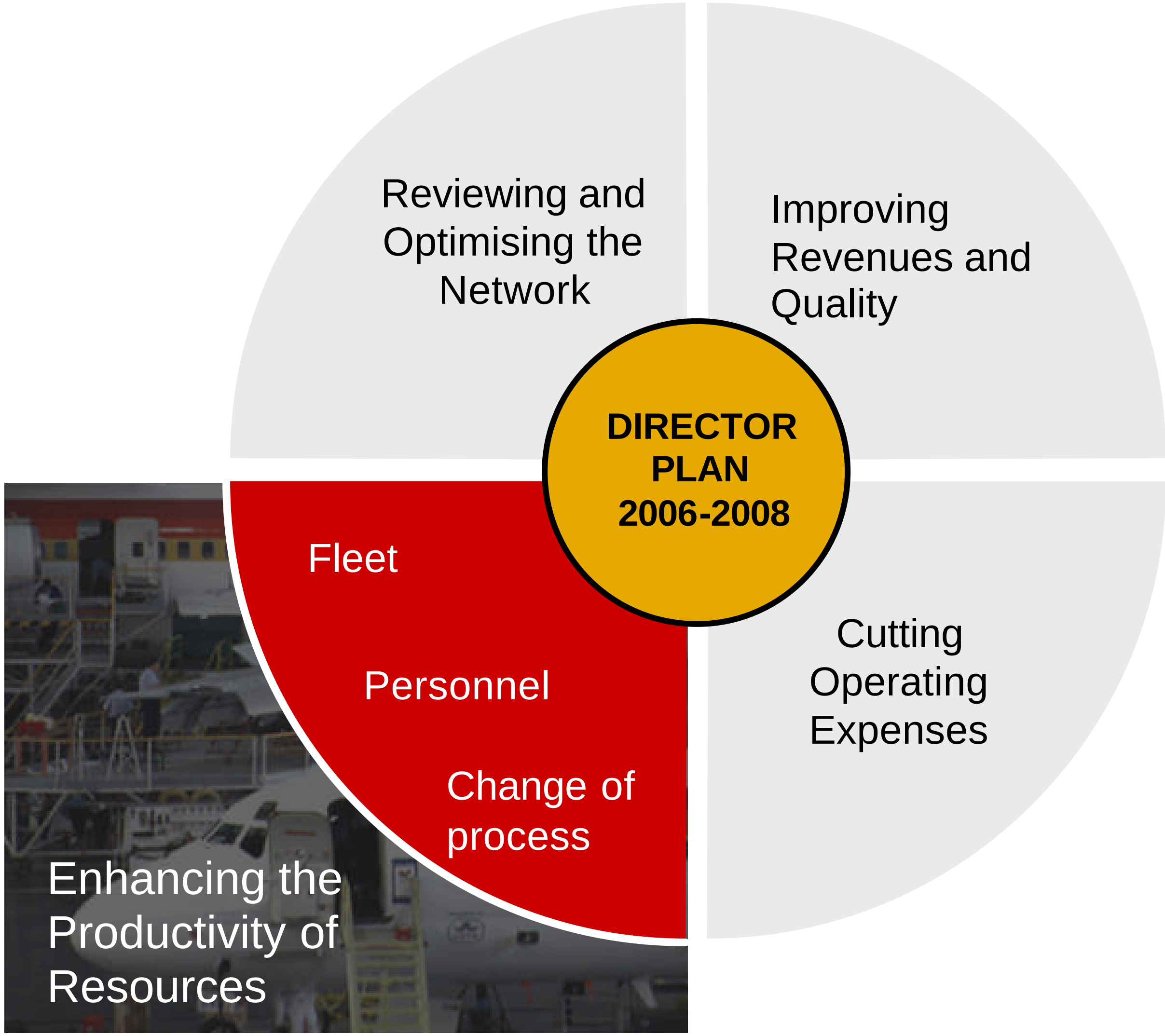
Maintenance: More activity for third parties



Increase of maintenance for third parties in highest added value segments:

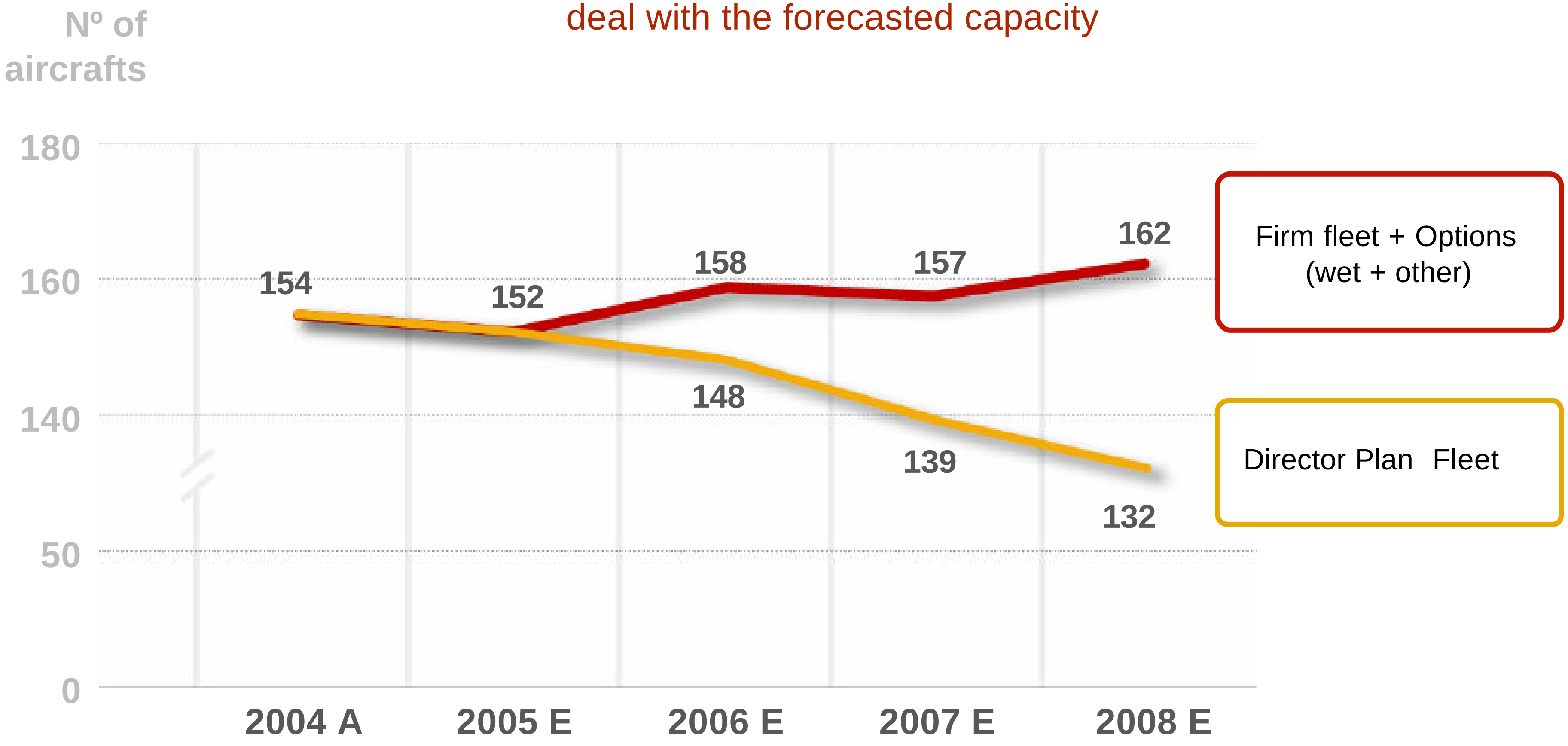
- New licences for engine maintenance
- New component line

Pillars of the new Director Plan

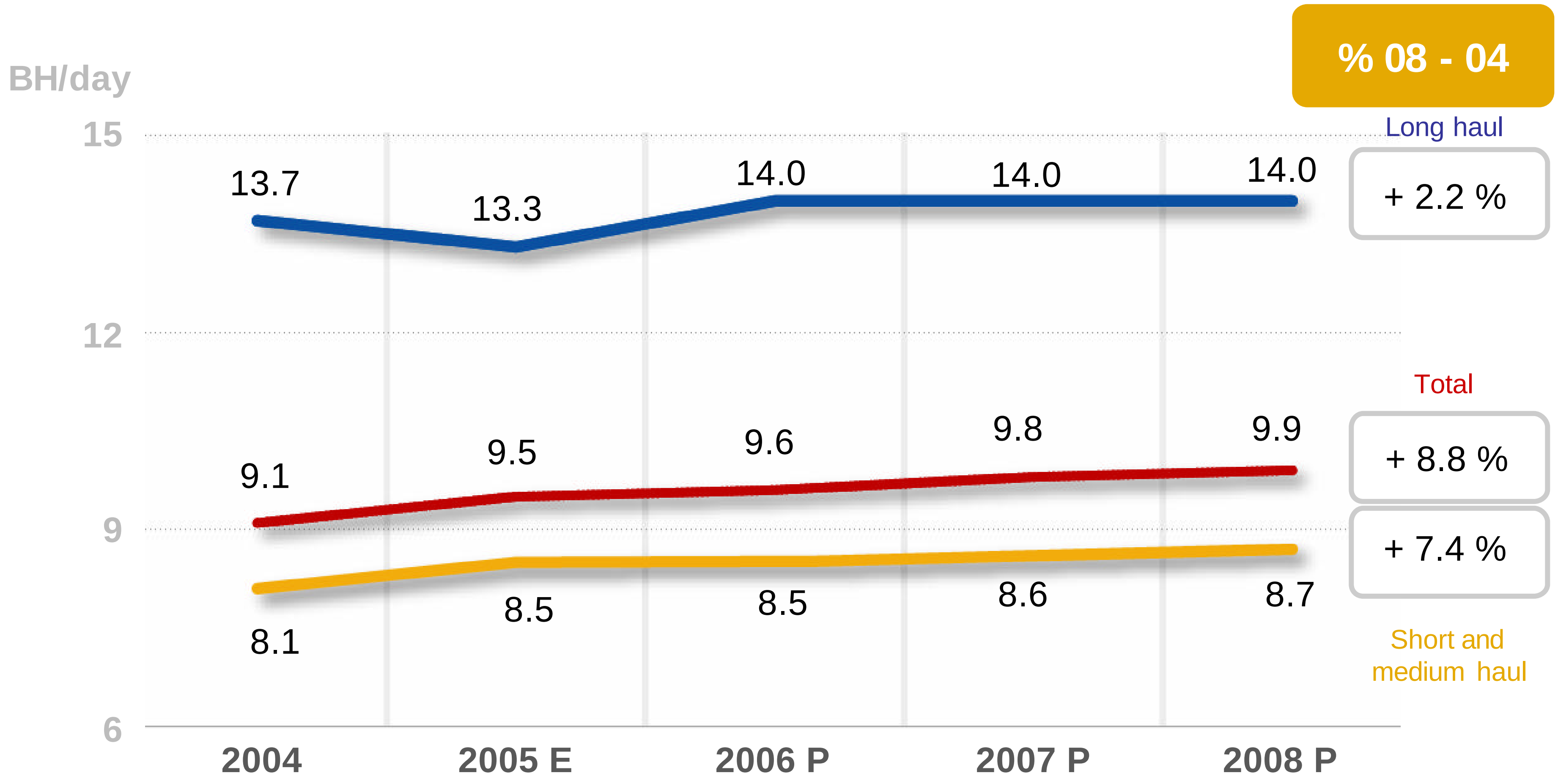


Fleet Plan

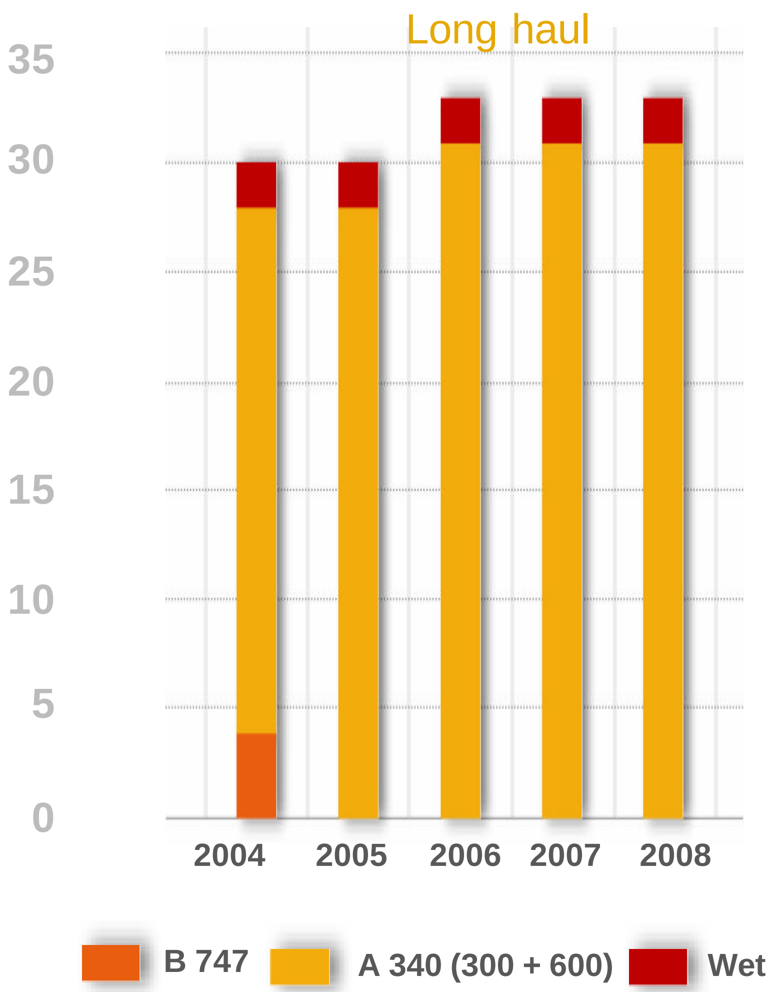
The Director Plan takes advantage of Iberia's fleet flexibility to deal with the forecasted capacity

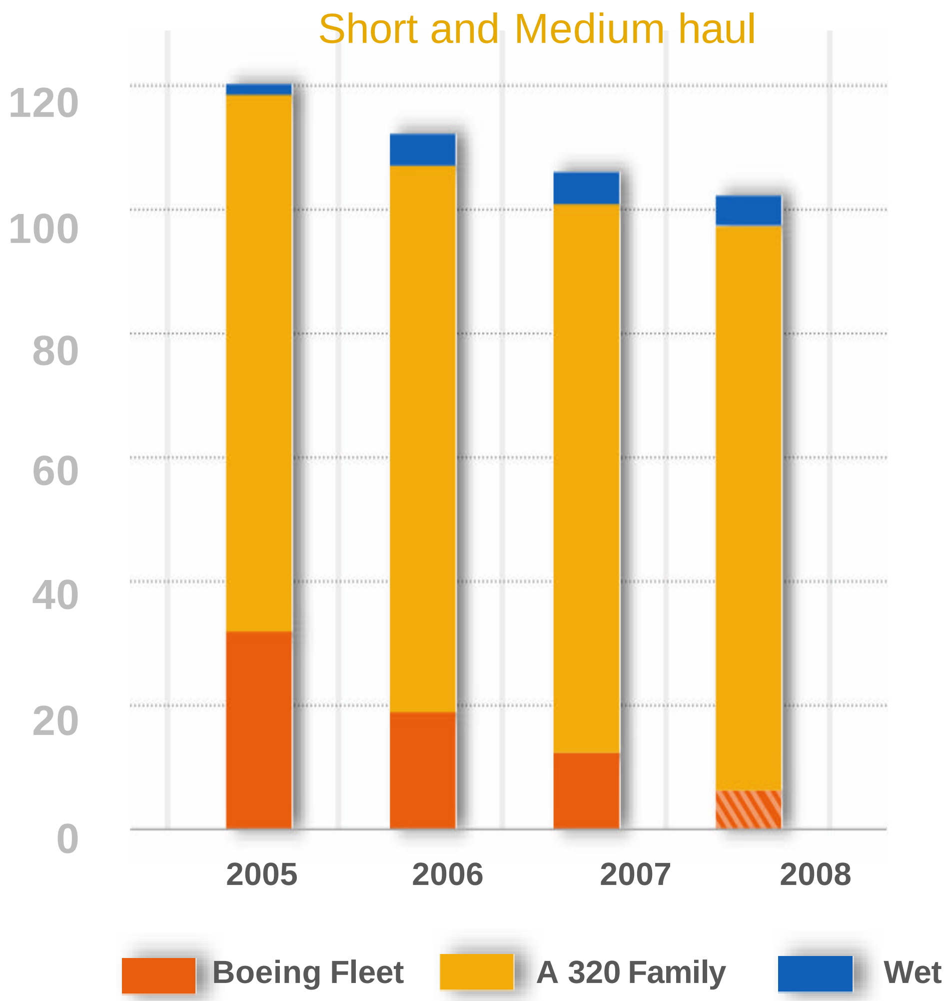


Increased Utilization of Aircraft



Fleet Homogenization





Positive impact of fleet renewal and homogenization

Cost reductions: Short and medium haul fleet

Fuel: -19%

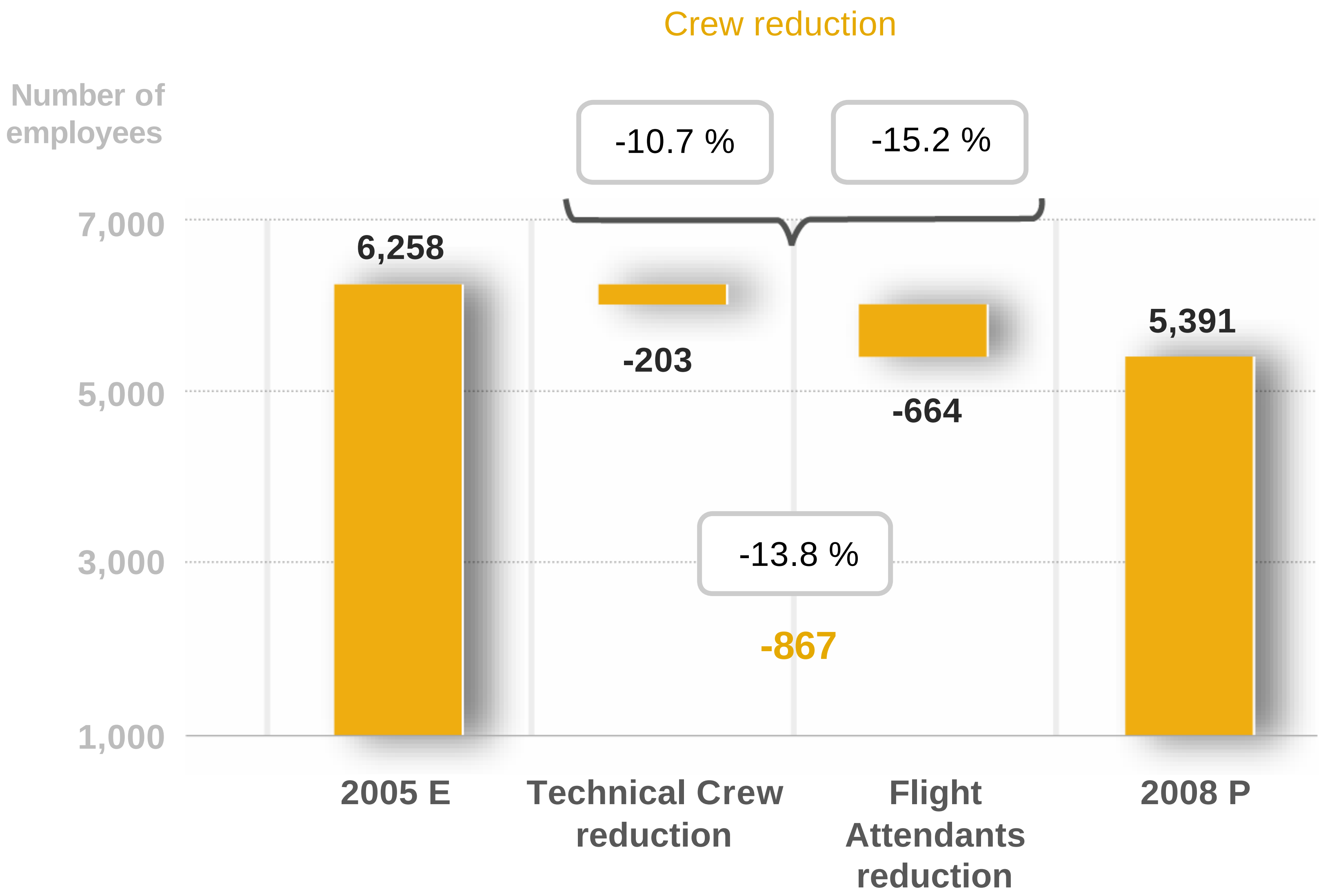
Maintenance: - 23%

Technical crew: € 19 M of annual savings due to commonality

Savings in rentals compared to the previous contract

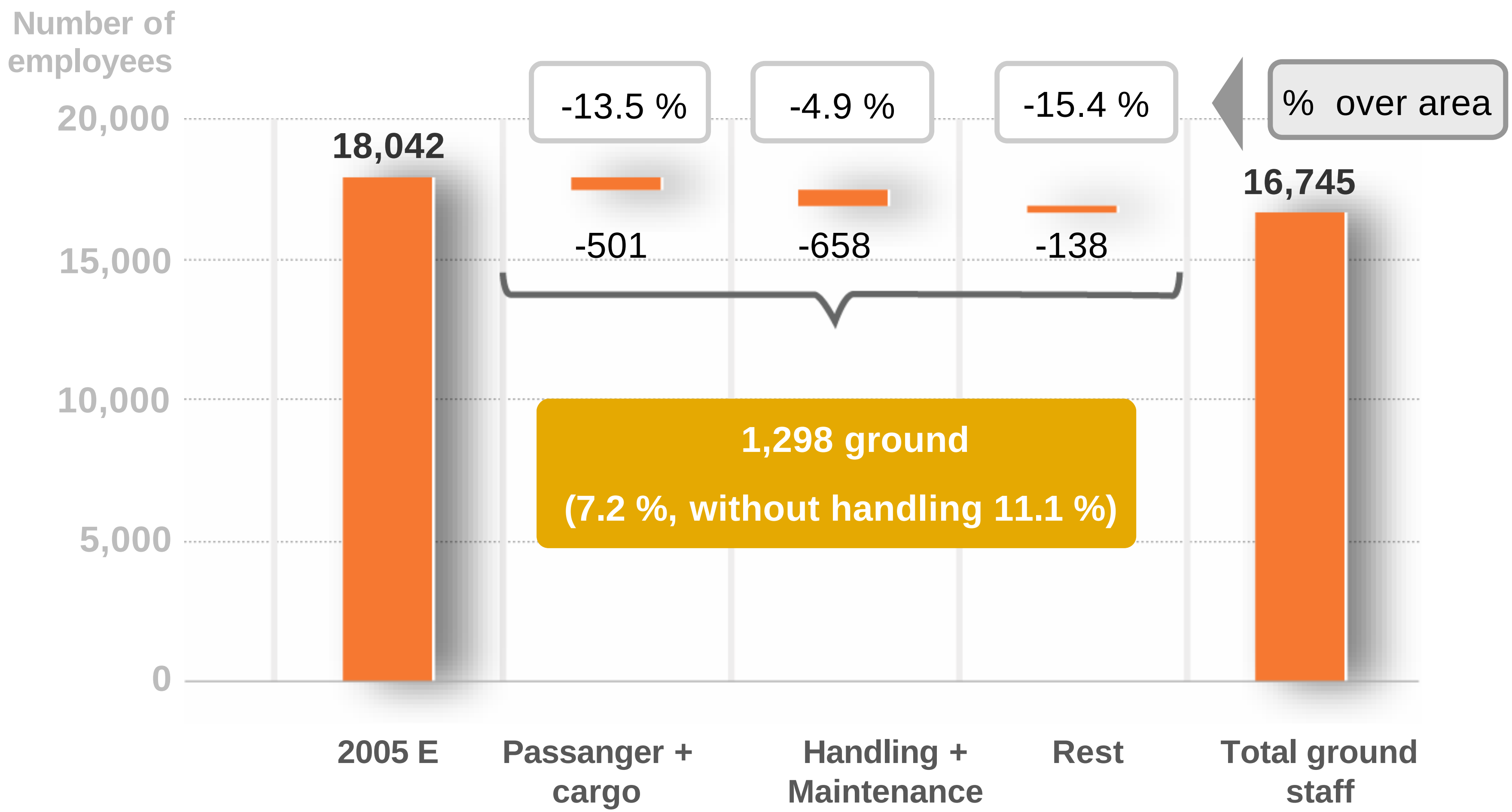
Reduction of cost /seat by 7.3%

Increase of staff productivity



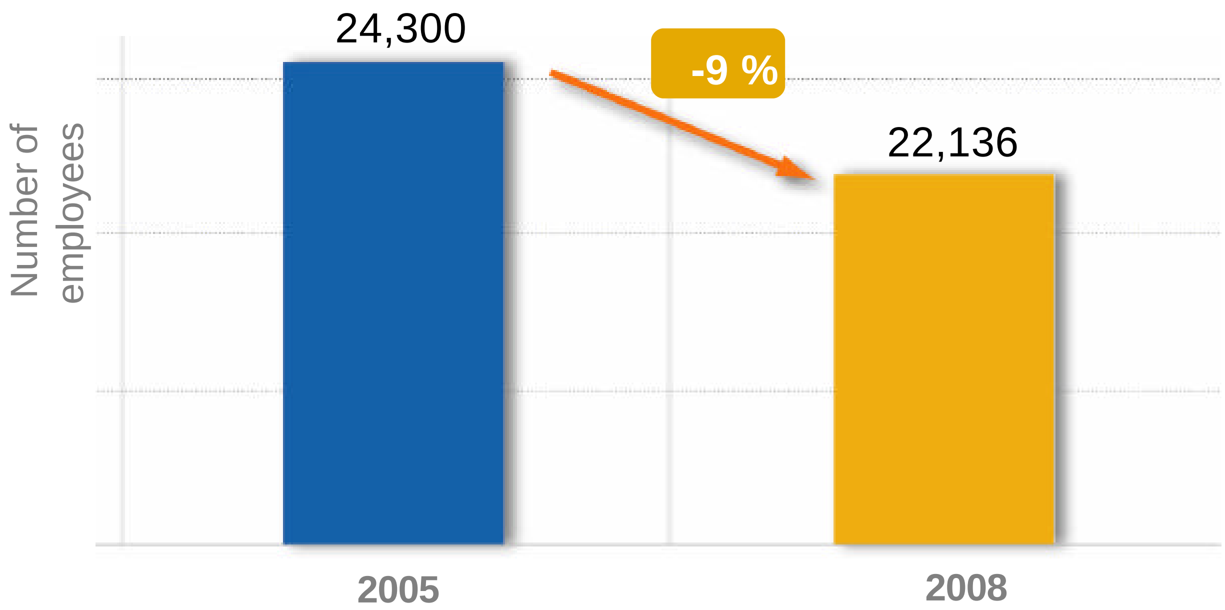
Increase of staff productivity

Net ground staff reduction



Increased staff productivity

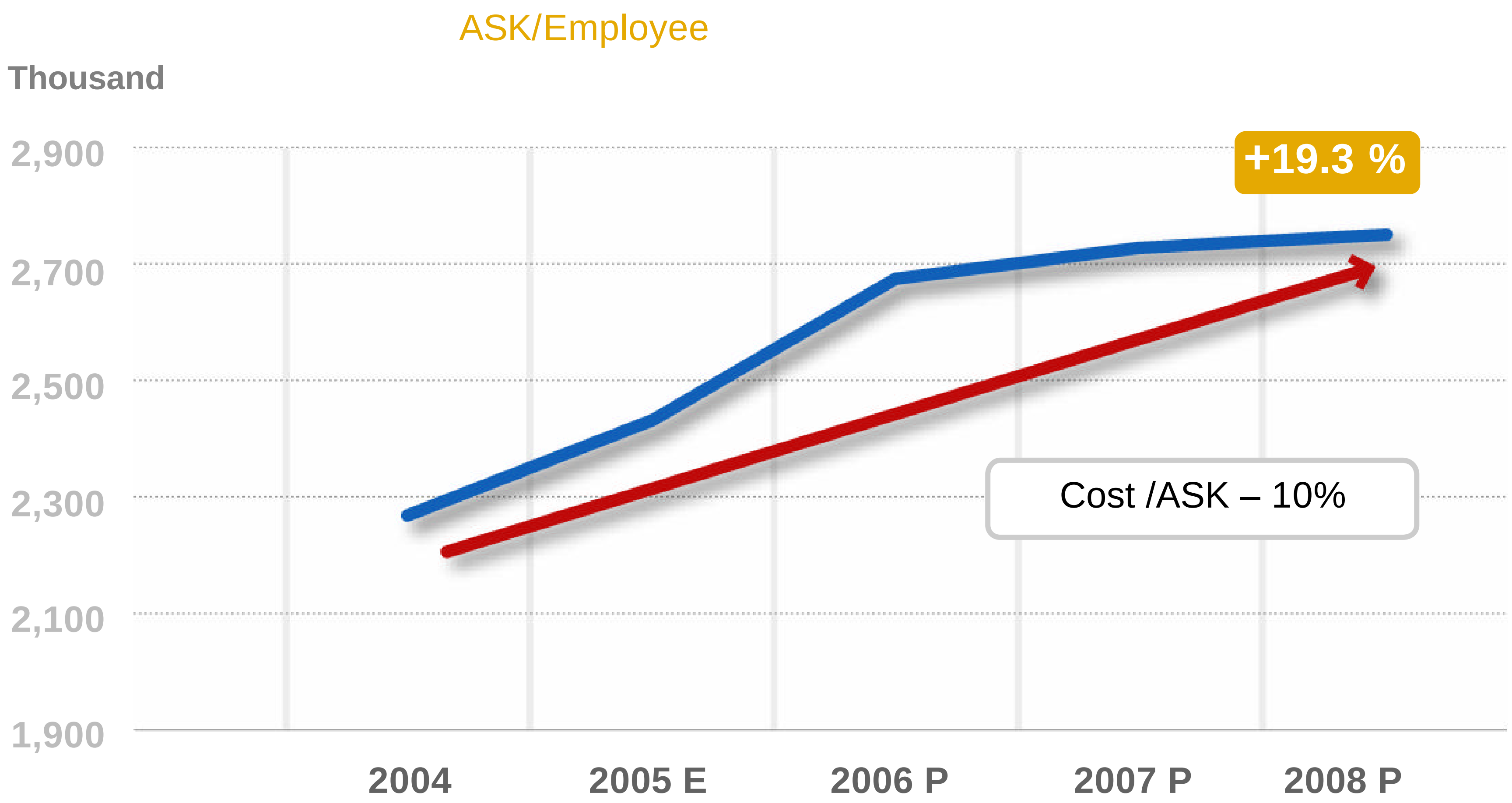
Net staff reduction: 2,164



The greatest cost savings due to headcount reduction will be carried out in 2008

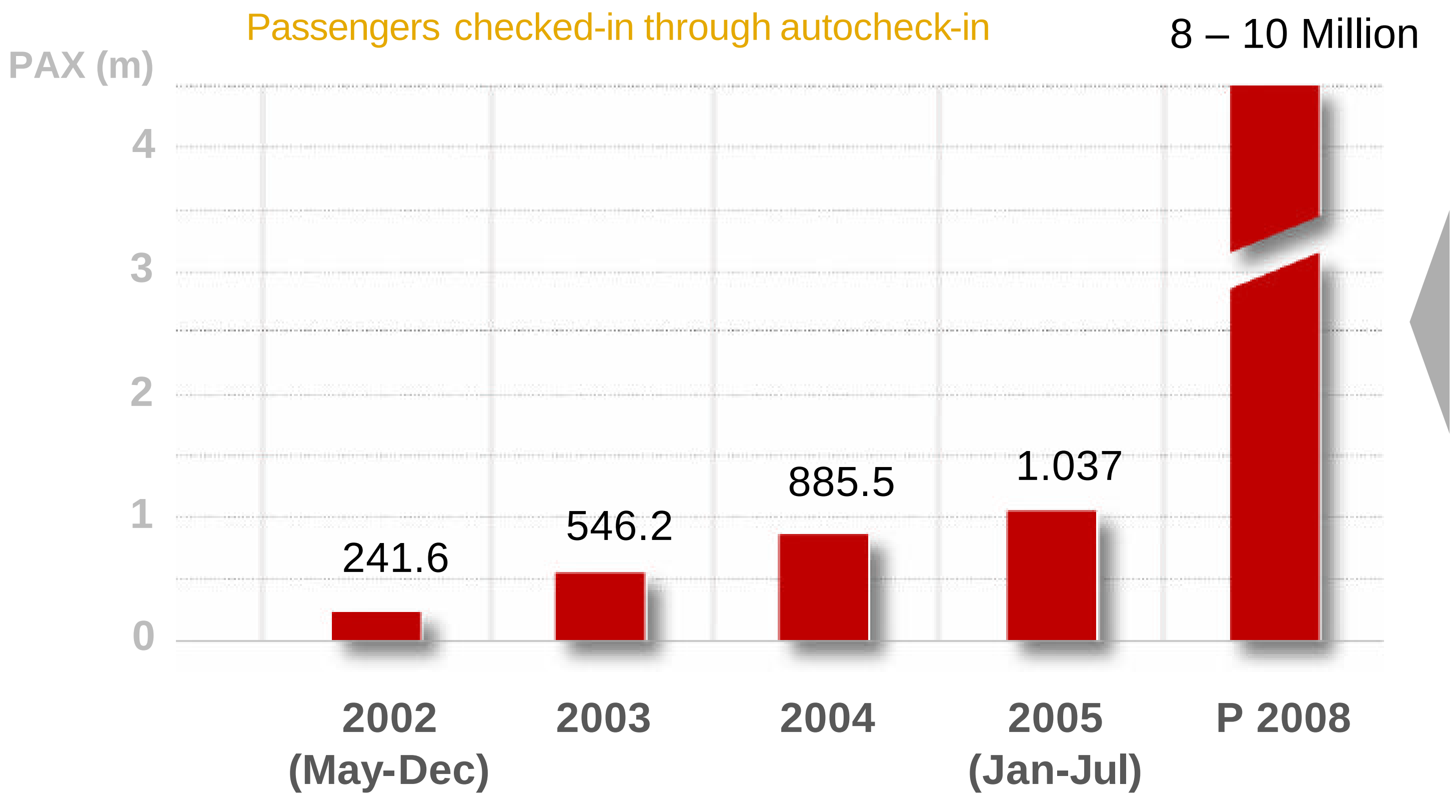
Redundancy Plan provisioning	**€ 280 M in 2005**
Annual impact	**€ 122 M in 2008**
Recovery period	**2.5 years**

Productivity increase



Change of processes and new tools

The use of autocheck-in will increase significantly



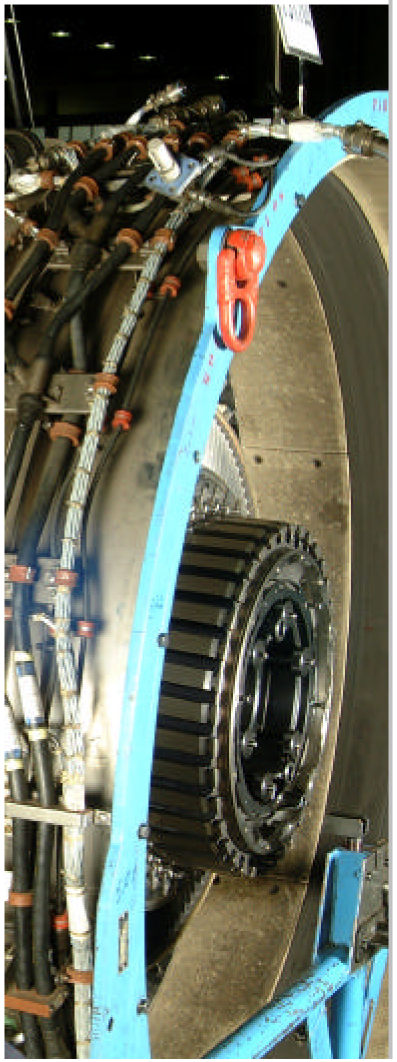
Large capacity growth

Extension to non Schengen European passengers

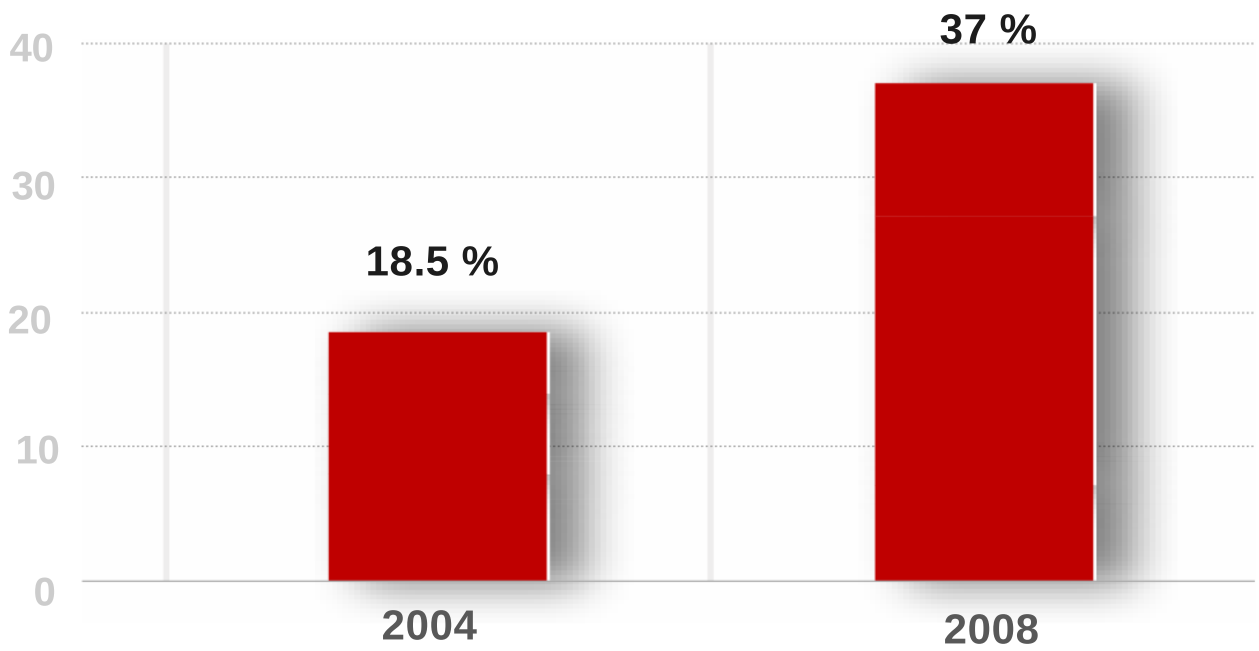
Incorporation of baggage autocheck-in

Saving of € 5 M in 2008

Change of processes and new tools



Objective: to double sales through direct channels



Headcount reduction of 500 employees

Change of processes and new tools

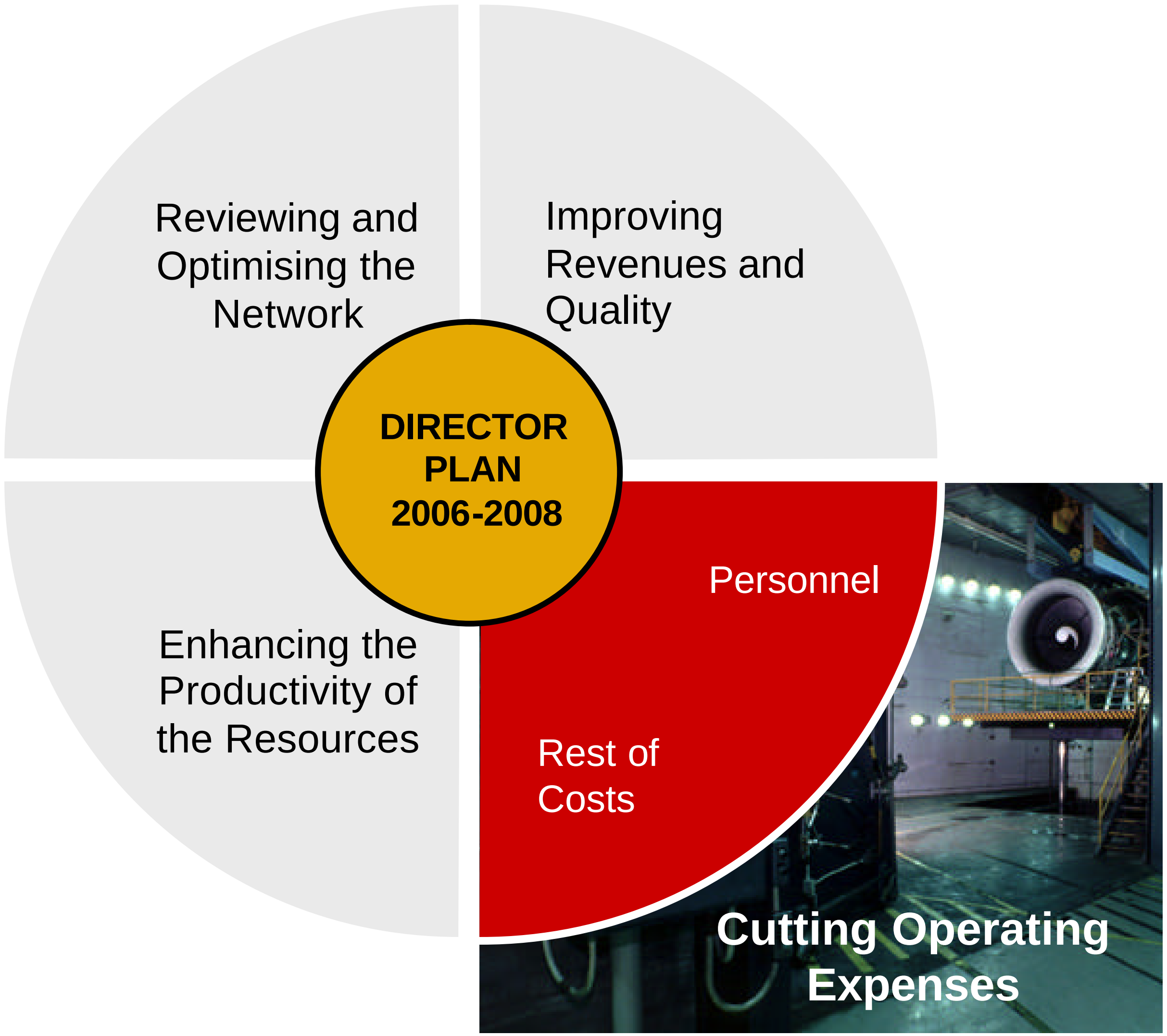
Reengineering Plan in Maintenance

Reorganization of activities and functions

- Subcontracting or elimination of lower qualification and added value tasks
- Personnel skills to be concentrated in higher value added tasks
- Spare parts rationalization in relation to fleet homogenization
- Revision of contracts with suppliers

Operating revenue/employee will increase 18% in 2008

Pillars of the new Director Plan



Reduction of Personnel Costs: € 68 M savings

Salary freezes

Change from fixed to variable wages linked to target performance

New seniority system

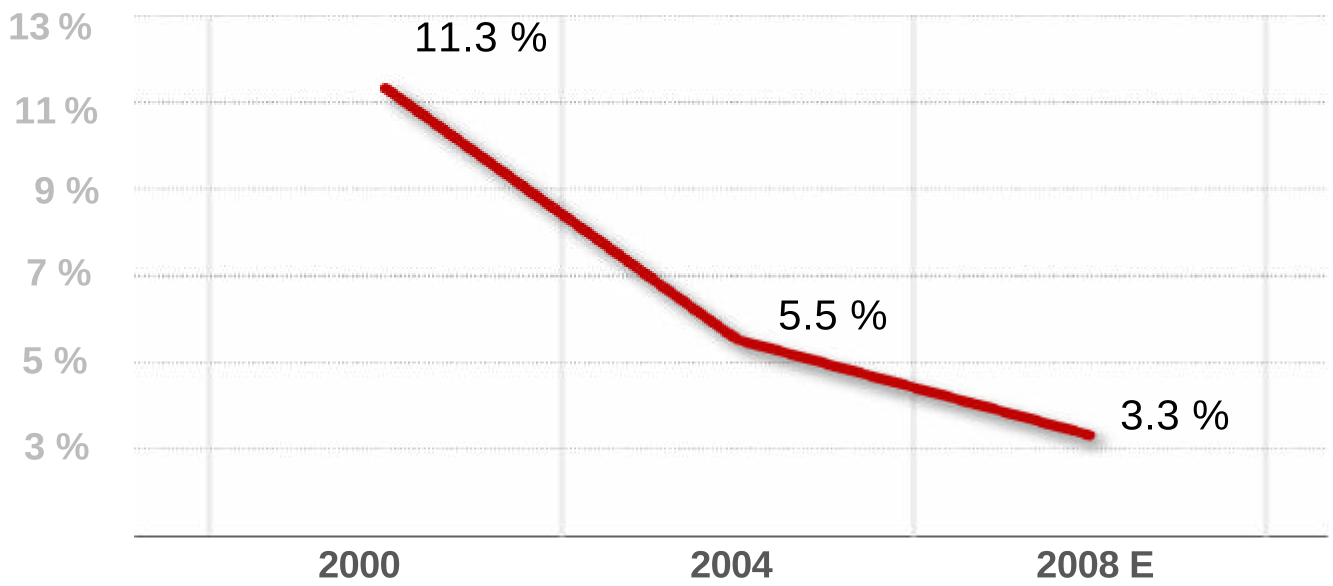
New progression and promotion system

New conditions for new recruits

Other employee benefits

Other Costs: € 91 M savings

Reduction of commercial costs in Spain and abroad



- Implementation of a cero commission model in Spain and Europe
- Extension to other international markets

Estimated savings of € 22 M

Other Costs: € 91 M savings

Reduction of aircraft leasing costs

- Better prices for the extension of current operating leases
- Better prices and interest rates for fleet incorporations

Estimated savings of € 18 M

Reduction of cargo costs

- Reduction of bellies costs in Europe
- Reduction of cargo aircraft costs
- Selective closing of cargo terminals

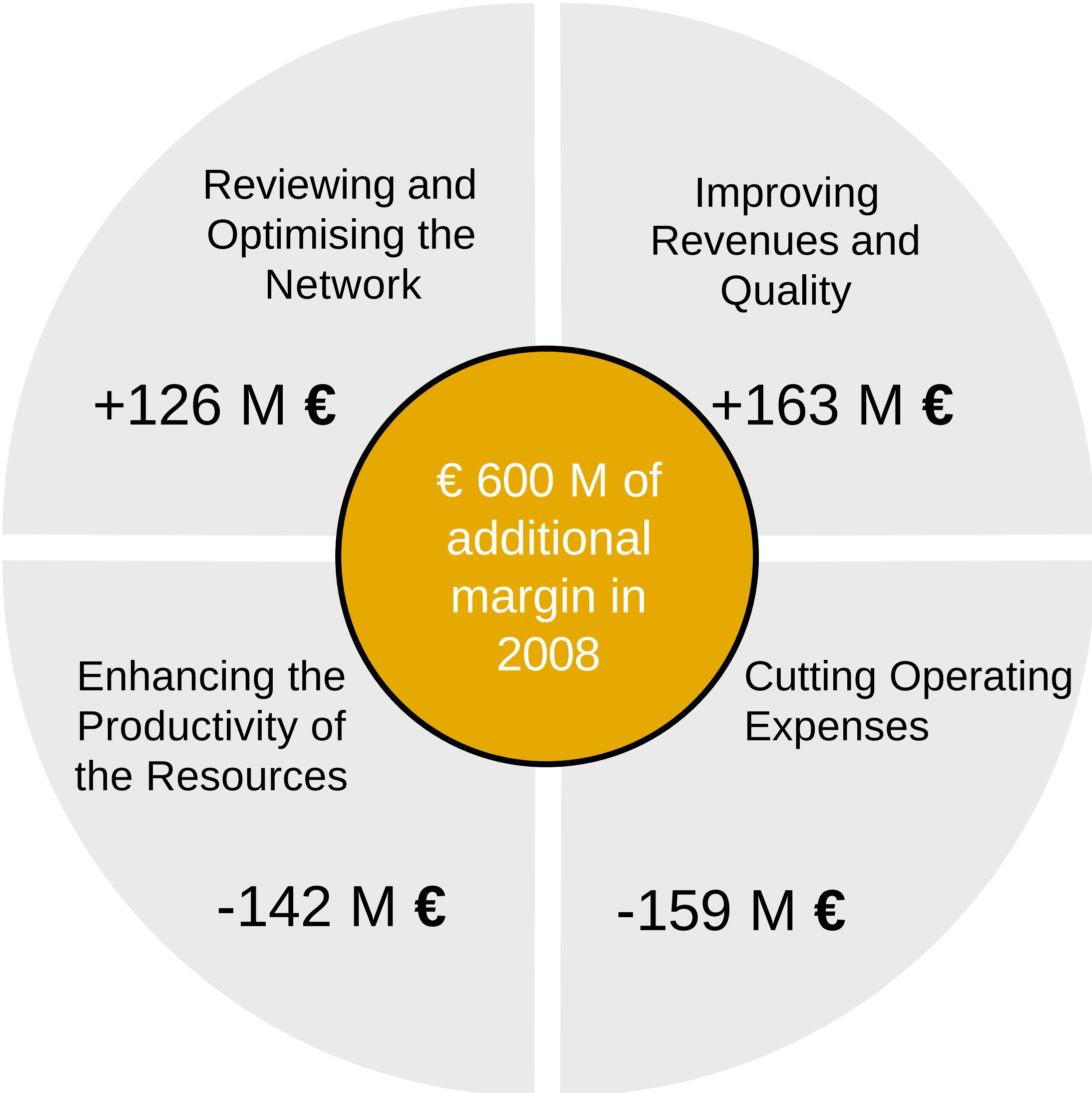
Estimated savings of € 15 M

Director Plan initiatives require additional funds of ~€ 341 M

	Additional funds required 2006-2008 (€ M)
Redundancy Plan	280 (1)
Short and medium haul fleet reconfiguration and cabin optimization	33
Implementation of new revenue management tools	11
Other initiatives	17
Total	341

(1) Provisioned in 2005

Director Plan initiatives will maintain profitability



Director Plan 2006-08 Targets

	2008 E	
	50 US$/barrel	40 US$/barrel
Ebitdar margin	=16%	=18%
ROE	~10%	~12%
Reduction of unit costs (ex fuel)	- 8%-10% nominal	

Rate 1.25 $/€