IBERIA

March 2003

Year 2002

2002 - Priorities

Quick and flexible adjustment to demand evolution

Selective approach to strategic markets

Decrease unit costs

→

Increase Operating Results

ASK

The reduction in capacity began in November 01:

- **-11.3% in 2002 versus budgeted (Director Plan)**

	2002E vs. 2001 ASK	Load Factor
Domestic	-11.5%	+1.1 p.p.
Europe	-1.6%	+ 2.1 p.p.
Intercontinental	-3.9%	+2.9 p.p.
Total	-5.2%	+2.3 p.p.

Yield + 3.4%

Number of Aircraft

- Cancellation of wet leases
- Cancellation of 2 B-767 on operating lease
- Retirement of 6 A-300
- Delay deliveries of 9 A-320 and 5 A-321

Year end 02	Vs Budget	Number of aircraft
147	173	-15%

Iberia L.A.E data

Market Share Evolution

	2002	
	Total	**pp vs 2001**
DOMESTIC	**58.7**	**-1.0**
Balearic and Canary Islands	***44.0***	***-6.1***
Rest	***66.3***	***+1.8***
SPAIN-EUROPE	**36.0**	**+1.8**
EUROPE- LATIN AMERICA	**16.5**	**+0.7**

Positive Evolution of Revenues in spite of the Capacity Reduction

Pax Revenues / ASK ↑ + 6.4 %

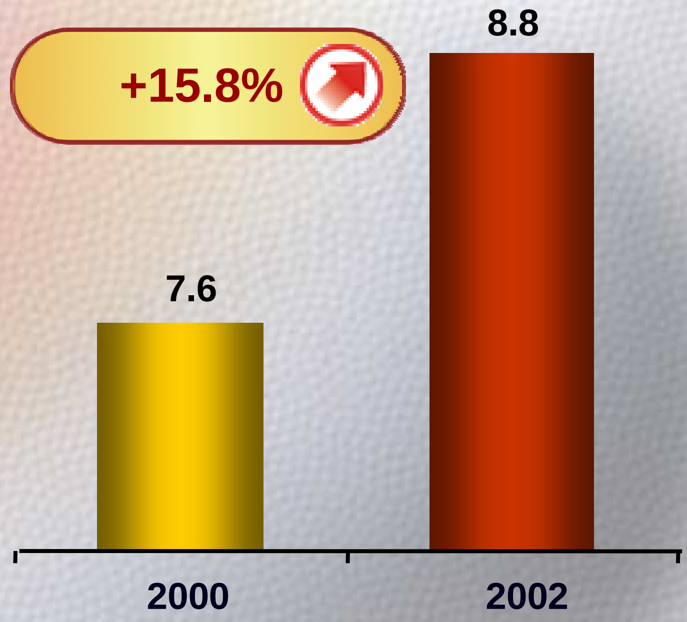
Revenues (Mill. Euros)

The New Fleet and the Improvements in Maintenance increase Fleet Productivity

Families

	1997	2000	2001	2002
Operated by Iberia	10	9	6	5
Average Age	13.1	9.1	7	7.3

Block Hours/Day



Aggressive Reduction in Operating Expenses

	2002/01
Operating Expenses	**-6.0%**
Personnel Costs	-0.5%
Commercial Costs	-9.7%
Fuel Costs	-12.8%
Aircraft Rentals+ Amortisations	-14.6%
Maintenance + Spare Parts	-12.9%
Insurance	+180.0%

Cost/ASK ↓ -0.3%

With a capacity reduction of 5.2% and inflation rate of 4%

2002 Results

Operating Revenues
-0.8%

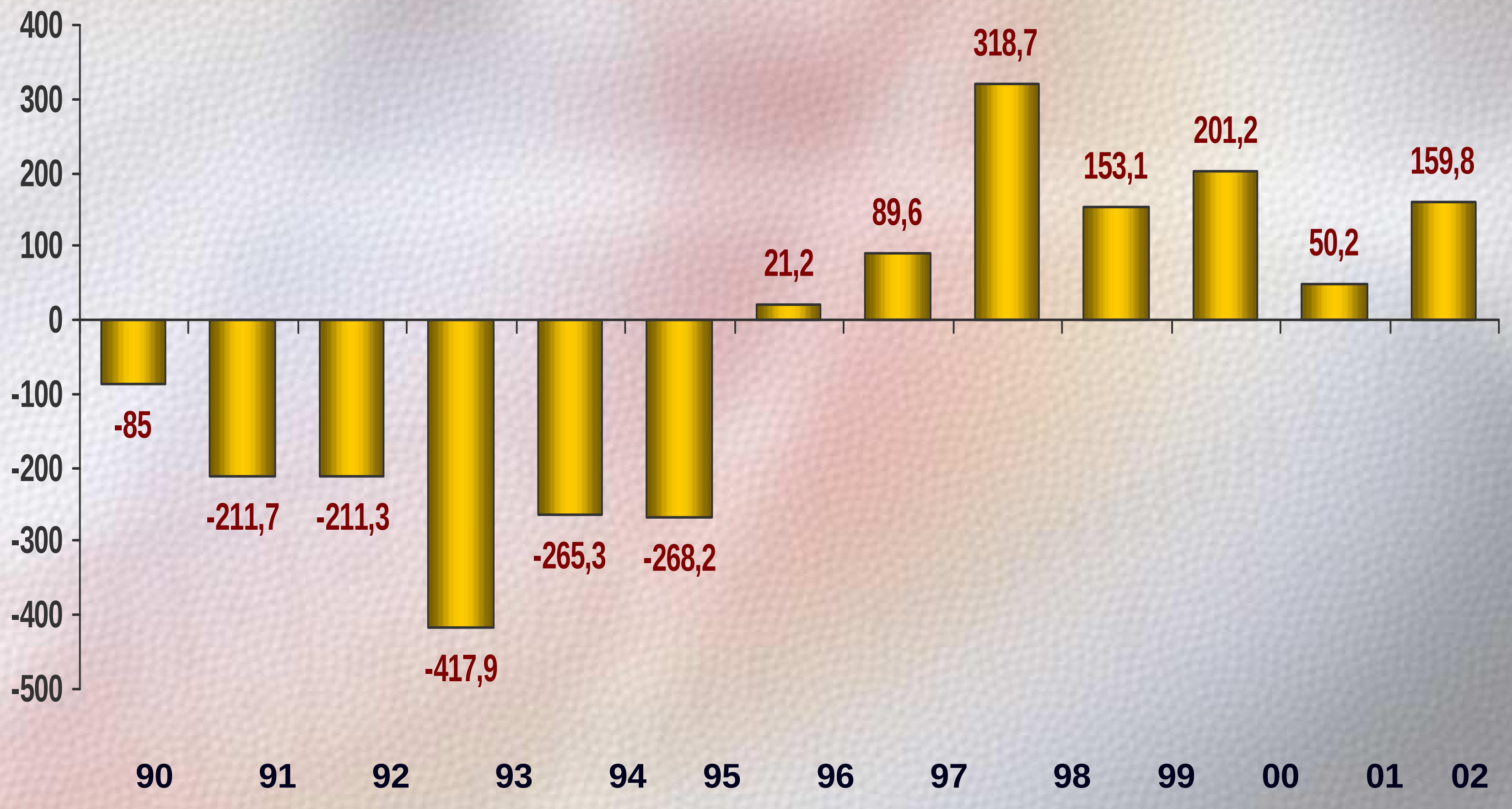
Operating Expenses
-6.0%

Important improvement in margins

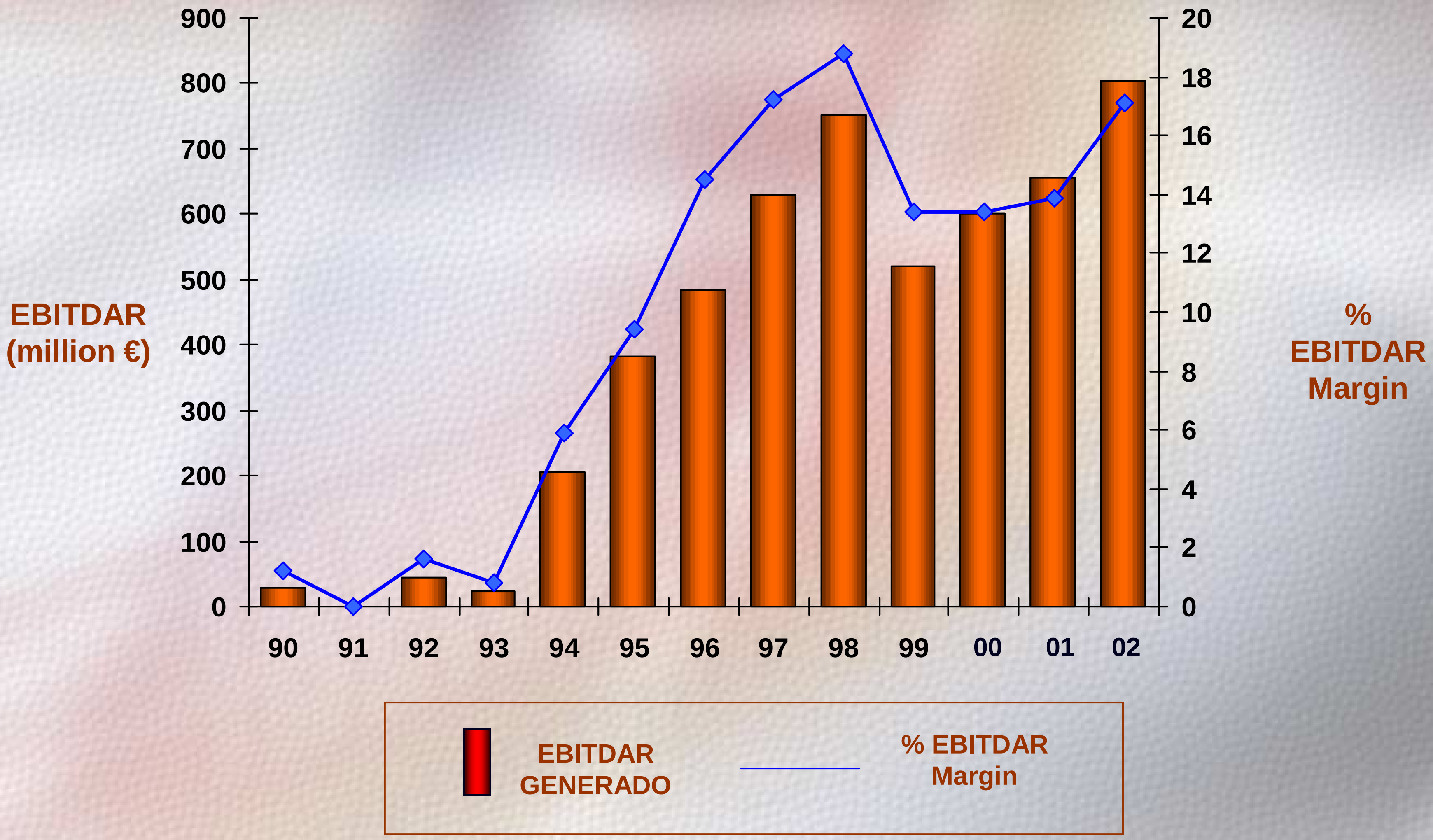
	2002	2001
EBITDAR	805	655
Ebitdar Margin	17.1%	13.8%
EBIT	249	5
Ordinary Results	241	31

Competitive Strengths

Iberia Net Results (Million €)



Profitability Evolution



Focused Strategy in Key Growing 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

Iberia's exposure to the North Atlantic(9%) and Middle East routes (1%) is one of the lowest of the major European Carriers

Europe

"Strengthening market presence"

- Feed the Europe to Latin American routes
- Increase in frequencies and direct flights rather than from new markets

Spain

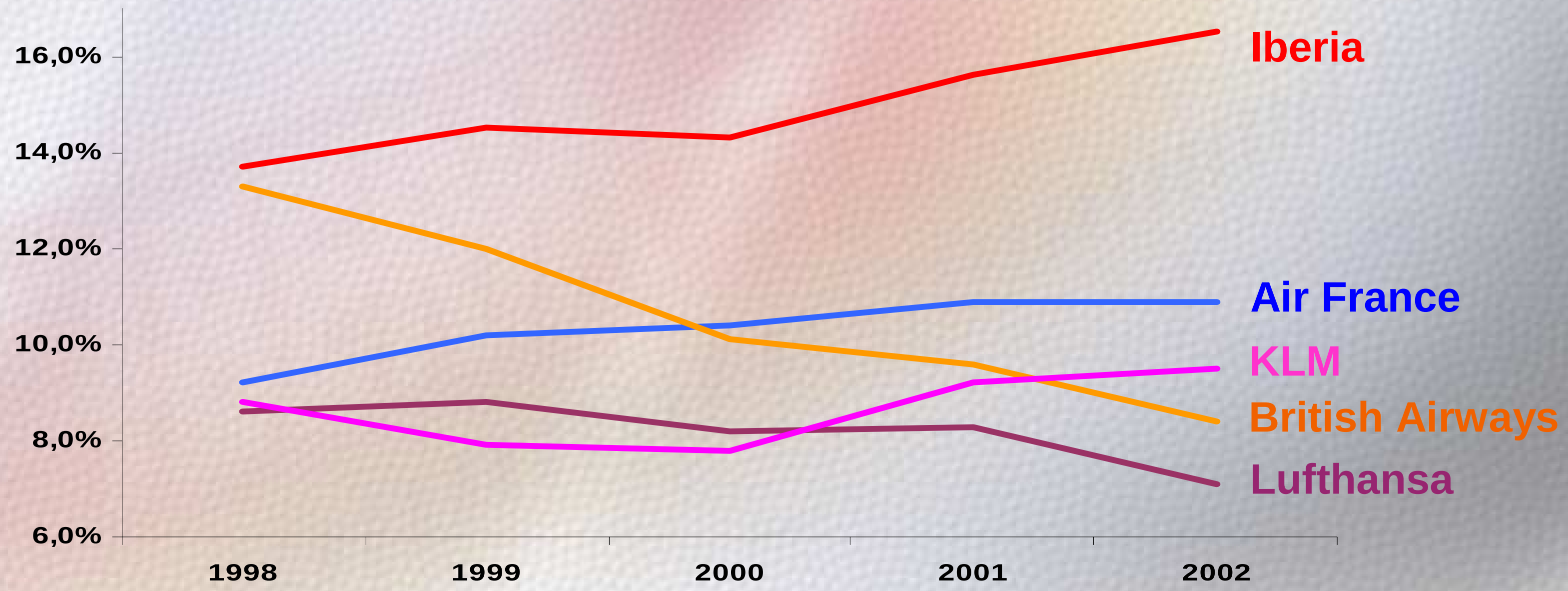
"Focusing on yield reinforcement"

- Selective increase in frequencies
- Increase in aircraft capacity
- Continue leveraging on regional flights with Air Nostrum

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



Expansion Potential in European Airports

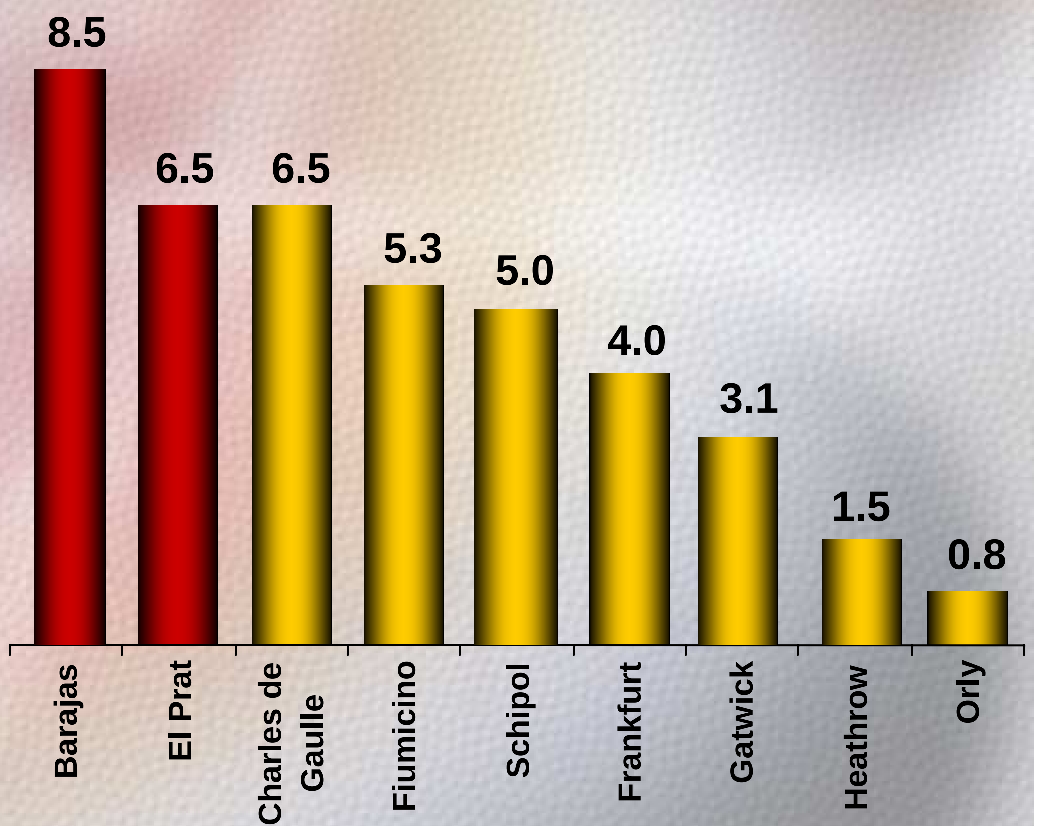
- **New runways in 2004/05**
  - 2 in Madrid
  - 1 in Barcelona
- **New terminals**
  - Madrid in 2004
  - Barcelona in 2005
- **Air Traffic Control investments**

Capacity growth 2004-2006

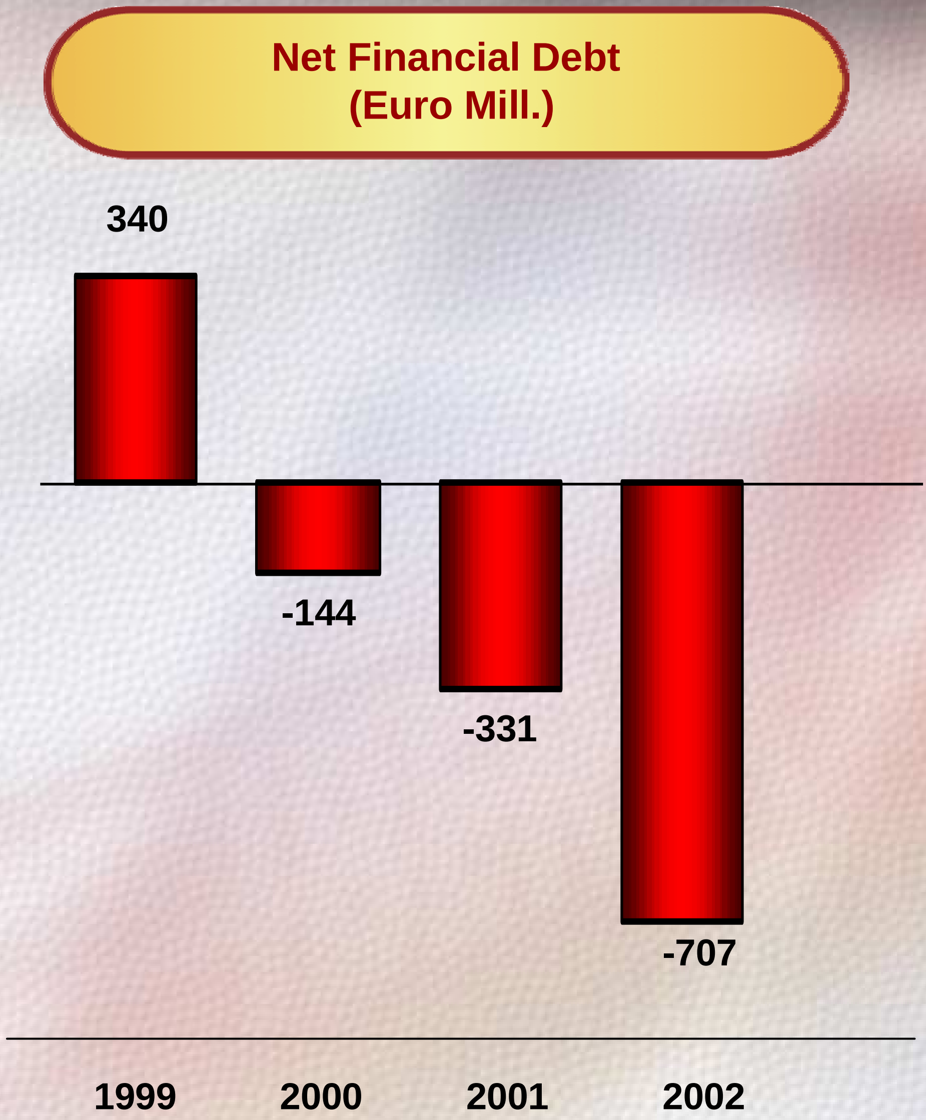
Madrid
Barcelona

30-40%

Passengers growth CAGR 99-04 (%)

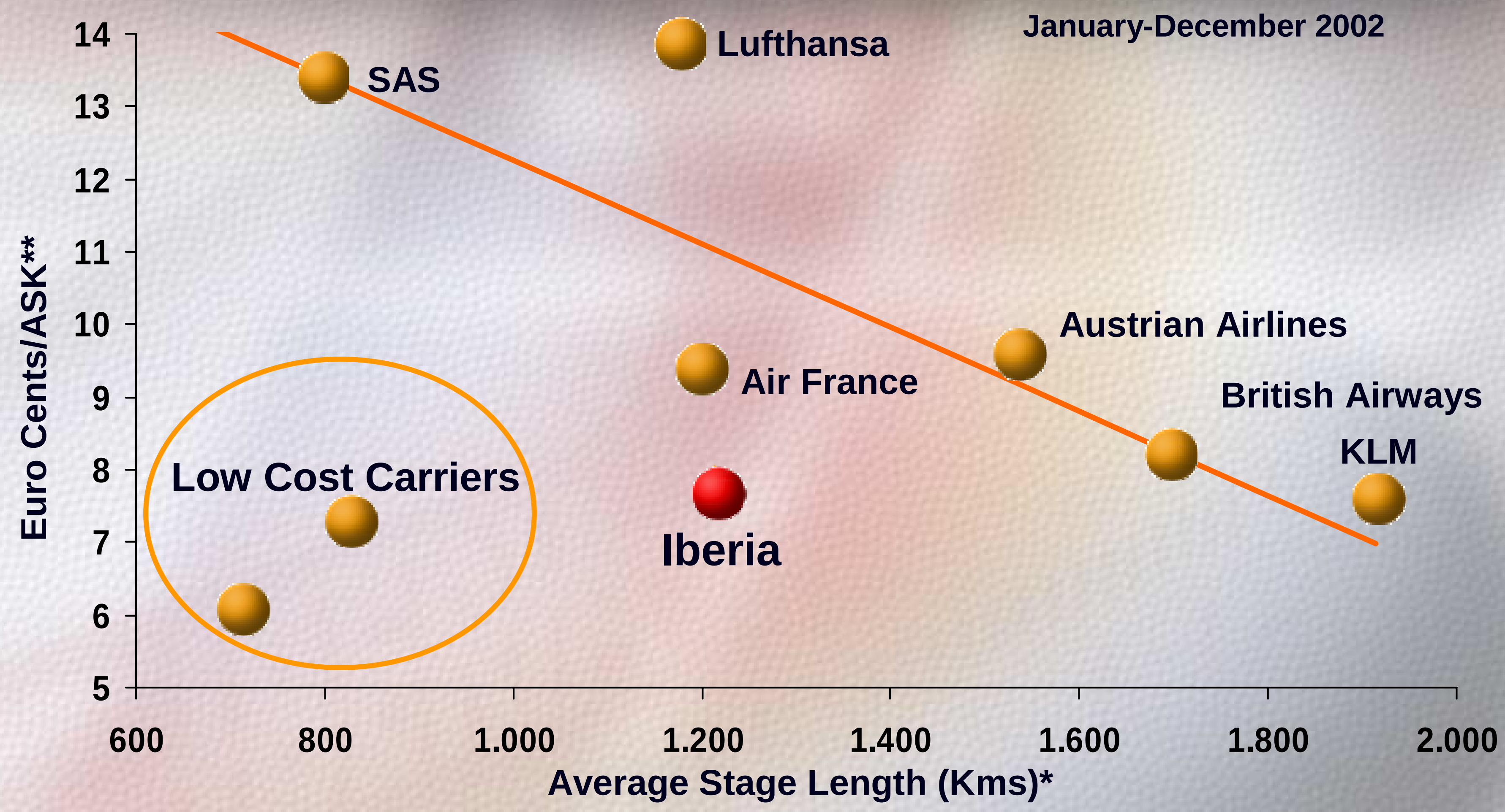


Strong Balance Sheet



Strong Cash Position
December 2002
1.209 MM/ Euro

Unit Costs Significantly below the Average



Date for period January - December 2002, except Ryanair and Easyjet fiscal year 2002.

* Source: AEA

**Operating costs less 33% of Operating Leases

Labour Agreements Already Signed

	Term	Expiry Date
Ground Personnel	4 years	31/12/04
Pilots	4 years	31/12/04
Flight Attendants	4 years	31/12/04
Flight Engineers	4 years	31/12/04

2002 - 2004
Actual CPI

Additional payments linked to results and profitability

Results of the arbitration ruling

- Pay increase linked to results
- New productivity measures
- Commission for interpretation resolution

2003-2005: 3 Year Vision

IBERIA

Challenges and Opportunities for Iberia in 2003-2005

Expansion potencial at Madrid and Barcelona airports (2004-2005)

Good positioning in costs compared to other network carriers and potential to improve them

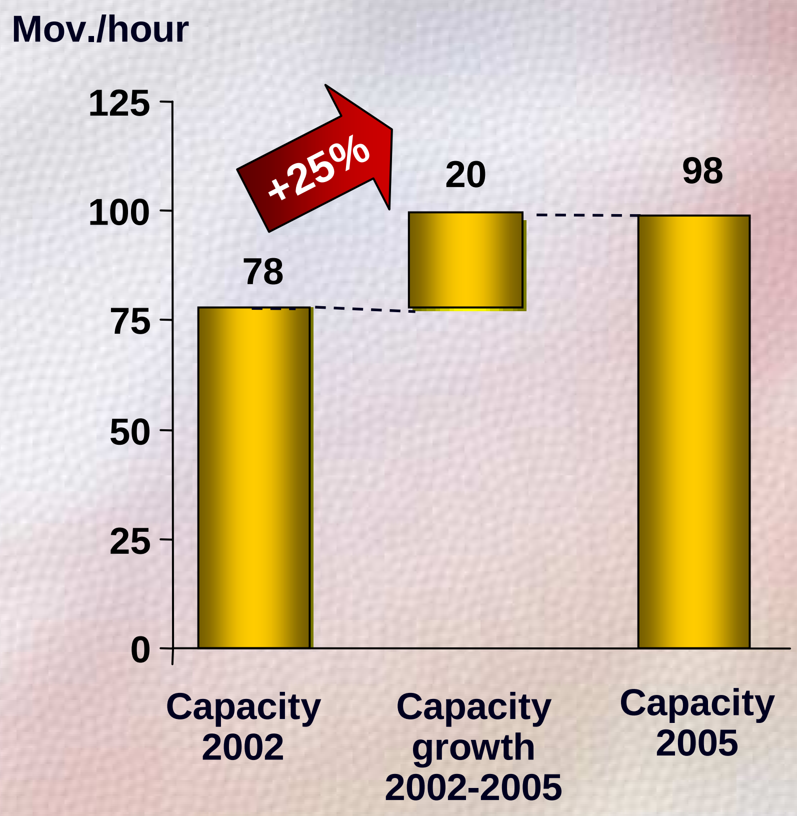
Competitive environment for Iberia 2003-2005

Leadership in Latin America will allow to take advantage of the growth potential in this region

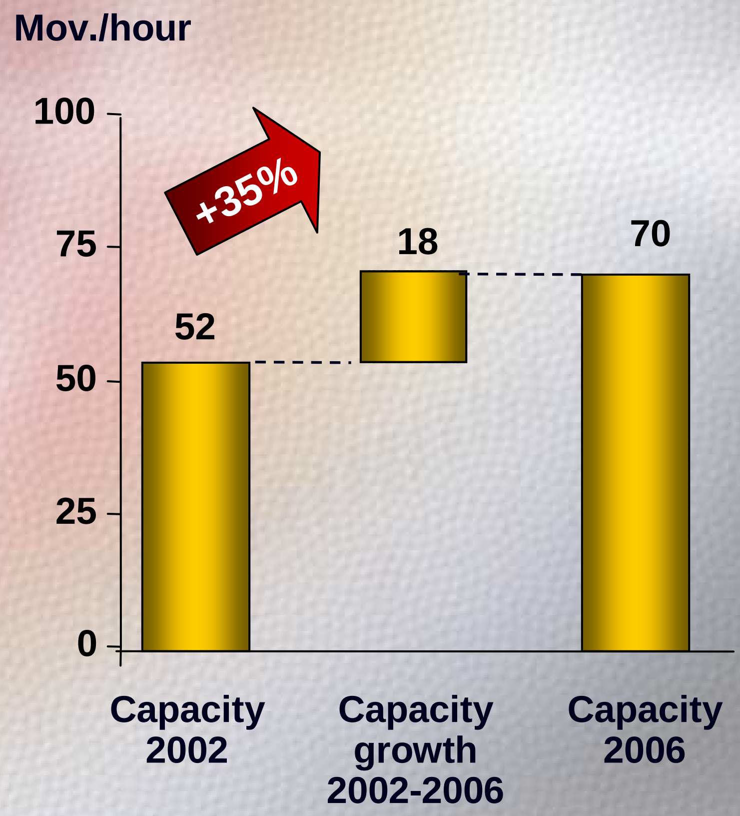
High speed train (AVE) coming into operation at the end of 2004

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

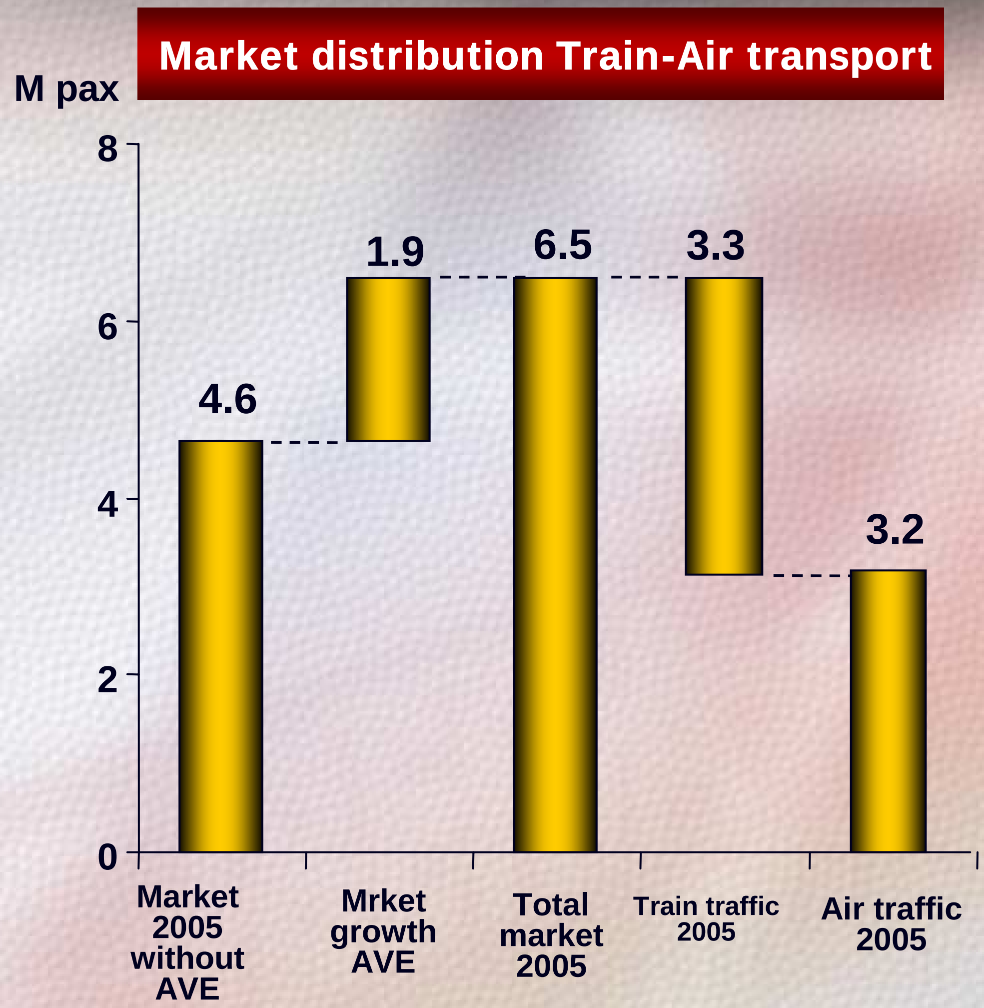
Madrid expansion in 2005



Barcelona expansion in 2006



AVE (high speed train) Madrid-Barcelona 2005

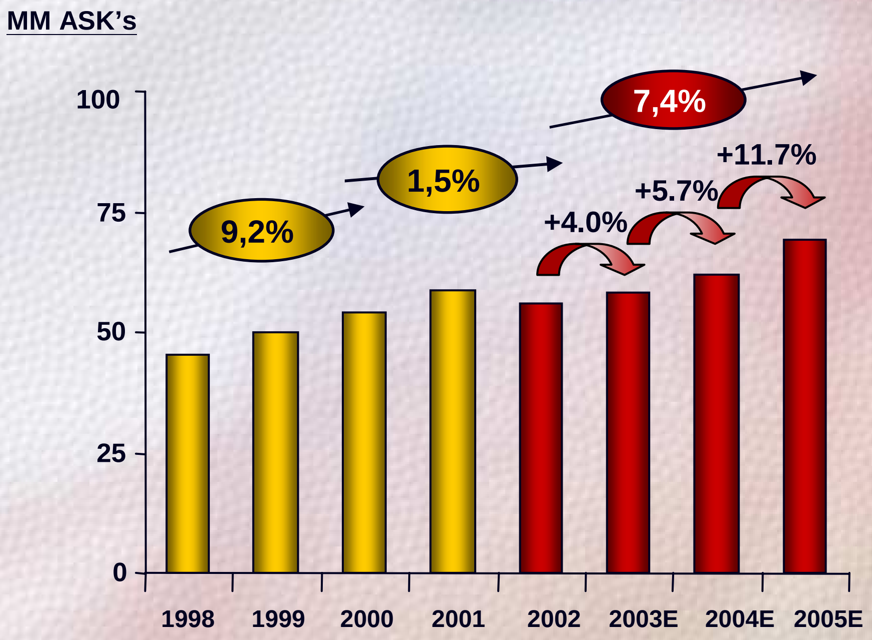


Iberia will carry around 2 million passengers, a similar level as in 1997/98

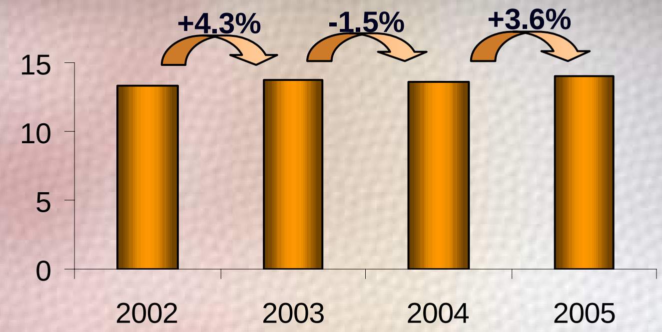
Iberia will redeploy resources from the air shuttle to other routes

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

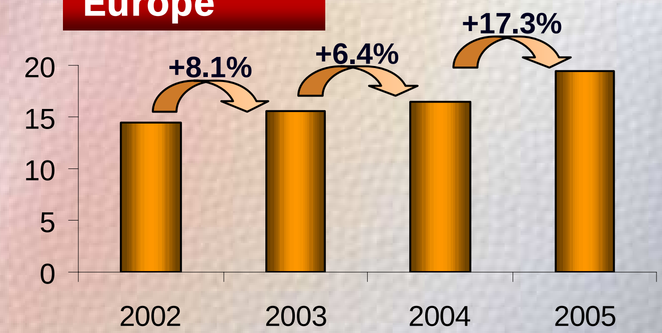
Capacity



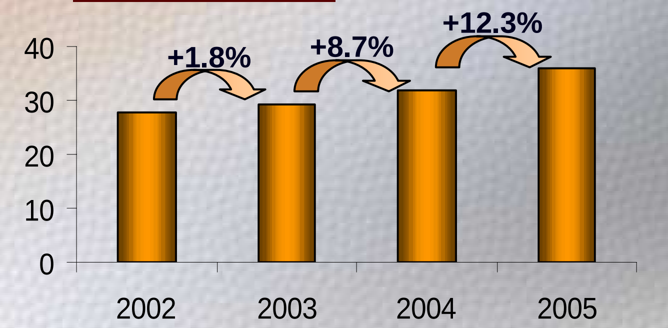
Domestic



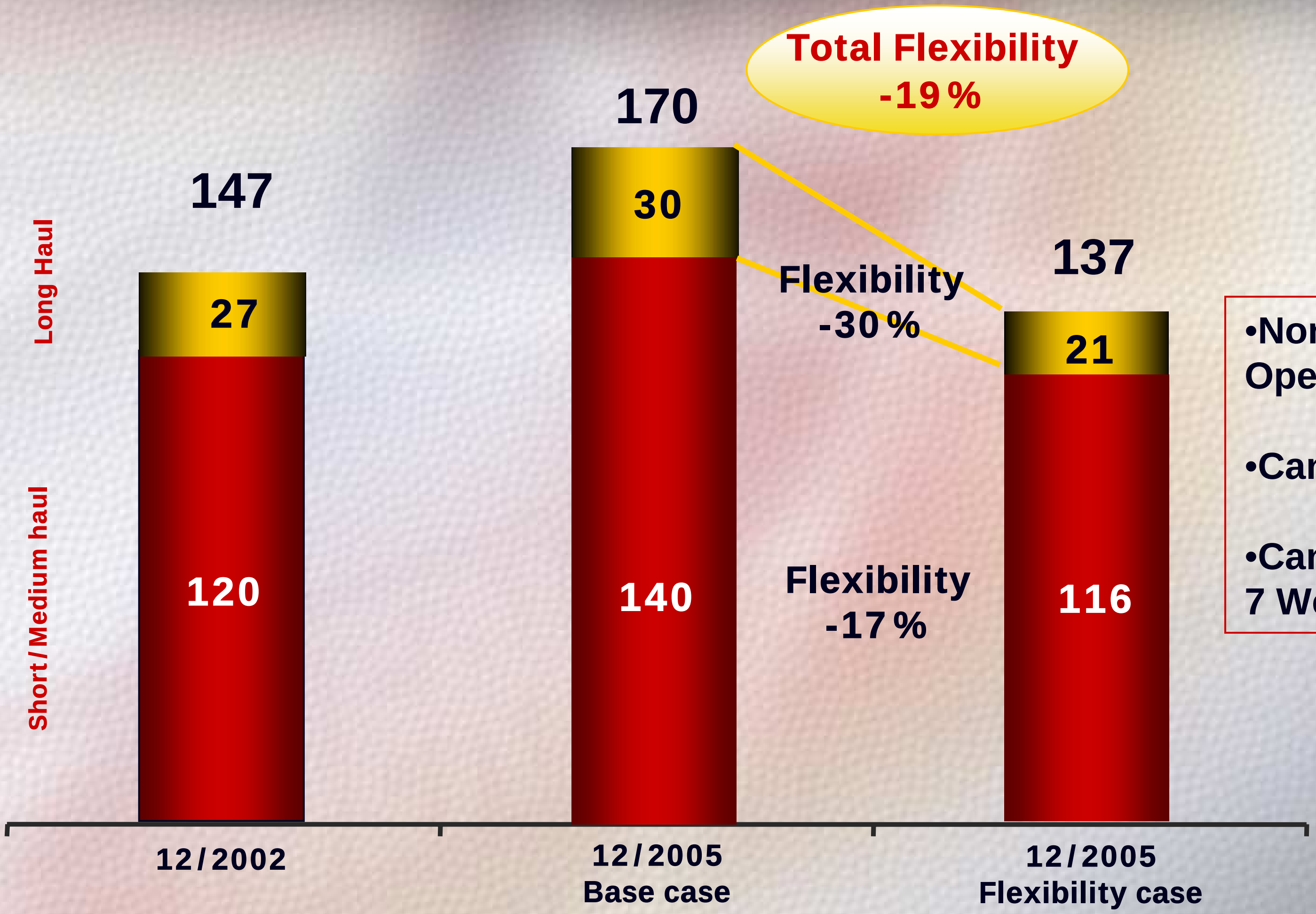
Europe



Long Haul



Although Incorporating a High Level of Flexibility



- Non renewal of 17 Operating Leases
- Cancel 9 options
- Cancel new hiring of 7 Wet Leases

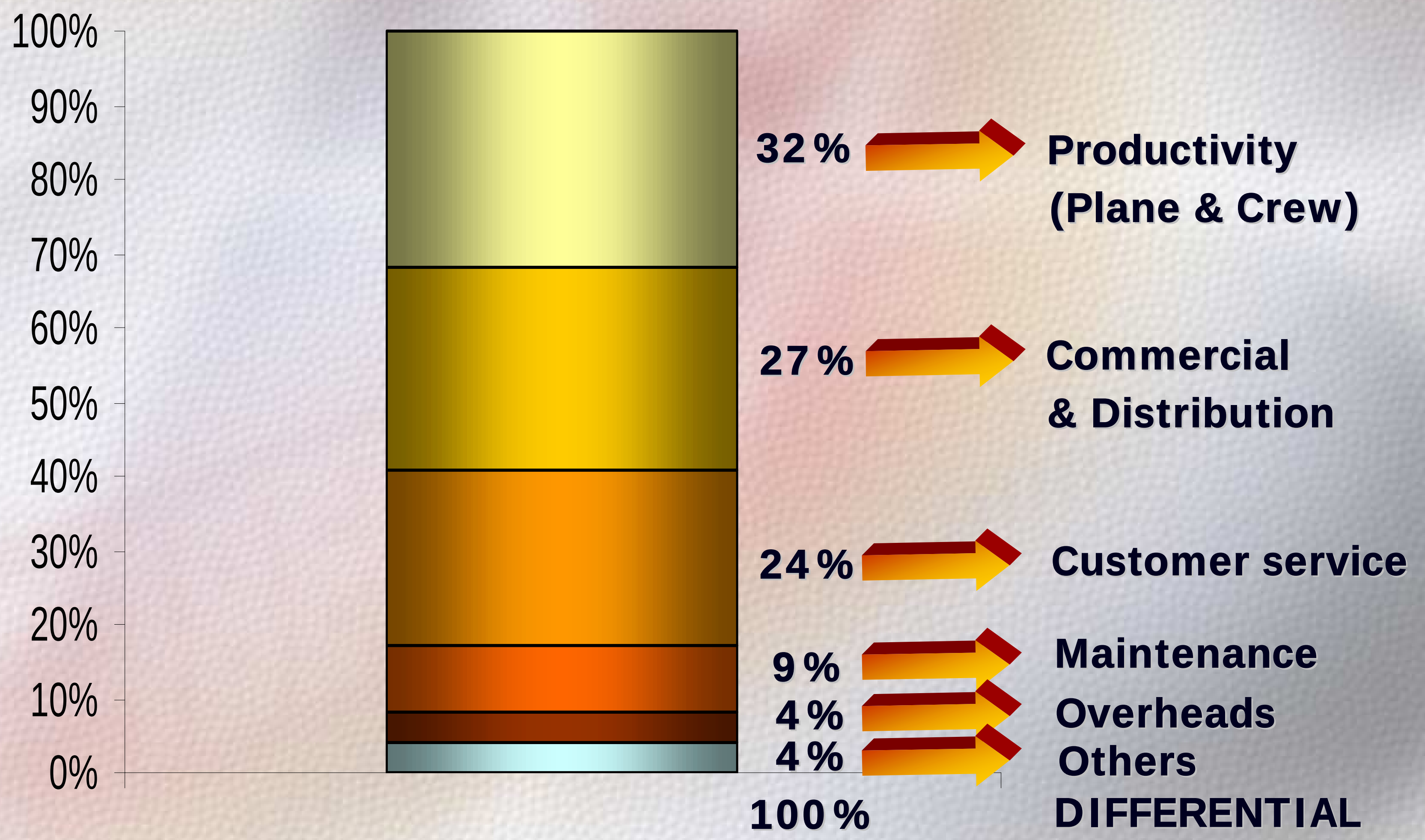
Iberia will improve efficiency

Strong unit costs reduction

- Increase short and medium haul aircraft utilisation
- Productivity improvements and reduction of personnel unit costs
- Reduction in commercial costs
- New model of on board service
- Other costs reduction

Cost Differential Iberia-Low Cost Carriers

Areas Identified → **Action plan under way** → **Gap narrowing**



The new air transport business model needs to be built on three main lines

Domestic / Europe

Defend point-to-point traffic
- Be competitive in costs (transferring the advantage to prices)
- Wide range of destinations and frequencies

Domestic / Europe / Long Haul

Retain business revenues

- Minimise business capacity reductions
- Maintain service and price differential

Europe / Long Haul

Continue to efficiently provide connecting traffic to long haul routes
- Ensure connectivity of Madrid and Barcelona

The limits set by the current model require changes in:

- Mix
- In-flight service
- Destinations
- Schedule
- Density

- All areas involved: From planning to execution
- Fleet and crew programming
- Redesign of ground activities (handling, maintenance…)
- New decision rules (normal and extraordinary situations)
- Follow up system

Achieve important improvements in punctuality

New Business Model → Independent Legal Units Integrated in Holding

- **Advantages:**
  - Measures the profitability of each different business
  - Flexibility, faster decision-making process and specialisation

Objective → Maximise value creation in each of the businesses

- Maintain profitable businesses
- Keep the strategic businesses at a minimun cost
- Ensure competitive costs for the airline
- Bring in new partners to enhance value

3 Year Vision: Strategic Priorities

- **Maintain our leadership position in the Europe-Latin America market**
  - Developing the business class and maintaining connecting traffic
- **Develop competitive service and prices in Domestic and European point-to-point routes**
  - Redefining the service model to maintain a profitable position in these markets in 2005-2007
- **Manage the portfolio of airline related businesses efficiently**

Consolidate the leadership in profitability among the European airlines

- Maintain a competitive cost base even with Low Cost Carriers
- Create value for shareholders
- Capacity to deliver in changing environment

Targets 2005

Unit Cost	⇩ 2005/02 -8% / -10%
EBITDAR margin	2002 >17% 2005 >19%
ROE	2002 >12% 2005 >15%

Priorities 2003

- Client service and punctuality
- Adjust capacity to market conditions
- Consolidate market shares
- Maintain unit revenues
- Increase productivity
- Reduce unit costs in real terms
- Maintain profitability

Traffic Statistics January 2003

	ASK	RPK	L.F.
Domestic	0.4%	3.5%	1.9p.p.
Europe	8.4%	1.5%	-3.4p.p.
Long Haul	-4.7%	8.6%	9.9p.p.
Total	- 0.3%	6.0%	4.1p.p.

Iberia L.A.E Data