



**Initial Public Offering
Roadshow Presentation**

March 2001

VIDEO

Merrill Lynch
Claudio Aguirre



IBERIA 

Terms of the Offering



Company	<ul style="list-style-type: none">● Iberia Líneas Aéreas de España, S.A.
Selling Shareholder	<ul style="list-style-type: none">● Sociedad Estatal de Participaciones Industriales
Offer	<ul style="list-style-type: none">● Initial Public Offer of 442,912,736 existing shares, 48.51% of the share capital● Greenshoe: 10% of the final offer size
Listing	<ul style="list-style-type: none">● Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and the Automated Quotation System of the Spanish Stock Exchanges
Preliminary Size of Tranches	<ul style="list-style-type: none">● Retail: 55%● Spanish Institutional: 20%● International: 25%
Indicative Price Range	<ul style="list-style-type: none">● €1.71 - €2.14
Lock-up	<ul style="list-style-type: none">● 6 months
Global Coordinators	<ul style="list-style-type: none">● Santander Central Hispano Investment● Merrill Lynch

Offering Timetable



**Roadshow and
Bookbuilding**

● **March 19th-30th**

Retail Offering

● **March 28th-30th**

**Pricing and
Allocation**

● **April 1st**

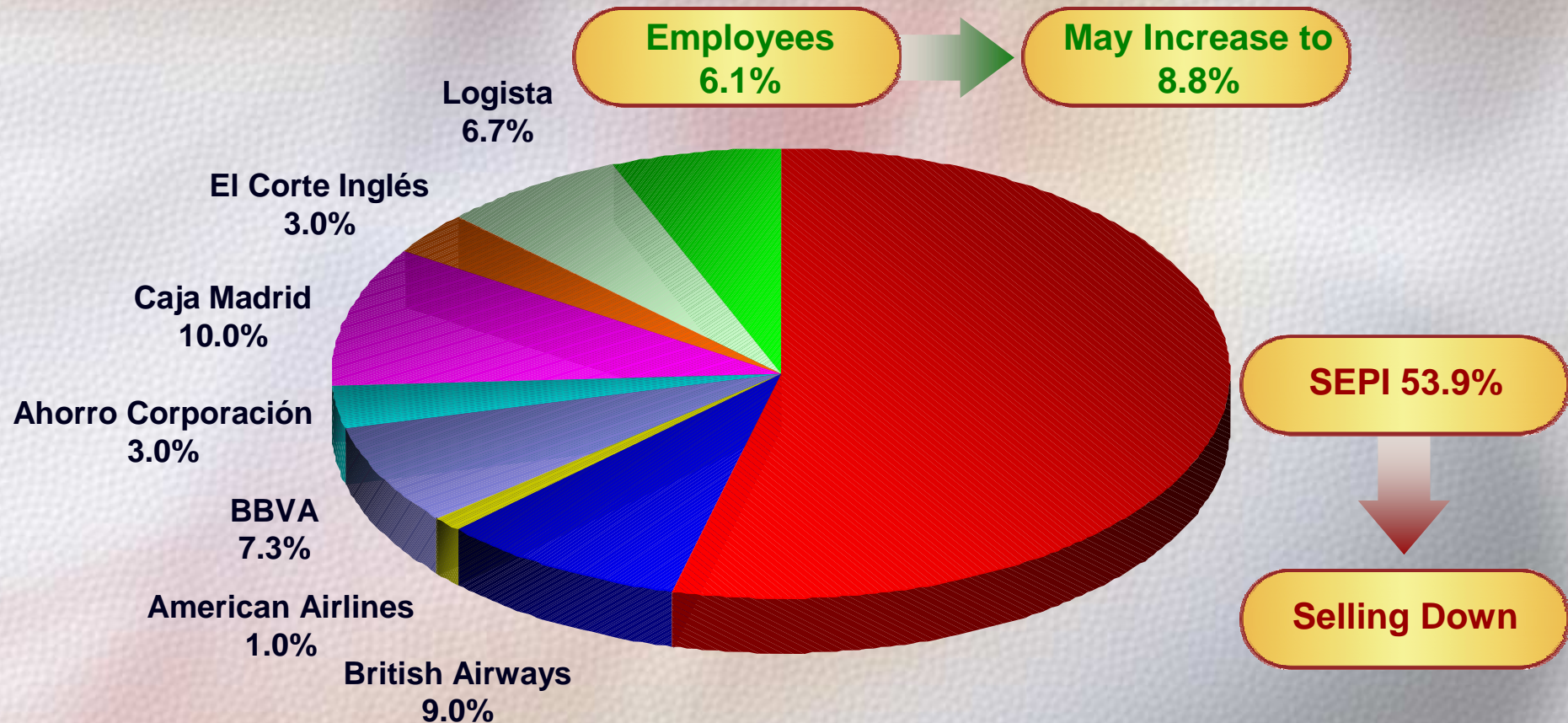
Trading

● **April 3rd**

Settlement

● **April 5th**

Shareholding Structure



Iberia Today
Xabier de Irala, Chairman & CEO



IBERIA 



- **Iberia Today**
- **Competitive Strengths**
- **Key Financials**
- **Strategy for Value Creation 2000-2003**
- **Investment Highlights**

Where We Stand Today



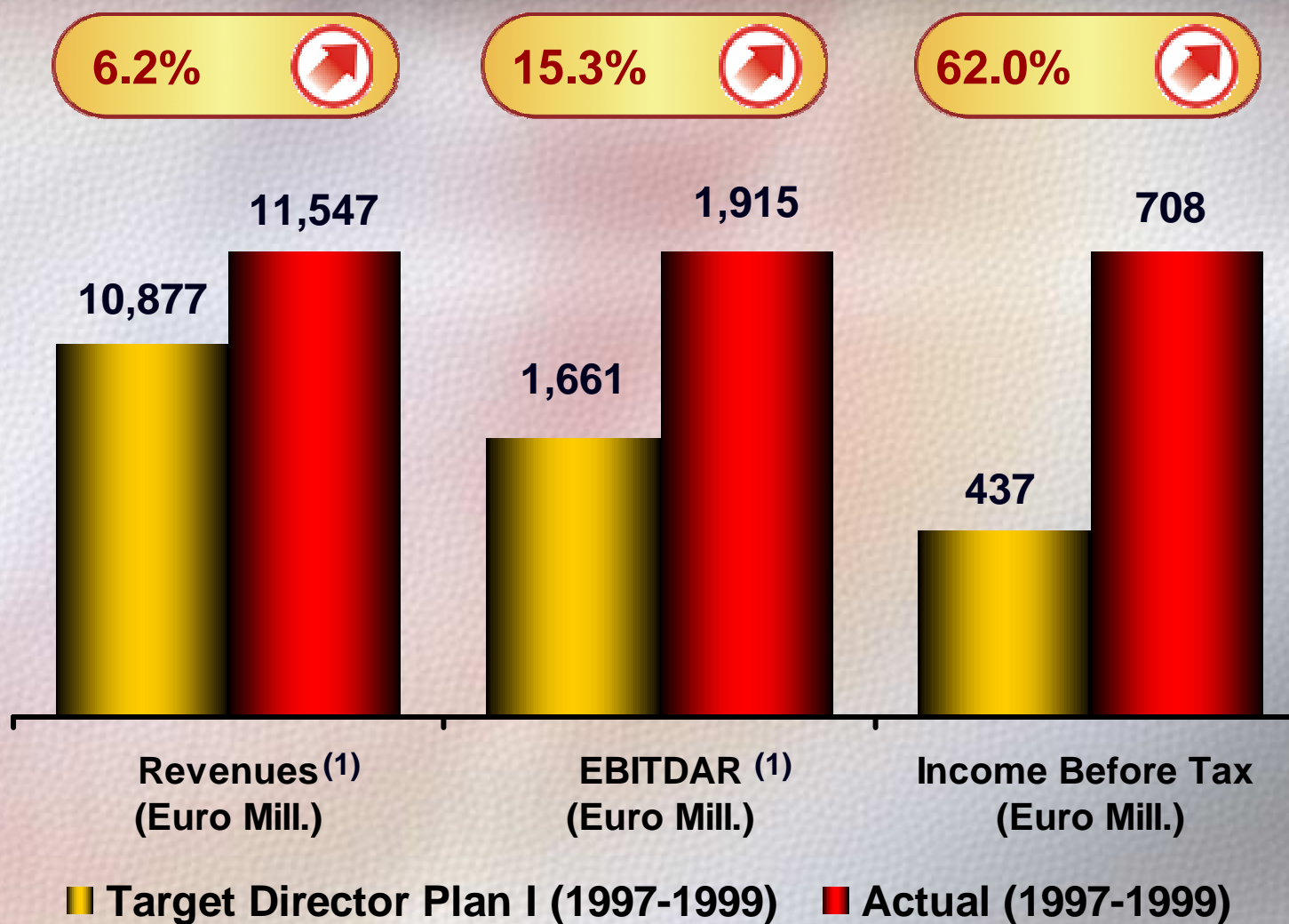
- One of the largest European airlines by traffic volume
- Total revenues of Euro 4,487 Mill. in year 2000
- Leader in terms of passenger traffic between Europe and Latin America and in Europe's second largest domestic market
- ROE of 17.2% and EBITDAR margin of 13.3% in 2000
- Euro 6,250 Mill. fleet renewal programme under way
- Membership in global alliance and code sharing relationships
- Extremely valuable potential capital gains of stake in Amadeus

The Transformation Process of Iberia



	1994	Restructuring	1997	Consolidation	1999
	Viability Plan			Director Plan I	
Financial	<ul style="list-style-type: none"> Returned to profitability Financing stabilised Capital structure reinforced 			<ul style="list-style-type: none"> Result-oriented culture Closing of Viasa, sale of Ladeco divestiture of Aerolíneas Argentinas and closing of Viva Air as an airline company Cost optimisation 	
Business	<ul style="list-style-type: none"> Re-positioned as “Spanish flag carrier” (sale of non-core Latin American operations) 			<ul style="list-style-type: none"> Integration of Aviaco in Iberia Improved product quality and customer loyalty Joined oneworld alliance Rationalised network and commercial objectives 	
Labour	<ul style="list-style-type: none"> Personnel reduced by 4,060 employees Salary freeze and reduction 			<ul style="list-style-type: none"> Salary and stability agreements with unions Employee motivation 	

Management Team with a Proven Track Record in Meeting and Exceeding Targets

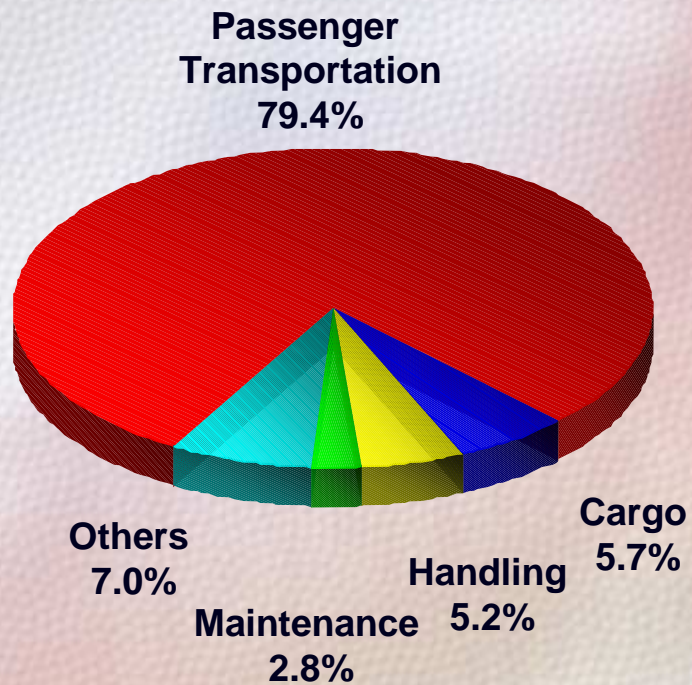


(1) Accumulated figures (1997-1999)

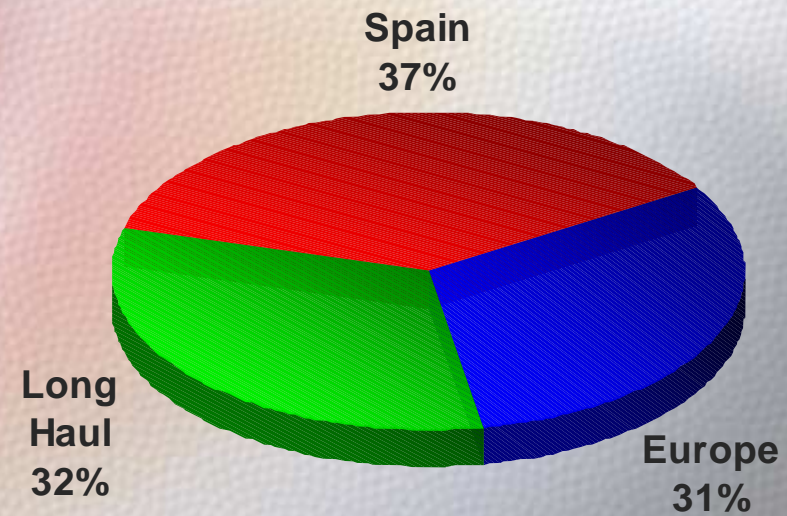
Iberia - A Focus on Passenger Transportation in Three Strategic Markets



Contribution to Revenues by Activity 2000



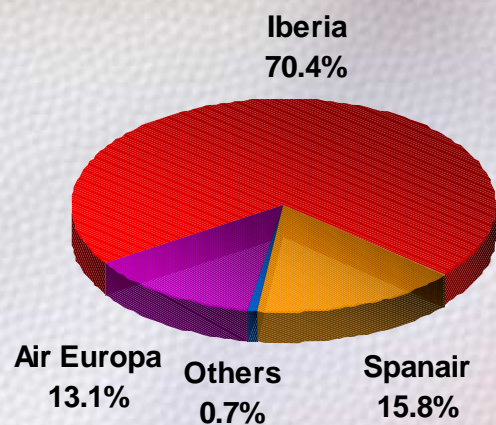
Contribution to Revenues by Region 2000



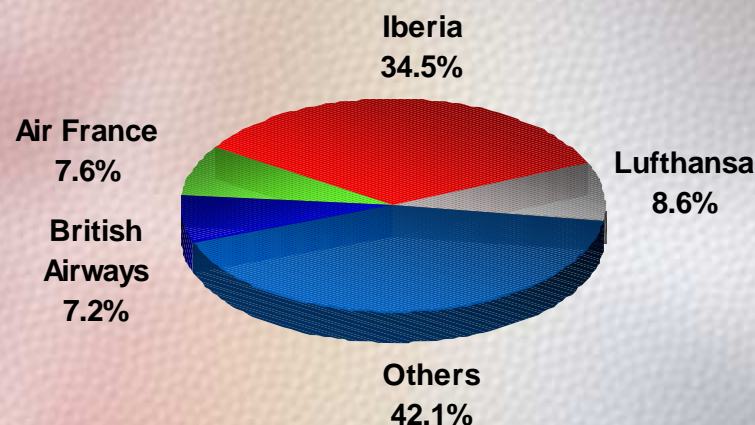
Leader in Each Primary Market Market Share (2000)



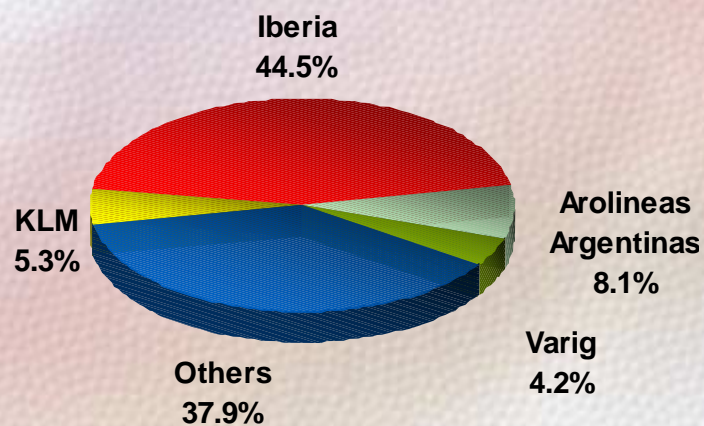
Spain



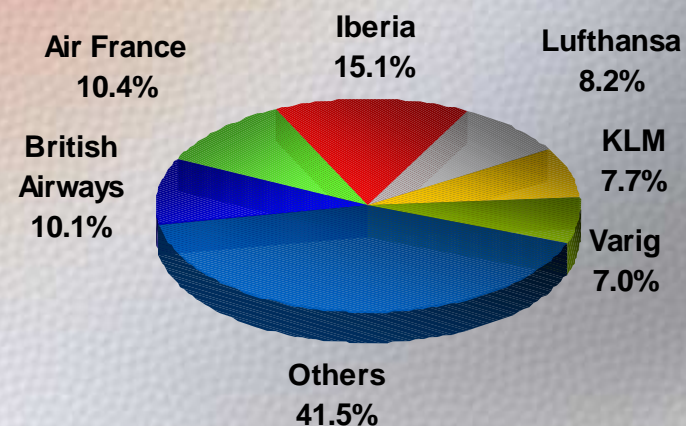
Spain - Europe



Spain - Latin America



Europe - Latin America

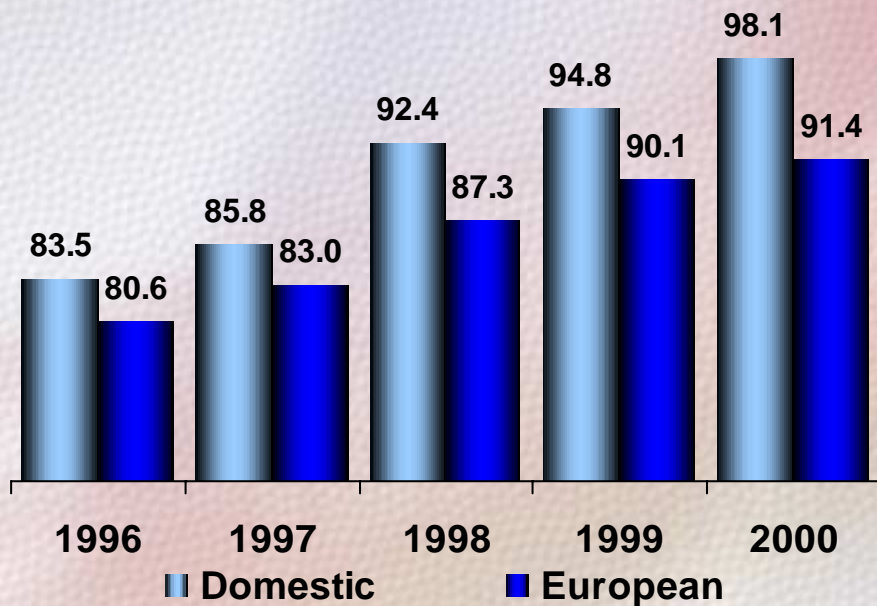


Efficient Network with Growing Connectivity

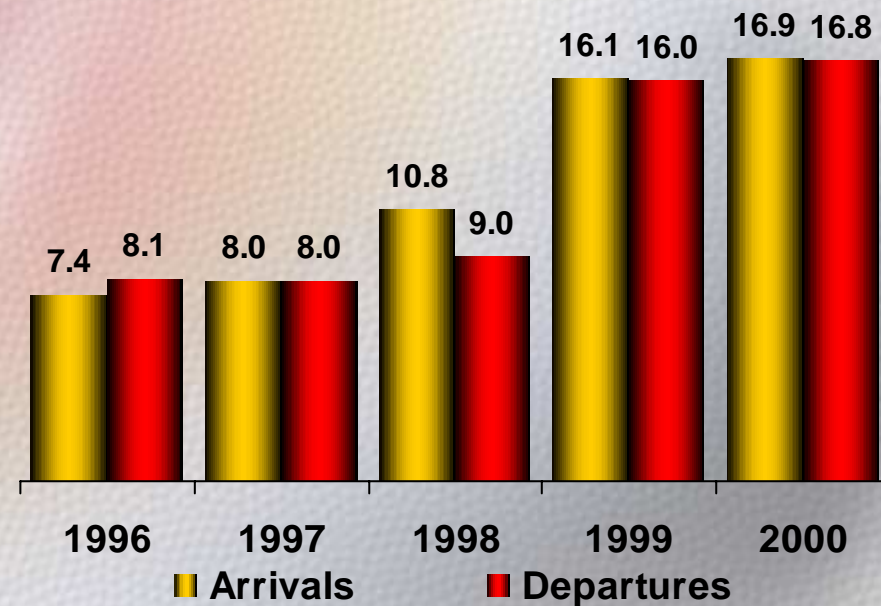


- Over 100 destinations and 464 average daily frequencies
- Madrid is the 4th largest European point-to-point city in terms of passengers

% of Iberia flights from/to MAD or BNA



**Average number of connecting flights
+/- 90 min.**



Competitive Strengths
Xabier de Irala, Chairman & CEO



Dominant Position in Europe's 2nd Largest and High Growth Domestic Market



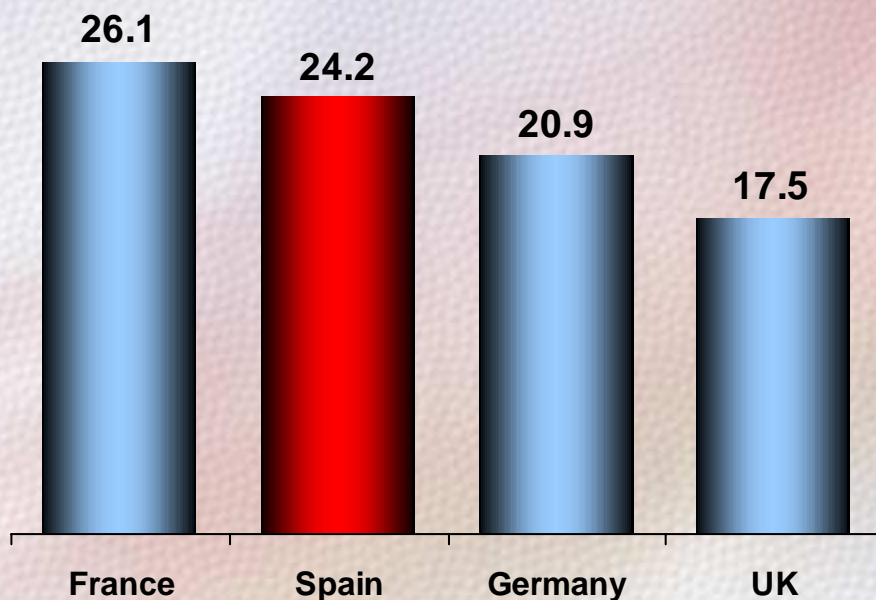
Large, High-Growth Market

- **High domestic traffic growth**
 - Scheduled passenger CAGR (95-00) of 8.4%
 - 13.2% total growth in 2000

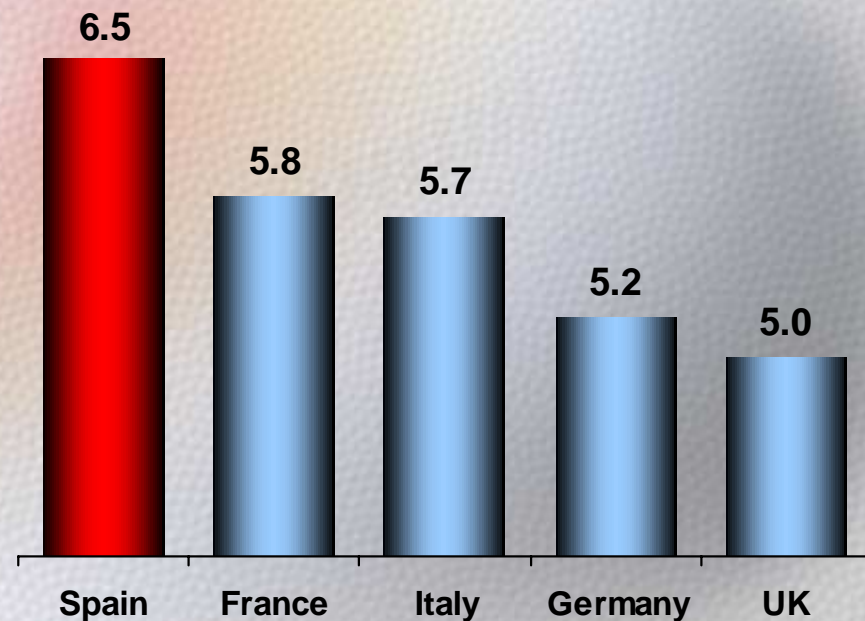
Strong International Traffic

- **#3 worldwide in number of international tourist arrivals (48.5 Mill. in 2000)**
 - 16.2% CAGR (95-00)
- **#1 in Europe in international traffic growth**

Domestic Sched. Pax in 1999 (mill.)



International Sched. Pax. CAGR 00-04 (%)

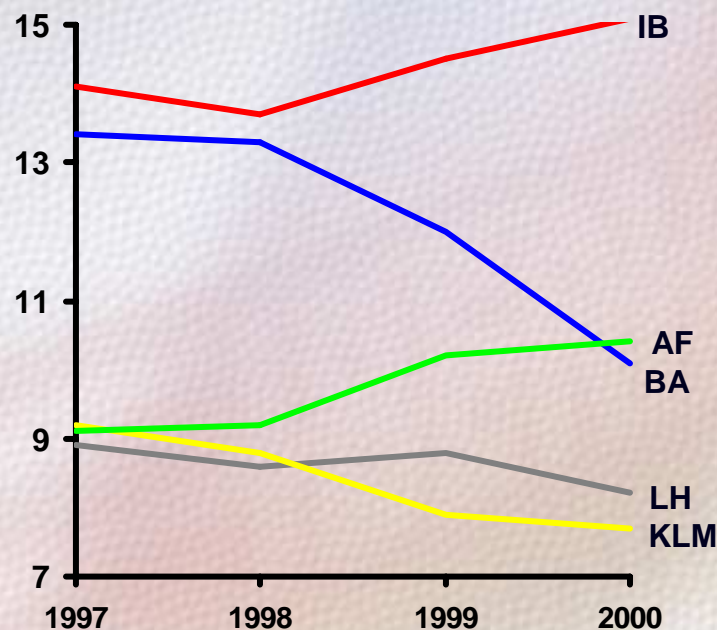


Sustainable and Increasing Leadership in Latin America



- Latin America represents the most important region for Spanish foreign direct investment
- Iberia offers a clear superior product in terms of destinations and direct-flights

Market Share (%)



	Iberia	BA	KLM	AF	LH
Number of destinations in Latin America	21	18	11	12	9
Number of destinations in Latin America with daily flights	14	4	7	6	5
Average daily Frequencies	21	11	9	10	7
% non-stop flights (ex-hub MIA)	96	70	76	90	88

Significant Expansion Potential at Madrid and Barcelona Airports



Passenger Growth CAGR 99-04 (%)

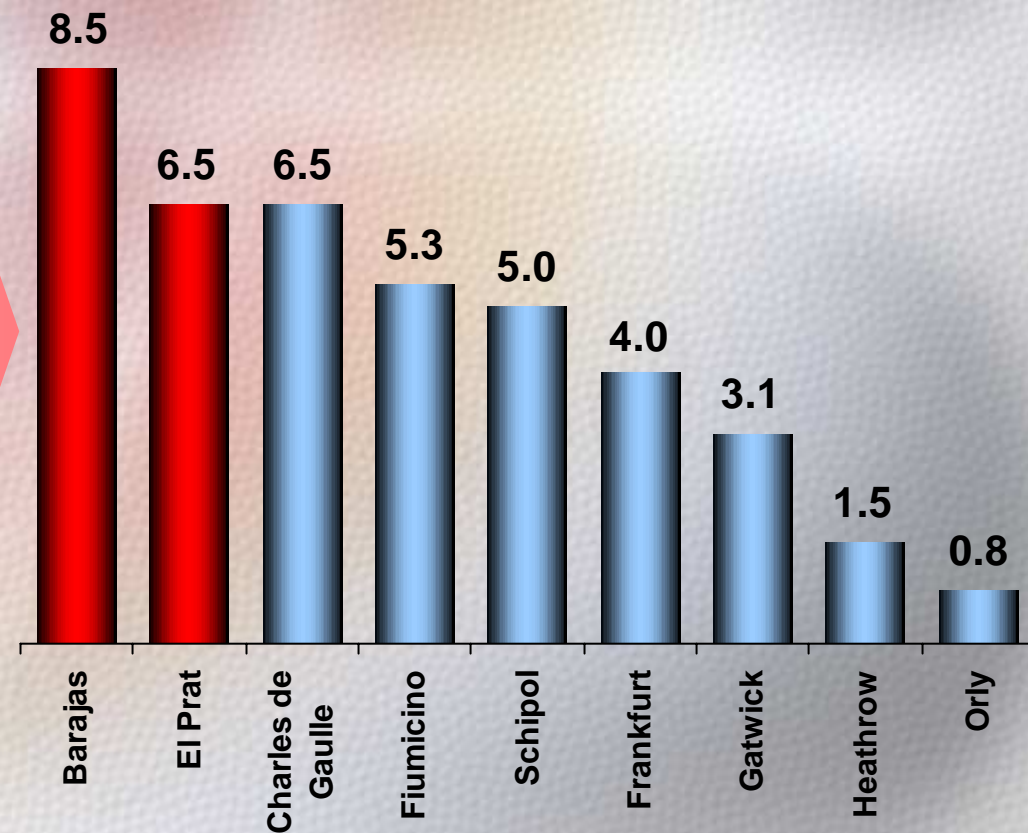
● New runways by 2004

- 2 in Barajas (Madrid)
- 1 in El Prat (Barcelona)

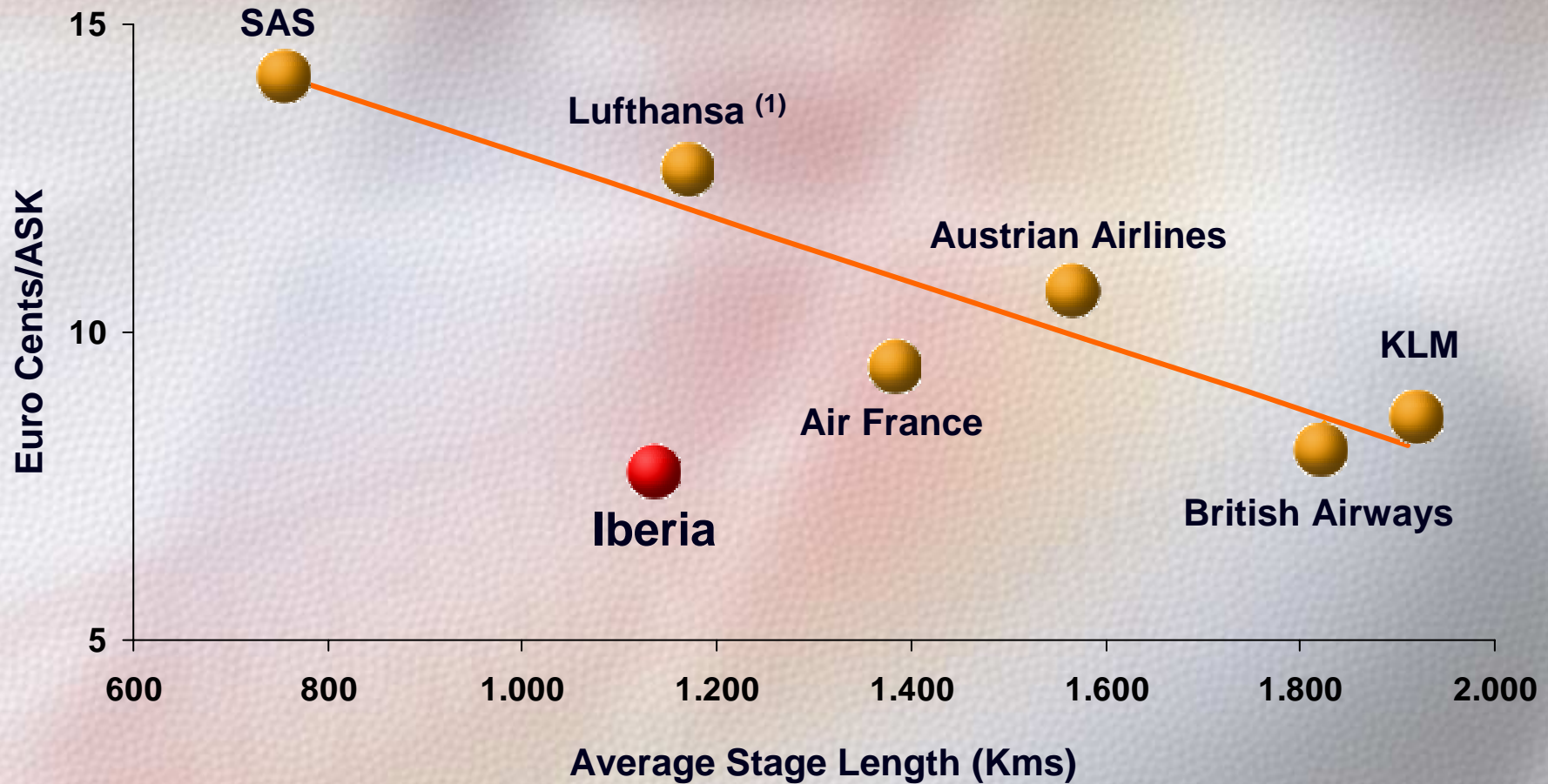
● New terminals

- Barajas by 2004
- El Prat by 2005

● Air traffic control investments



Unit Costs Significantly Below Industry Average



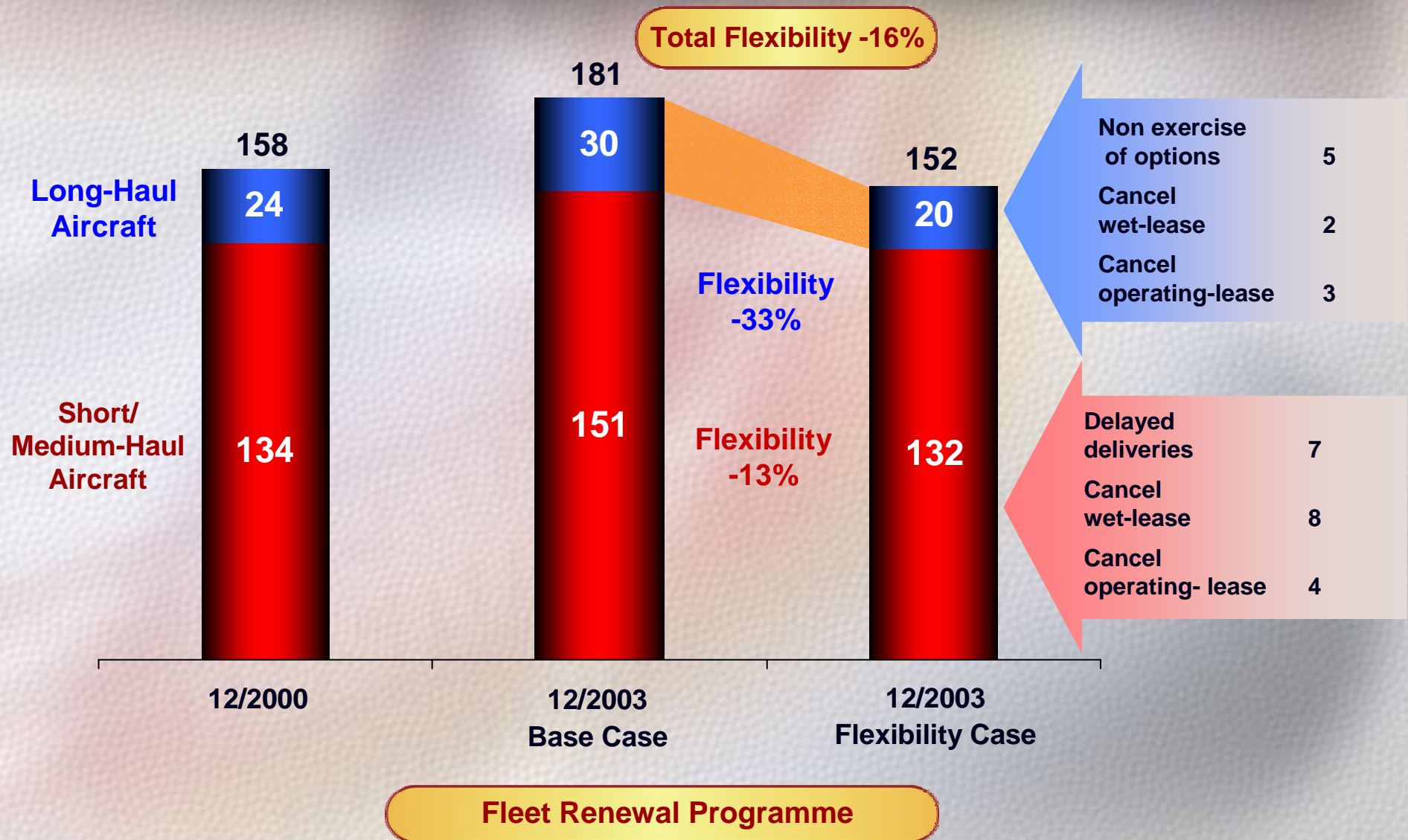
Source: Merrill Lynch research, Iberia

◆ Data for period Sept.99-Sept.00

◆ Fiscal year 2000

(1) Lufthansa Group

Flexibility to Adapt Capacity to Market Conditions



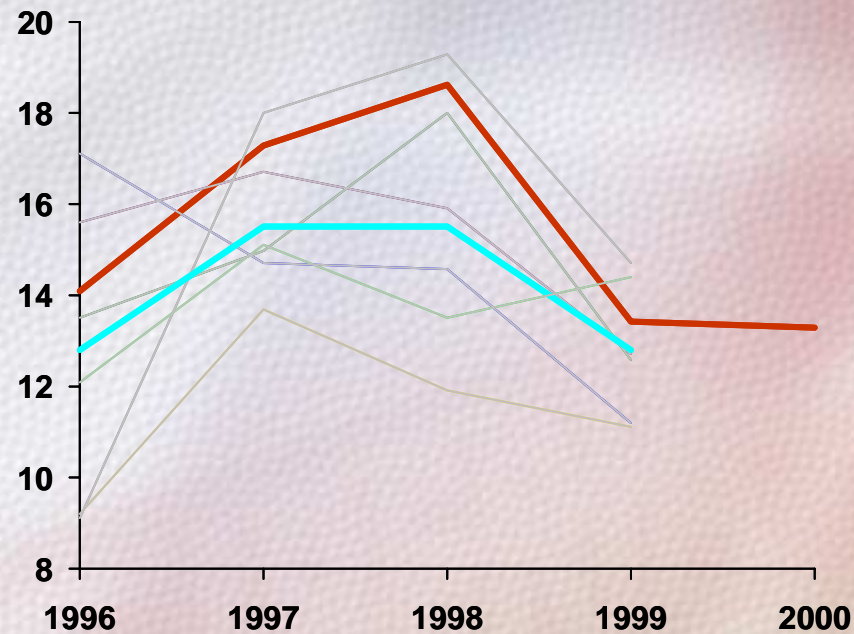
Financial Highlights
Enrique Dupuy de Lôme, CFO



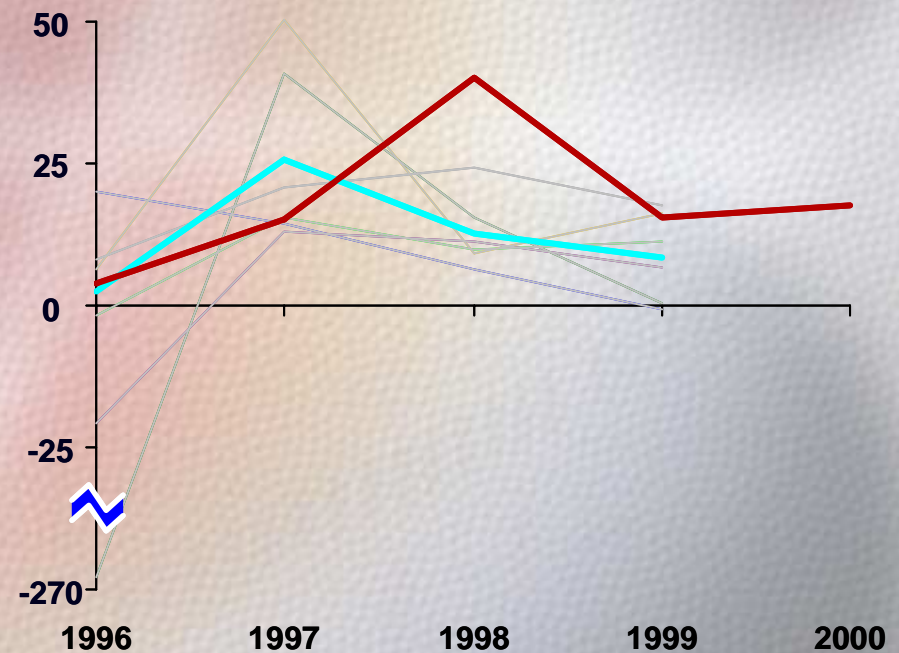
Iberia has Outperformed the Average of its European Peers



EBITDAR Margin (%)

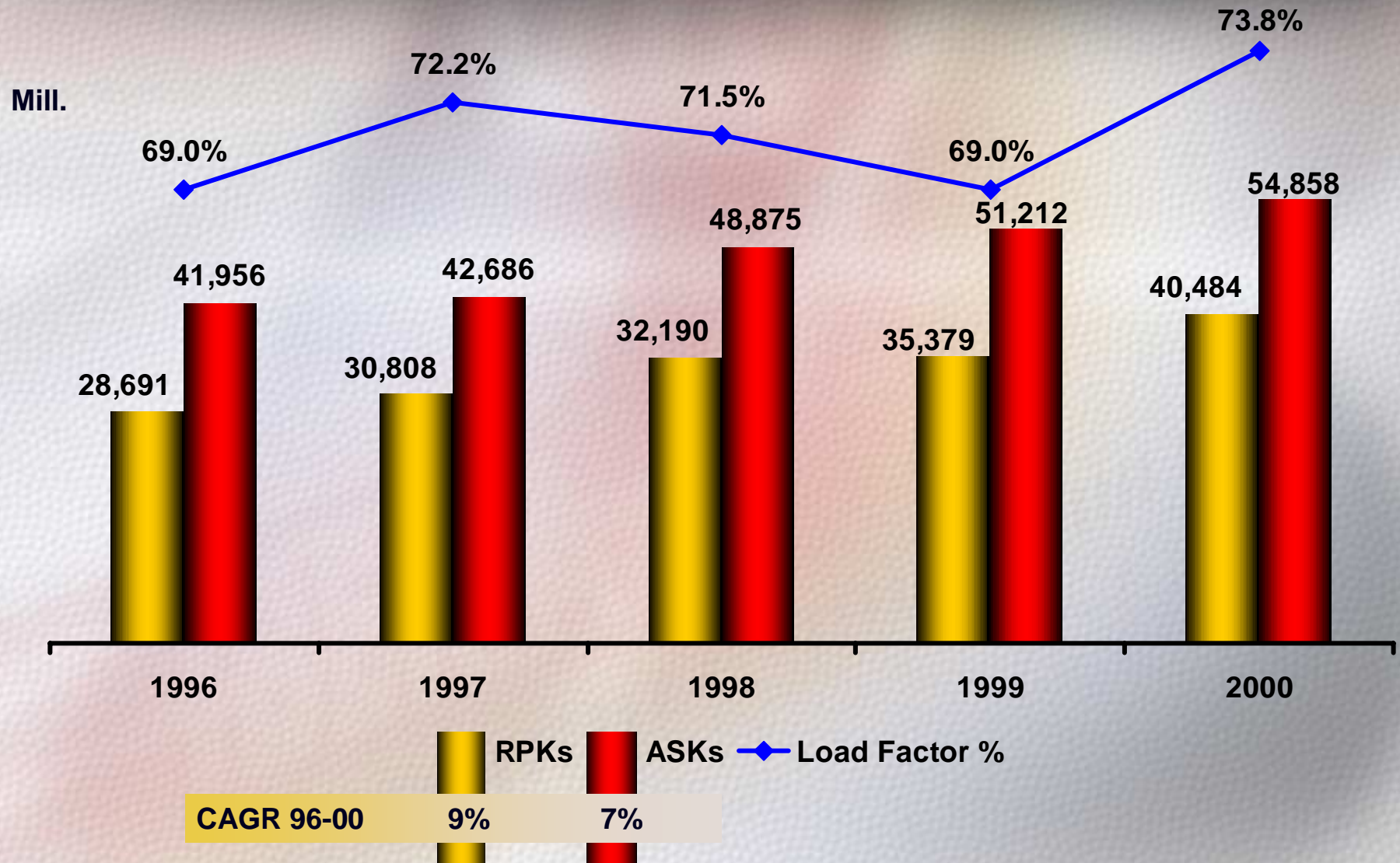


Return on Equity (%)



- Iberia
- Alitalia
- British Airways
- KLM
- Lufthansa
- Swiss Air
- Average
- Air France

Well Managed and Continuous Growth

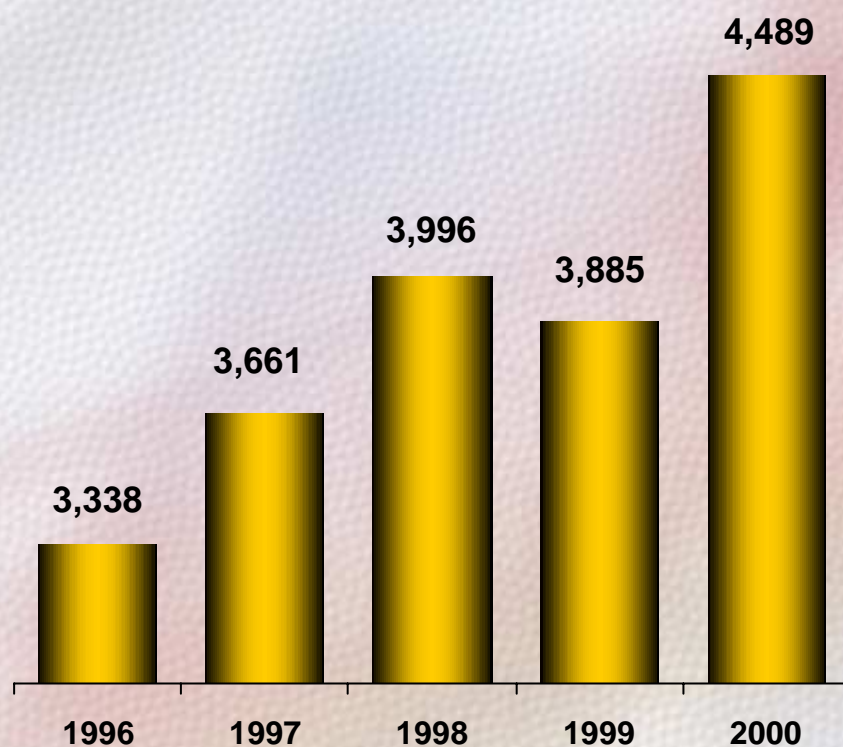


Positive Evolution of Revenues and Net Income Despite Difficult Environment



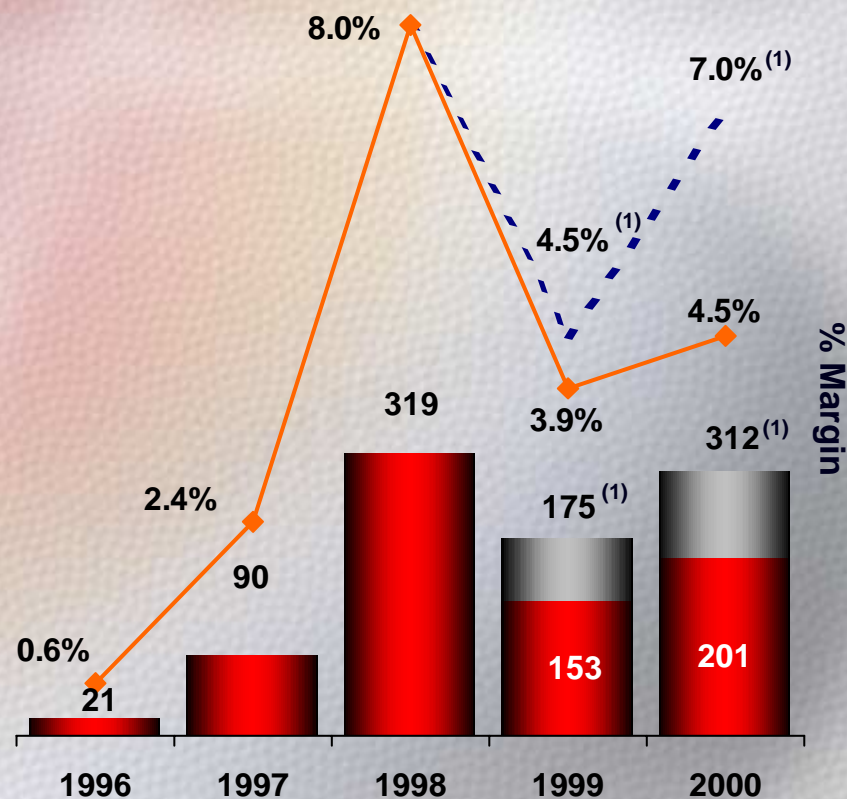
Revenues (Euro Mill.)

CAGR 96-00 = 7.7%



Attributable Net Income (Euro Mill.)

CAGR 96-00 = 75.9%

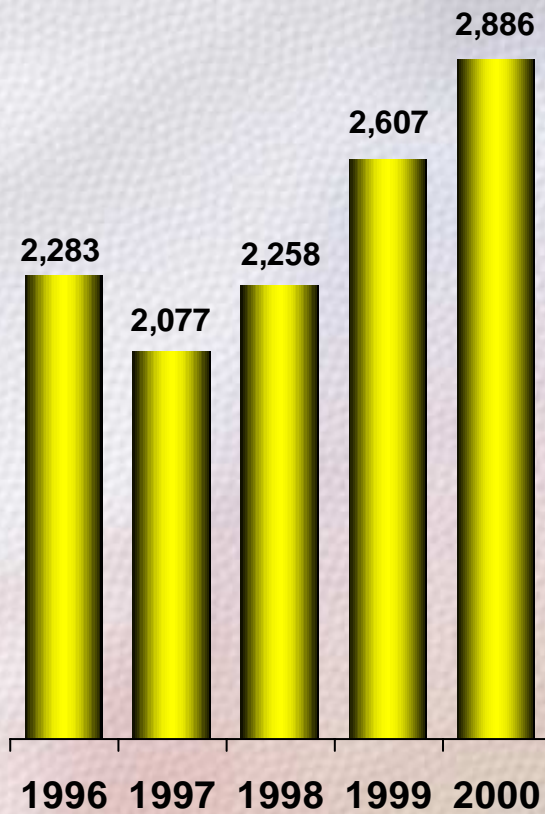


(1) Attributable Net Income excluding net impact of fuel cost increases in 1999 and 2000

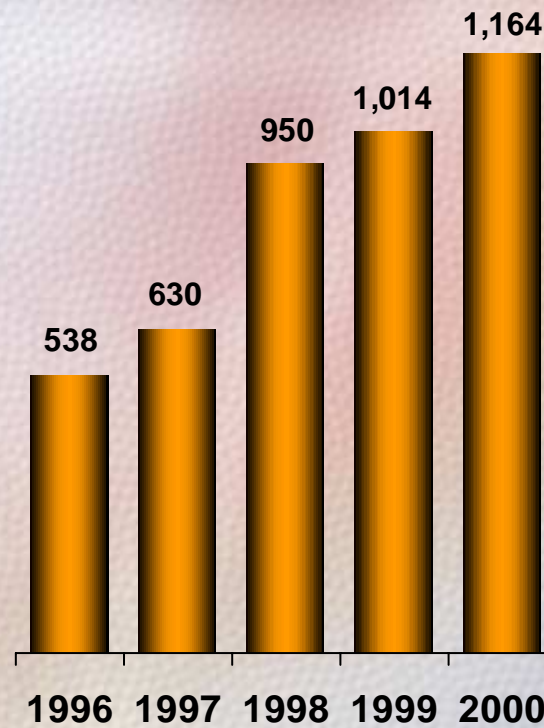
Strong Balance Sheet



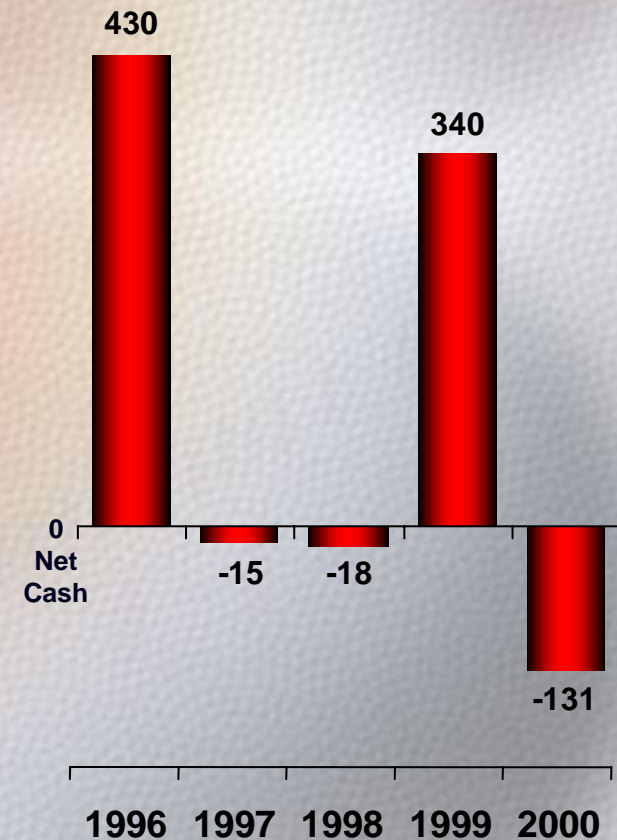
Fixed Assets (Euro Mill.)



Shareholders Funds (Euro Mill.)



Net Financial Debt (Euro Mill.)



Extremely Valuable Potential Capital Gains in Amadeus



- **Iberia's 18.3% economic stake in Amadeus has a market value of circa Euro 800 Mill. and a book value of Euro 10.4 Mill.**
- **Between May and June 2000 Iberia sold 6.7% of Amadeus, realising gross capital gains of Euro 390 Mill.**
- **Existing lock-up period terminated on February 28, 2001**

Efficient Hedging Strategy



Hedging strategy

Fuel unit cost significantly below average

Fuel

● Hedging 2001:

- 48% \Rightarrow 18.6 USD/barrel
- 42% \Rightarrow 23-32 USD/barrel
- 10% \Rightarrow Free

Currency risk

● Balance Sheet:

Natural hedge

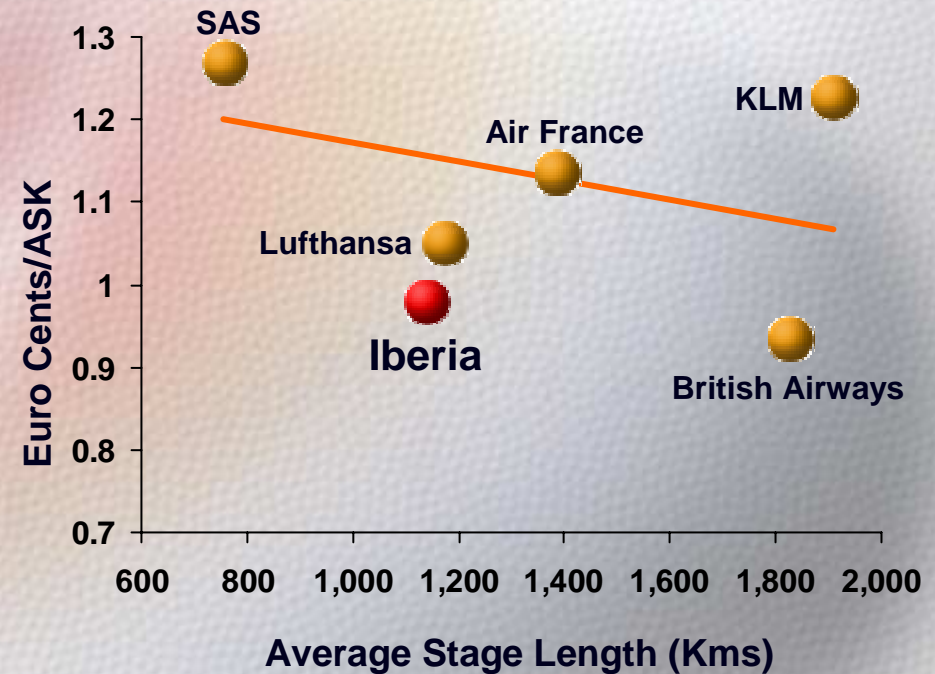
● Operational Flows:

Quasi natural hedge

Interest rates

● 45% floating / 55% fixed in 12/00

Jan – Sep 2000



Strategy for Value Creation 2000-2003
Xabier de Irala, Chairman & CEO



Strategy for Value Creation: New Era



Grow and enhance leadership in natural markets

Improve client service and develop business traffic

Utilise Internet tools for both distribution and purchasing

Increase productivity of human and technical resources and maximise return on assets

Maintain current low unit costs

Leverage strengths through strategic alliances

Continue outstanding risk management and flexibility

Key Targets

- **High EBITDAR Margin 2003**
- **Strong growth of Ordinary Profit before taxes**

Focusing Growth 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



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”

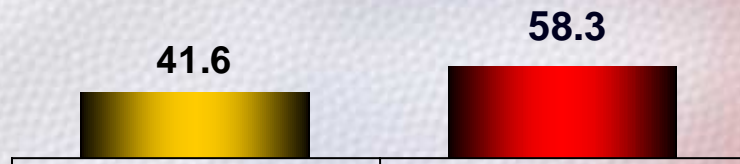
- Selective increase in frequencies
- Increase in aircraft capacity
- Continue leveraging on regional flights with Air Nostrum

Attracting the Business Traveller



Importance of Business Traveller (2000)

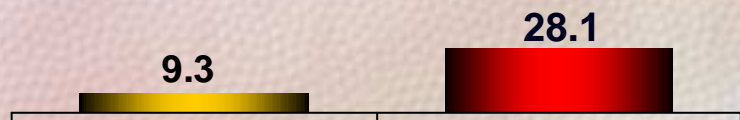
Domestic Market



Medium-Haul



Long-Haul



 % Business Pax  % Total Rev

Includes Y Class (complete tourist tariff)

Key Initiatives

- Continue overhaul of Premium Class offering
- New fleet offers improved efficiencies and more comfort
- Increase number of non-stop flights to Latin America
- Increase frequencies and connectivity of key flights

New Fleet and Improved Maintenance Will Drive Asset Productivity



Aircraft Families

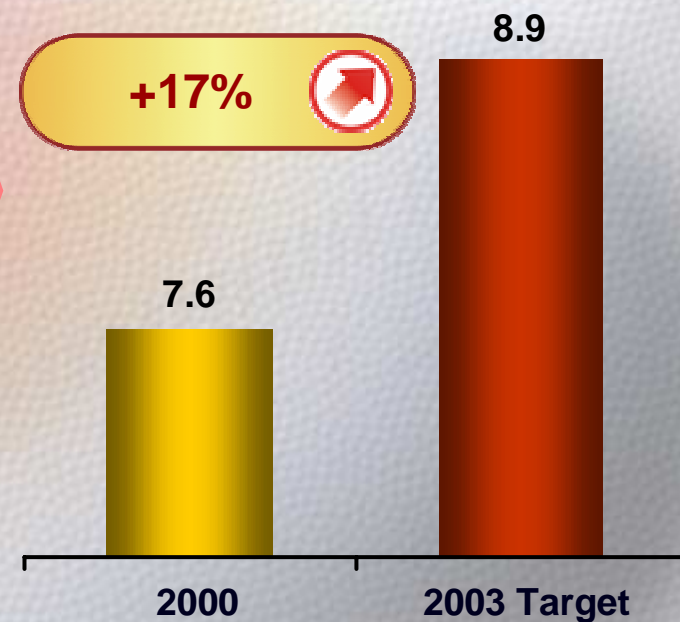
	2000	Target 2003	LT Target
Operated by Iberia	9	6	4
Average Age	9.1	7	7

Technical and Ground Personnel

- 24-hour maintenance
- Target: 41% reductions in the number of unused aircraft during commercial schedule

Block Hours/Aircraft per day

+17%



Increasing Personnel Productivity



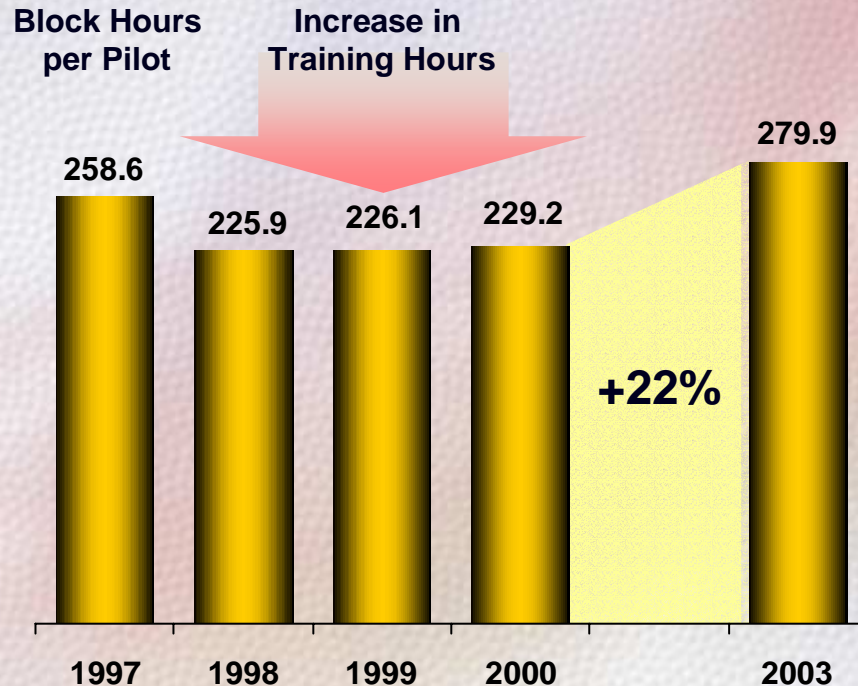
Technical Crew

- Decrease training hours of pilots
- Improve scheduling for in-flight personnel

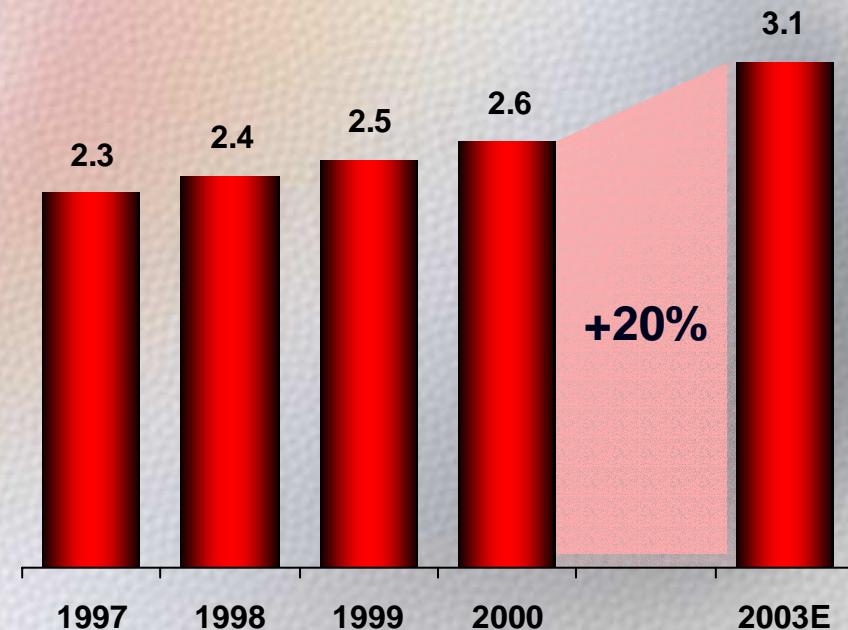
Ground Personnel

- Severance Plan 2000-2002
- A more flexible labour framework

Block Hours/Pilot



ASKs/Ground Personnel



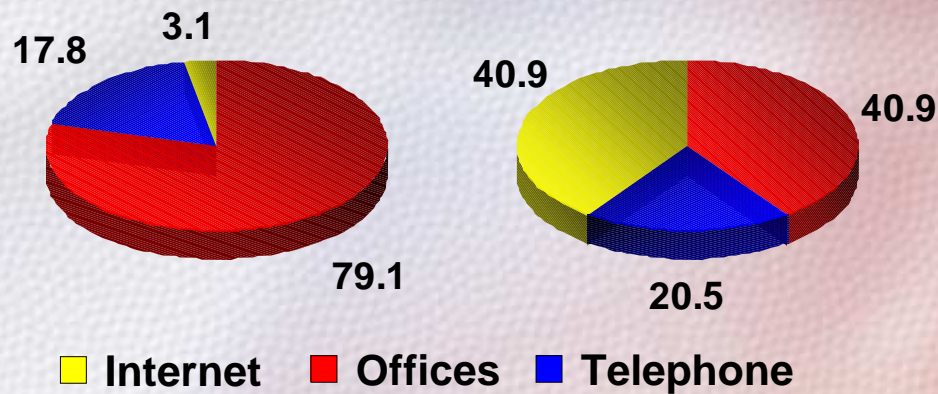
Reducing Purchasing and Commercial Costs Through Technology



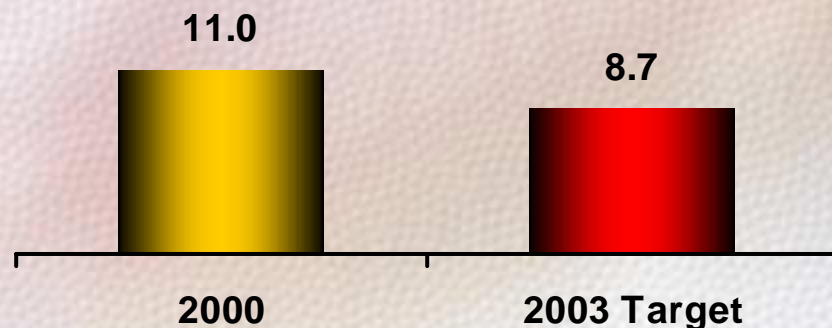
Increasing Direct Sales Contribution

2000: 13.6%

2003 Target: 18.3%



Net Distribution Cost/Air Transport Revenues (%)



Decreasing Purchasing Costs Through e-Procurement

Acquisition Costs

e-Procurement Market Places

- Cordiem
- Adquira

3 - 5%

Target in 3 years

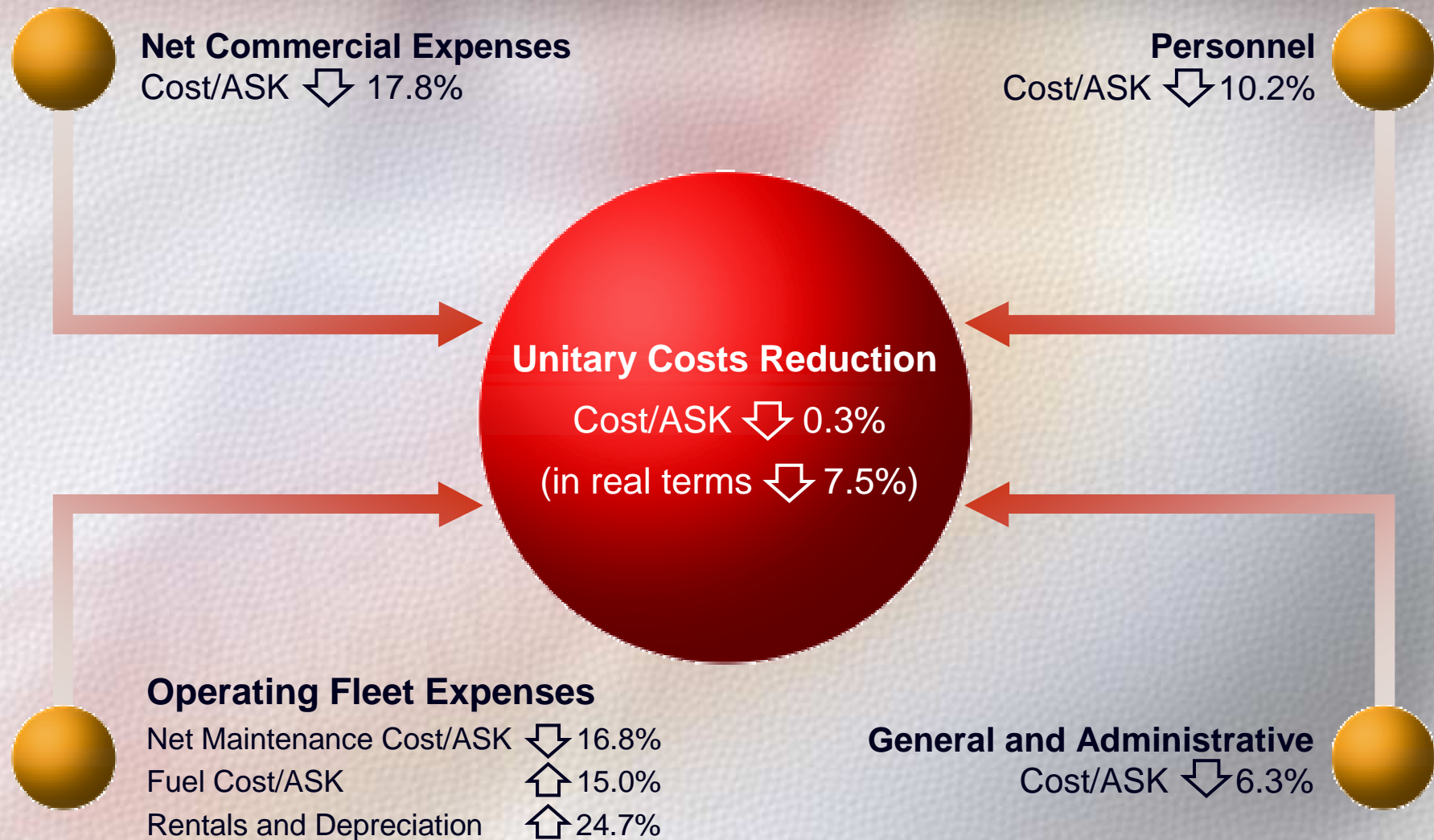
Purchases Administrative Costs

50 - 80%

Reduction per Transaction

Target in 3 years

Ambitious Unit Cost Reduction Target for 2000-2003



Investment Highlights
Xabier de Irala, Chairman & CEO



Investment Highlights



- **Management track record and commitment to delivering value/cultural change**
- **Unit cost significantly below industry average with further scope for reductions**
- **Flexibility and robust balance sheet**
- **Strong potential for double-digit EBITDAR growth**



www.iberia.com

Domestic Fares Amongst the Lowest in Europe



Price per mile (Euro)
Iberia = Base 100

		Business	Full Economy	Highest Discount
110/225 Miles	MADRID-BILBAO (IB)	100	100	100
	PARIS – RENNES (AF)	137	146	121
	LONDON – MANCHESTER (BA)	166	176	135
	ROME – NAPLES (AZ)	120	116	118
	FRANKFURT – DUSSELDORF (LH)	215	229	200
225/300 Miles	MADRID – SEVILLE (IB)	100	100	100
	PARIS – LYON (AF)	177	150	156
	LONDON – NEWCASTLE (BA)	178	168	163
	ROME - BARI (AZ)	104	105	117
	FRANKFURT – HAMBURG (LH)	161	181	161
300/350 Miles	MADRID – BARCELONA (IB)	100	100	100
	PARIS – BORDEAUX (AF)	149	129	203
	LONDON – BELFAST (BA)	142	162	203
	ROME – MILAN (AZ)	109	112	186
	FRANKFURT – KIEL (LH)	158	182	238

Targets: Pursuing Efficiency



	2000	Target 2003
ASK (Mill.) accumulated growth	54,290	+24.8%
Load Factor (%)	73.8%	74.3%
Revenue/ASK (Euro cents/ASK)	7.95	8.24
Unit Cost (Euro cents/ASK)	7.9	7.9
Fleet Utilisation (Block hours/day)	7.6	8.9
EBITDAR Margin (%) ⁽¹⁾	13.3%	18.2%
Adjusted EBIT Margin (%) ^{(1) (2)}	4.7%	9.1%

(1) Group figures

(2) Assuming 7% of interest cost in operating leases