

---



# **Analyst Presentation**

## **19 November 2001**

# Table of Contents

---

1. Evolution until August and impact of 11th September events
2. Competitive Advantages of Iberia in the Crisis
3. Adjustment Plan

# 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"**

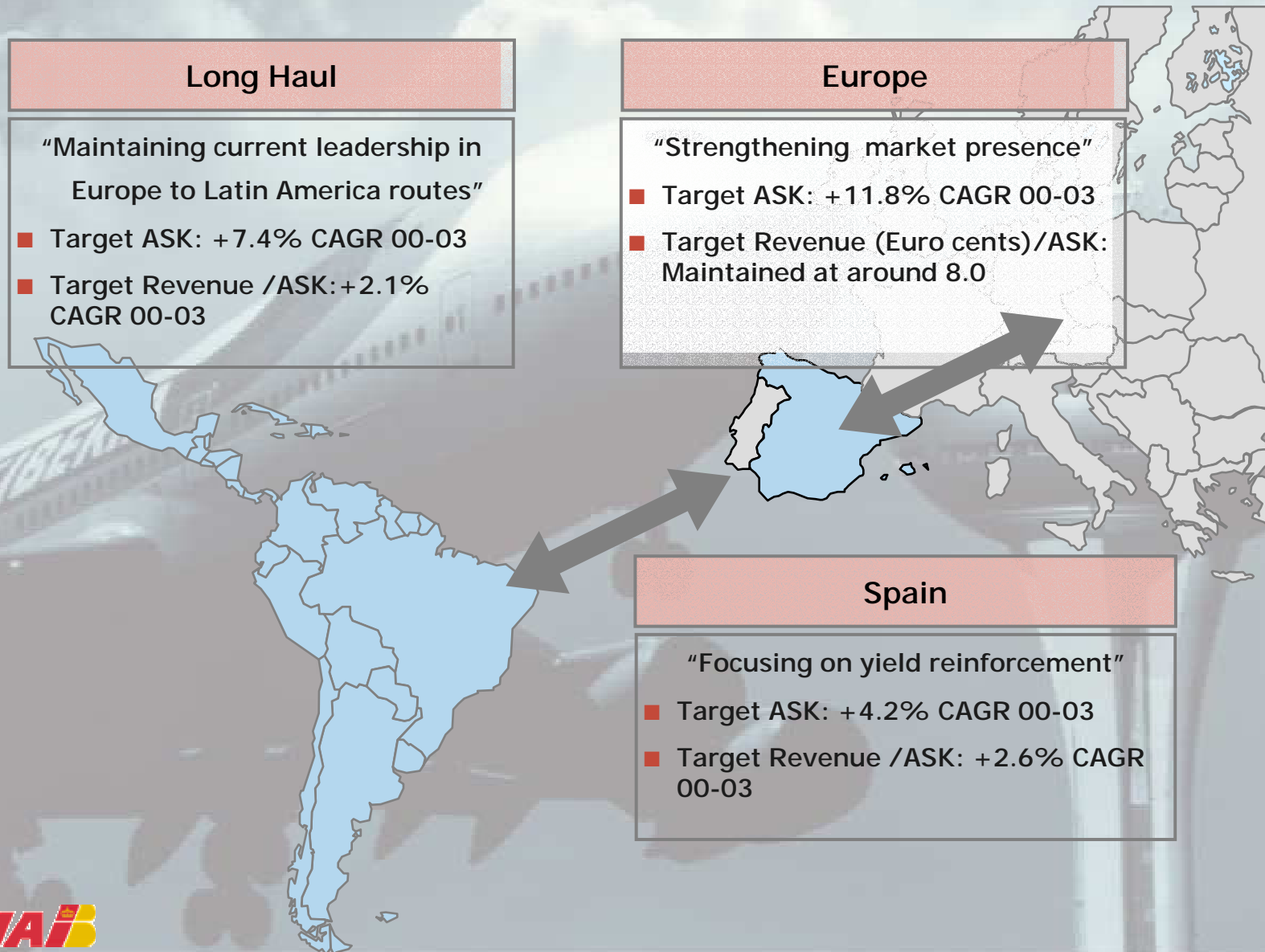
- Feed the Europe to Latin American routes
- Increase in frequencies and direct flights rather than from new markets

## Spain

**"Focusing on yield reinforcement"**

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

# Strong and Efficiently Managed Growth in Iberia's Markets



# Evolution of Iberia until August

- According to its strategy Iberia maintained important growth through its network
- In spite of the traffic deterioration due to the slowdown of economic conditions and pilots strike Iberia had been able to:
  - Increase yields in the domestic market
  - Grow in the European Market
  - Consolidate its position in the Latin American Market

	Domestic	European	Intercontinental	Total
<b>ASK</b>	<b>+3.7%</b>	<b>+16.6%</b>	<b>+7.9%</b>	<b>+8.8%</b>
<b>RPK</b>	<b>+0.9%</b>	<b>+9.1%</b>	<b>+6.5%</b>	<b>+5.6%</b>
<b>Yield</b>	<b>+7.2%</b>	<b>+2.0%</b>	<b>+7.7%</b>	<b>+5.3%</b>

**Pasenger Revenues**



**+11.2%**

**Revenues / ASK**



**+2.2%**

Accumulated Figures: August 01 compared to Aug 00

# Evolution until September 2001

July-Sept 2001	%01/00	Jan-Sept 2001	%01/00
-------------------	--------	------------------	--------

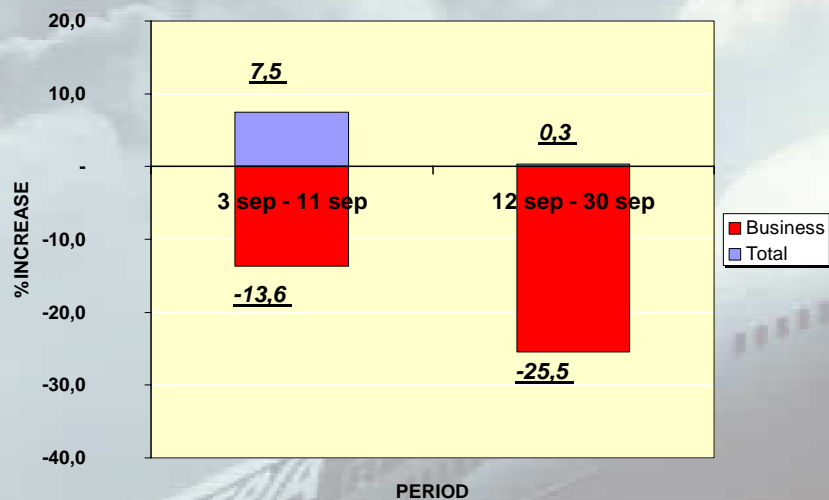
ASK (mill)	15,941	+10.9%	44,736	+9%
RPK (mill)	11,951	+3.3%	32,110	+5.2%
Yield (euro cents)	8.39	+1.2%	8.76	+4.2%
Passenger Revenues	1,002	+4.5%	2,811	+9.6%

Operating Revenues	1,287	+4.8%	3,645	+9.6%
EBITDAR	227	+4.1%	542	+ 21.1%
Ebitdar margin	17.6%		14.9%	
Adjusted EBIT	107	-15.1%	193	+17.5%
Adjusted Ebit margin	4.1%		5.3%	
Net Income	135	-9.1%	141	-11%

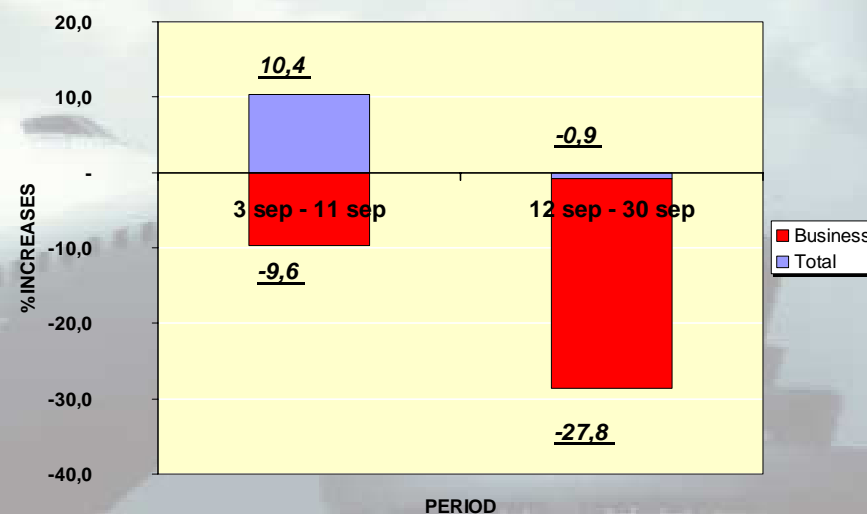
# Impact of the 11th September

## Traffic

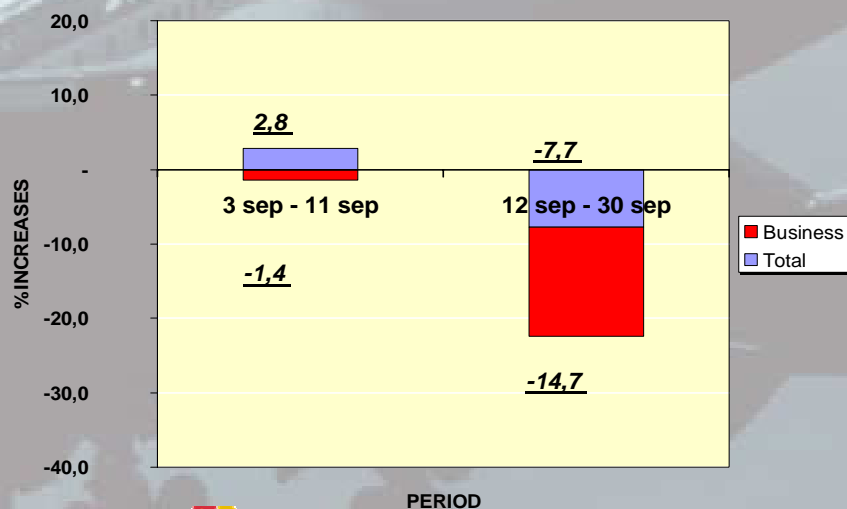
### DOMESTIC



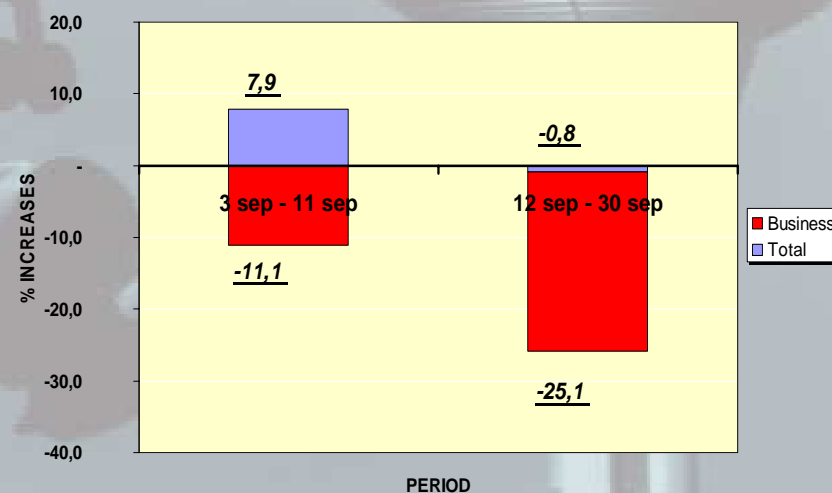
### EUROPE + AFRICA + MIDDLE EAST



### INTERCONTINENTAL



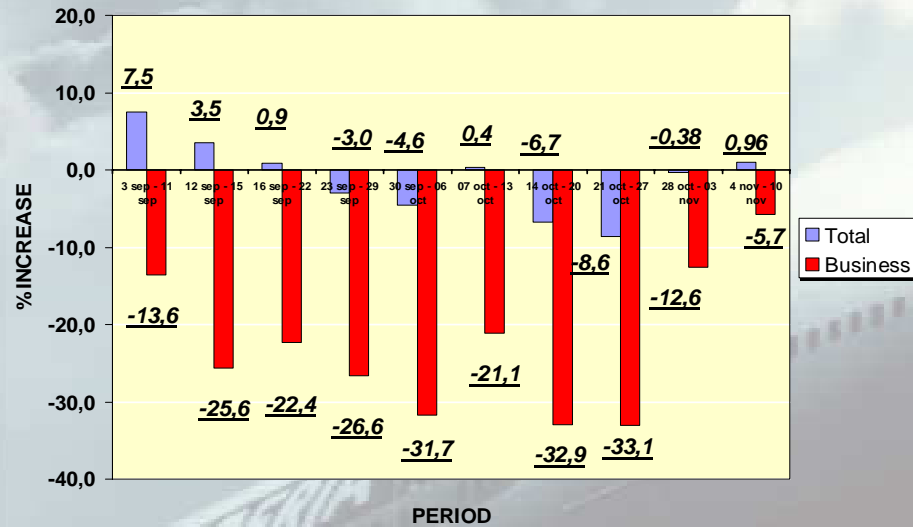
### TOTAL IBERIA



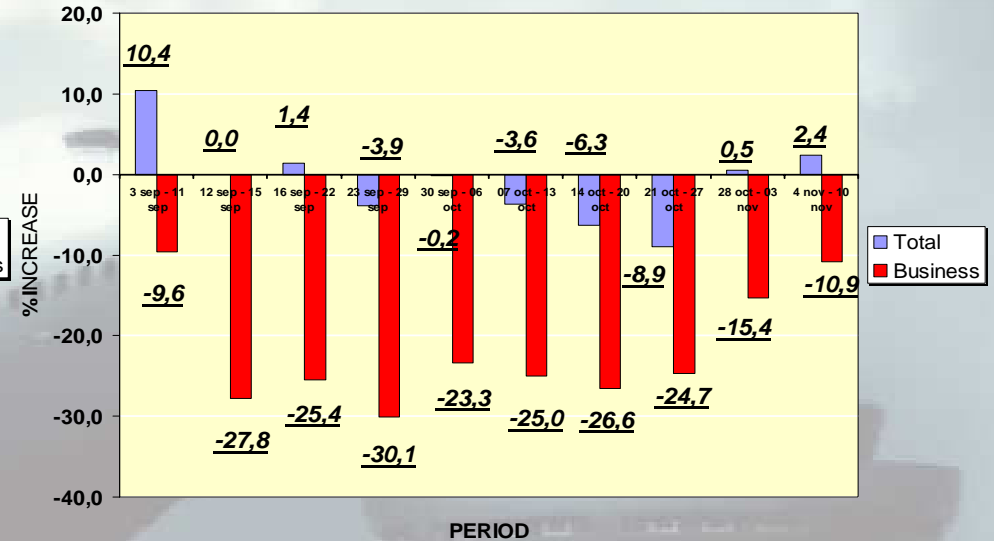


# Weekly Traffic Variations

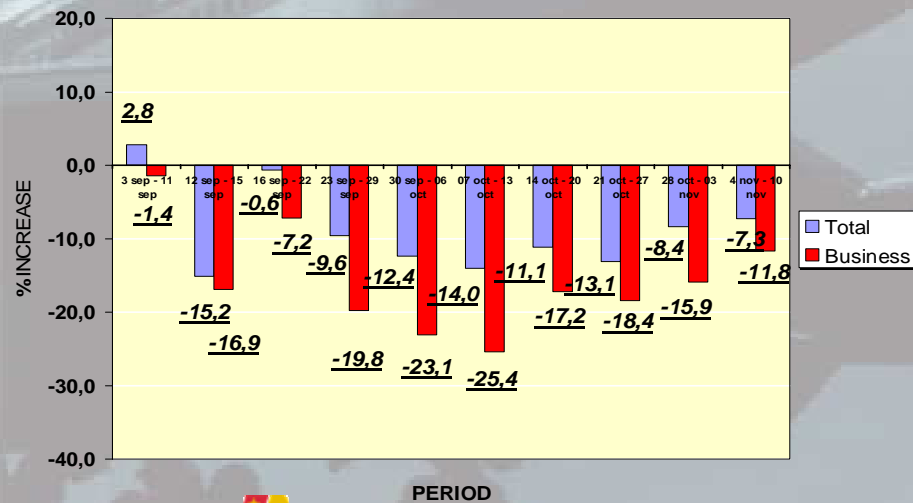
DOMESTIC



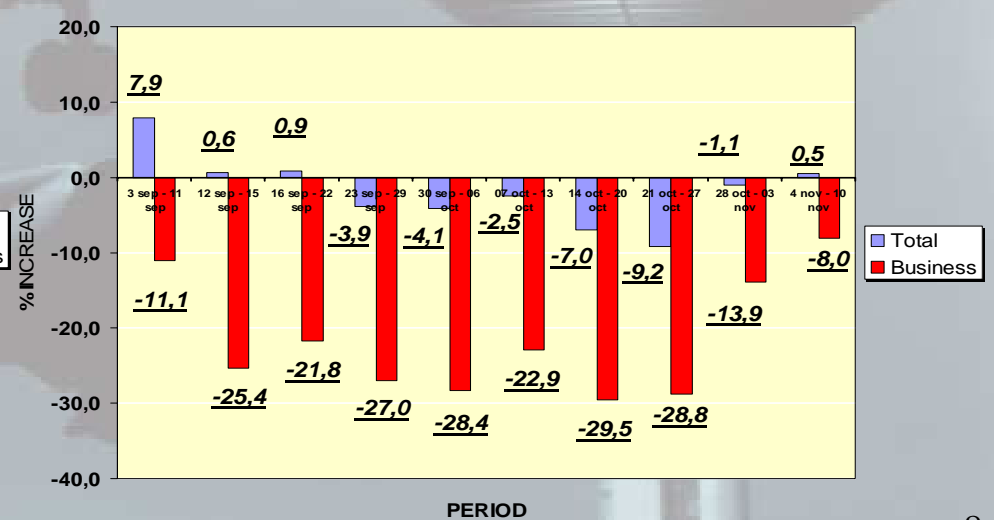
EUROPE + AFRICA + MIDDLE EAST



INTERCONTINENTAL



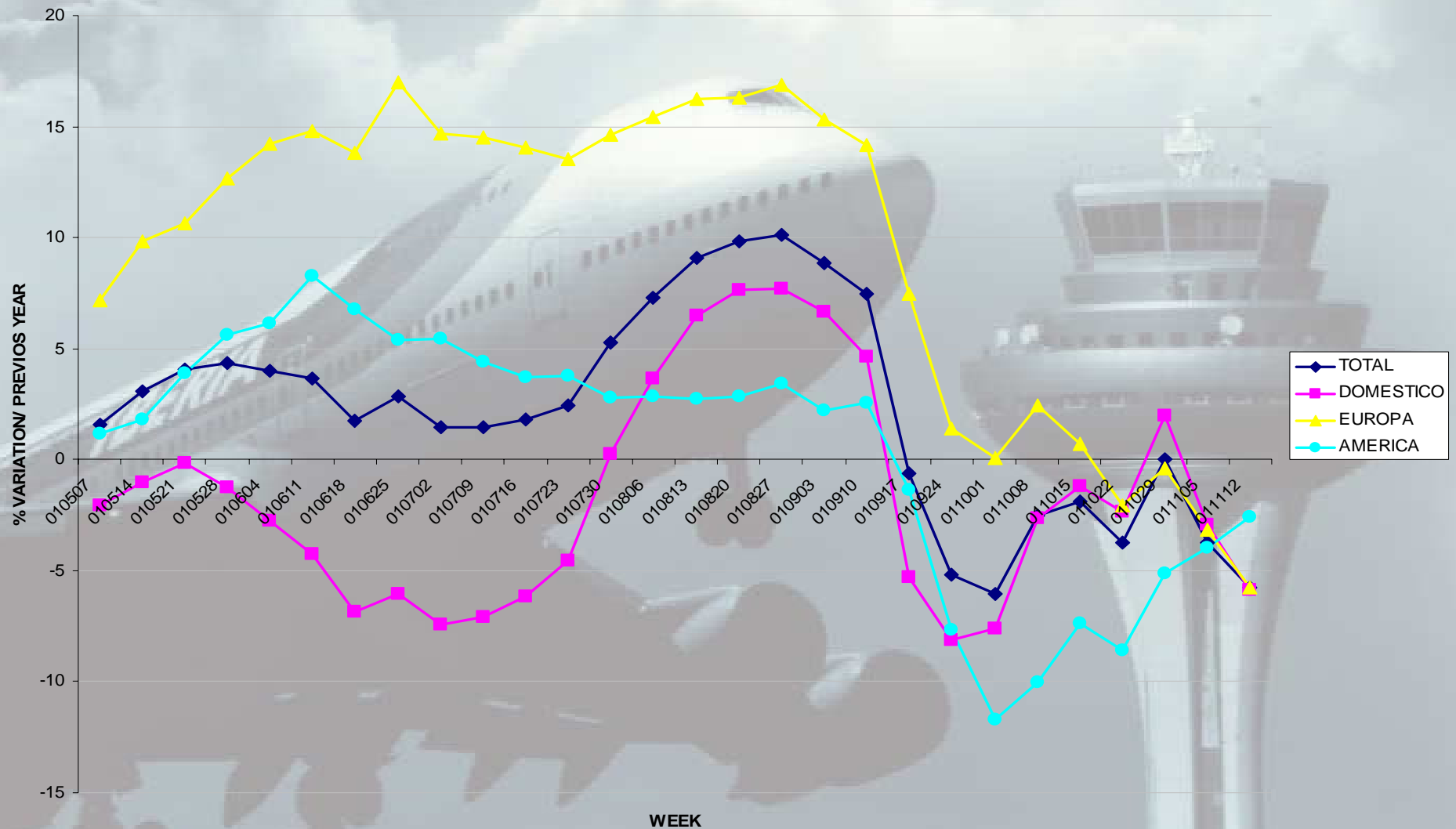
TOTAL IBERIA





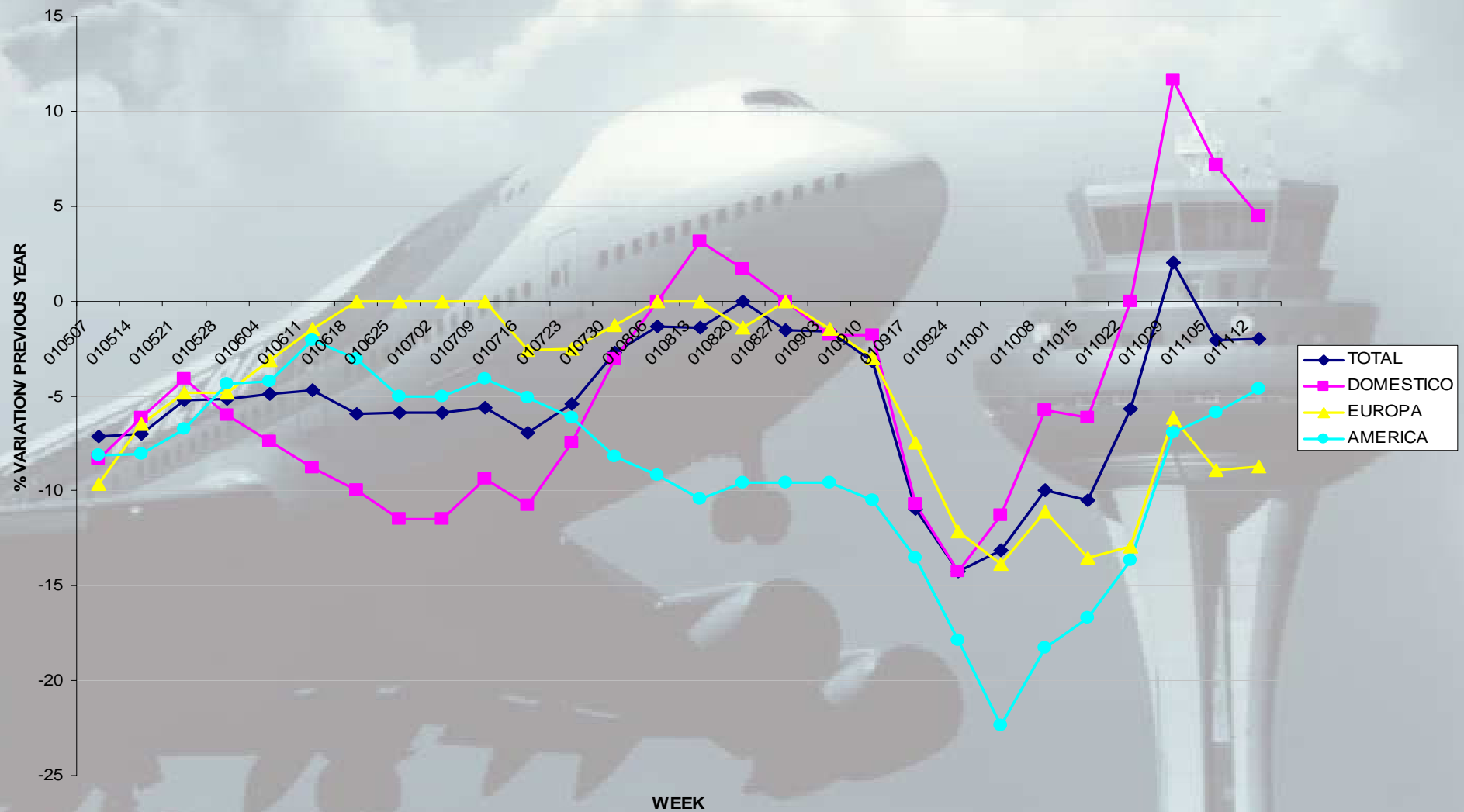
# Bookings Evolution

RESERVATION FOR THE NEXT FOUR WEEKS



# Load Factor Evolution

LOAD FACTOR EVOLUTION (BOOKINGS FOR NEXT FOUR WEEKS)



# Economic Impact

→ The direct impact due to the cancellation of the operations with USA and the situation three days after 11th September amounted to 18 MM/ Euro

## Generated Cash Flow IBERIA (MM/Euro)

	1 - 11 September	12 - 30 September	Total September	% 01 / 00 September
EBITDAR	31.39	38.85	70.25	1%
OPERATING CASH FLOW	18.6	16.75	35.36	-26%
EBIT	13.28	7.56	20.84	-30%
Adjusted EBIT (1)	18.14	15.96	34.09	-16%

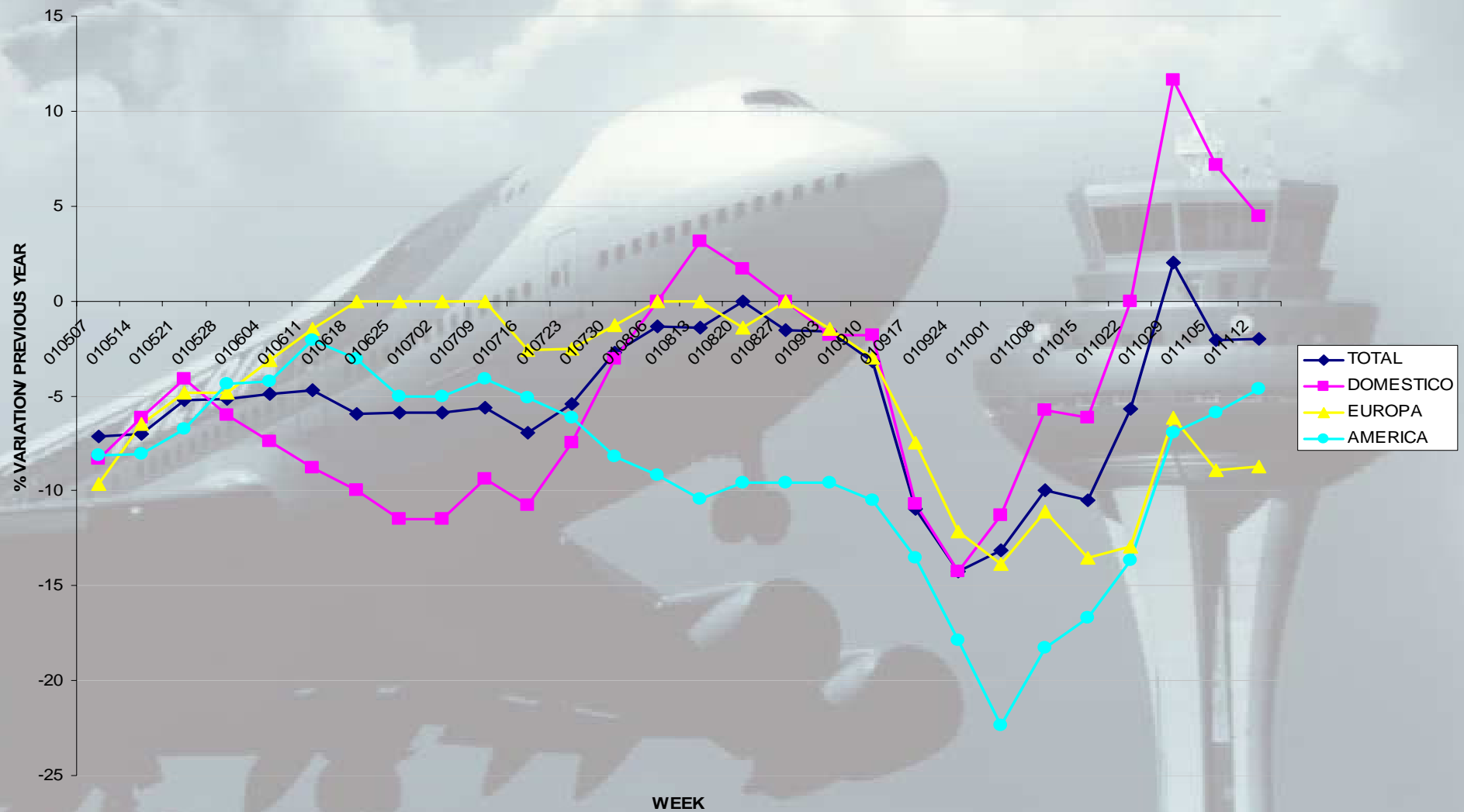
→ Cash position at 30th September amounted to 850 MM/Euro

## Traffic Statistics October 01 vs. October 00 (%)

	ASK	RPK	LF	Yield
Domestic	+3.5	-4.0	-5.6 pp	+0.1
Europe	+13.4	-6.0	-12.5 pp	-6.1
Intercontinental	+10.5	-10.4	-15.8 pp	+3.0
Total	+9.3	-7.7	-12.3 pp	+0.2

# Load Factor Evolution

LOAD FACTOR EVOLUTION (BOOKINGS FOR NEXT FOUR WEEKS)



# Competitive Advantages in the Crisis

---

**Although the crisis is affecting all the sector, Iberia is well positioned to minimize the impact because of its:**

- Lower exposure to the most affected markets
- Strong and flexible balance-sheet
- Production Flexibility
- Labour Agreements already signed



# Lower exposure to the most affected markets

Iberia's exposure to the North Atlantic and Middle East routes is one of the lowest of the major European Carriers

<u>RPK</u>	<u>North Atlantic</u>	<u>Middle East</u>	<u>Asia</u>
British Airways	30%	14%	12%
Lufthansa	20%	9%	15%
Air France	20%	12%	16%
KLM	19%	18%	19%
Iberia	9%	1%	0%
Alitalia	17%	15%	14%
SAS	10%	0%	5%
Finnair	10%	0%	14%
Austrian Airlines	11%	8%	14%

(1)

5% of the revenues generated in USA

<b>RPK</b>	Iberia	Air France	British Airways	KLM	SAS
September 2001/00	2.0%	-7.0%	-22.0%	-7.9%	-4.2%
October 2001/00	-7.7%	-10.1%	-24.7%	-17.7%	-9.3%



## BSP in Main European Markets

	BSP (1) %2001 / 2000					
	Acum. August		September		October	
	Total	IBERIA	Total	IBERIA	Total	IBERIA
<b>Spain</b>	<b>13.0</b>	<b>9.0</b>	<b>-11.0</b>	<b>-9.0</b>	<b>-2.8</b>	<b>4.2</b>
<b>Germany</b>	<b>6.0</b>	<b>26.9</b>	<b>-21.2</b>	<b>4.1</b>	<b>-17.6</b>	<b>28.1</b>
<b>Italy</b>	<b>7.8</b>	<b>24.8</b>	<b>-19.2</b>	<b>7.1</b>	<b>n/a</b>	<b>11.9</b>
<b>United Kingdom</b>	<b>7.0</b>	<b>20.0</b>	<b>-25.0</b>	<b>1.0</b>	<b>-20.0</b>	<b>-2.0</b>
<b>France</b>	<b>6.9</b>	<b>20.3</b>	<b>-16.2</b>	<b>6.5</b>	<b>-8.5</b>	<b>n/a</b>
<b>Portugal</b>	<b>5.4</b>	<b>31.8</b>	<b>-19.7</b>	<b>1.1</b>	<b>-16.1</b>	<b>9.0</b>
<b>Holland</b>	<b>5.2</b>	<b>29.1</b>	<b>-18.6</b>	<b>-1.1</b>	<b>-28.8</b>	<b>-2.1</b>

BSP: Total Travel Agencies sales for all airlines

# Latin America Outperforms North Atlantic

	Market Growth 2001 / 2000	
	Jan / Aug	September
Europe- Latin America	6.1	0.5
North Atlantic	-3.2	-17.1

Source: MIDT bookings

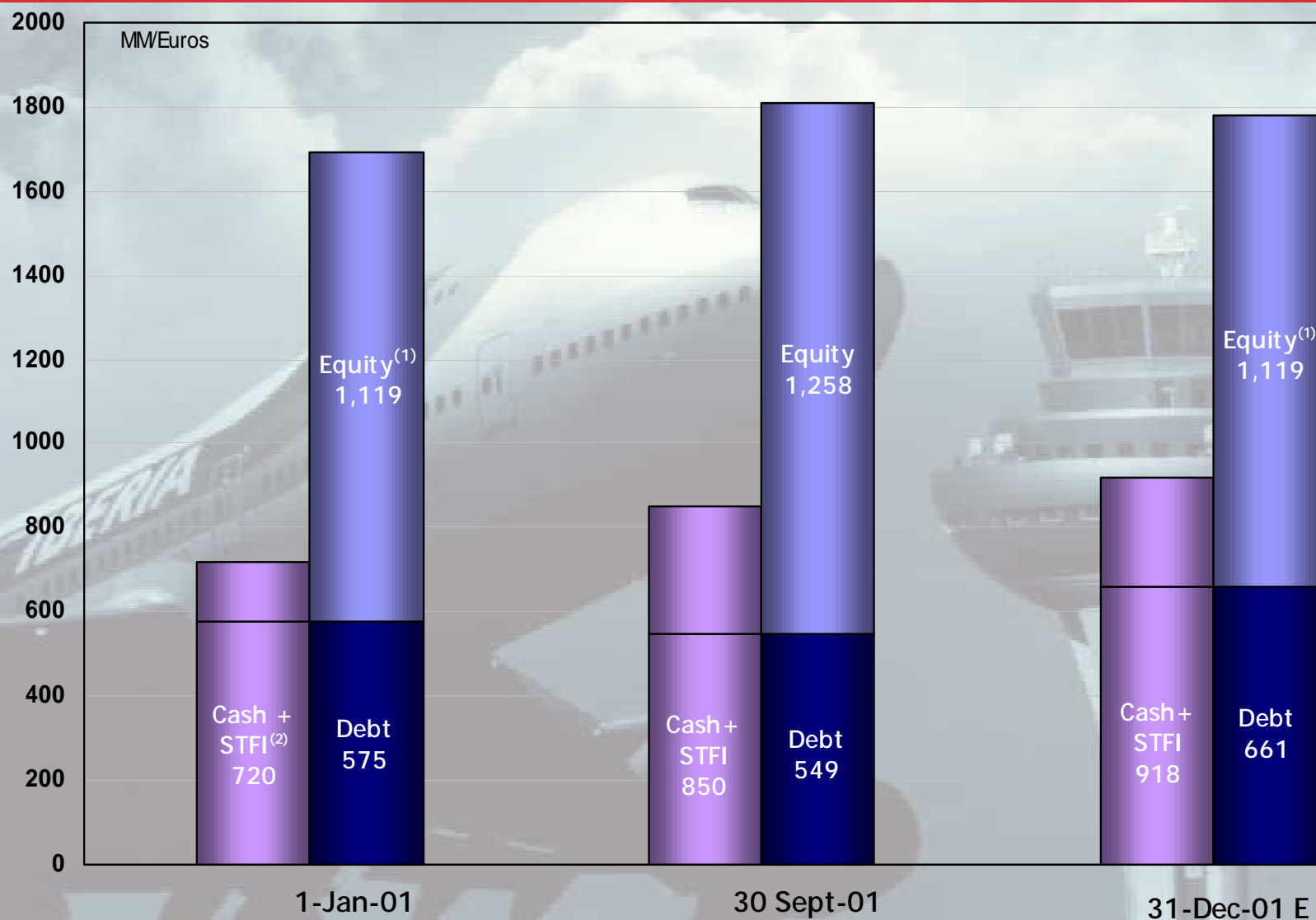
Iberia shows less exposure to both the September 11 crisis and the U.S. economic downturn due to its long haul network structure.

# Europe - Latin America Market Share Evolution

	Jan/Sep'01
Iberia	15.5
Air France	10.8
British Airways	9.6
KLM	8.9
Lufthansa	8.5
Rest Companies	46.7

- Iberia continues to improve its leadership as the preferred carrier between Europe and Latin America(+0.3 p.p in Jan-Sept over the same period 00)
- Our Market Share in premium traffic has increased 1.8 p.p.

# Strong and flexible Balance-Sheet



(1) Assuming the same Equity as 31-Dec-00 less dividend payment (44.6 MM /Euro)

(2) STFI: Short Term Financial Investments

# Strong and flexible financing position

---

- Iberia's balance sheet and cash positions are amongst the strongest in the sector

## October 2001

- Cash position 852 MM/Euro
  - Unutilised Credit Lines 125,5 MM/ Euro
  - Days of Cash including unutilised credit lines 72 days (1)
- The high number of "off balance sheet" type operations permits a relatively easy and quick de-leverage in situation of downturn.
  - The bulk of the fleet renewal program has already been implemented and the savings from the modernisation and commonality are being generated.
  - There is a flexible margin for the completion of the growth program depending on the evolution of the markets.

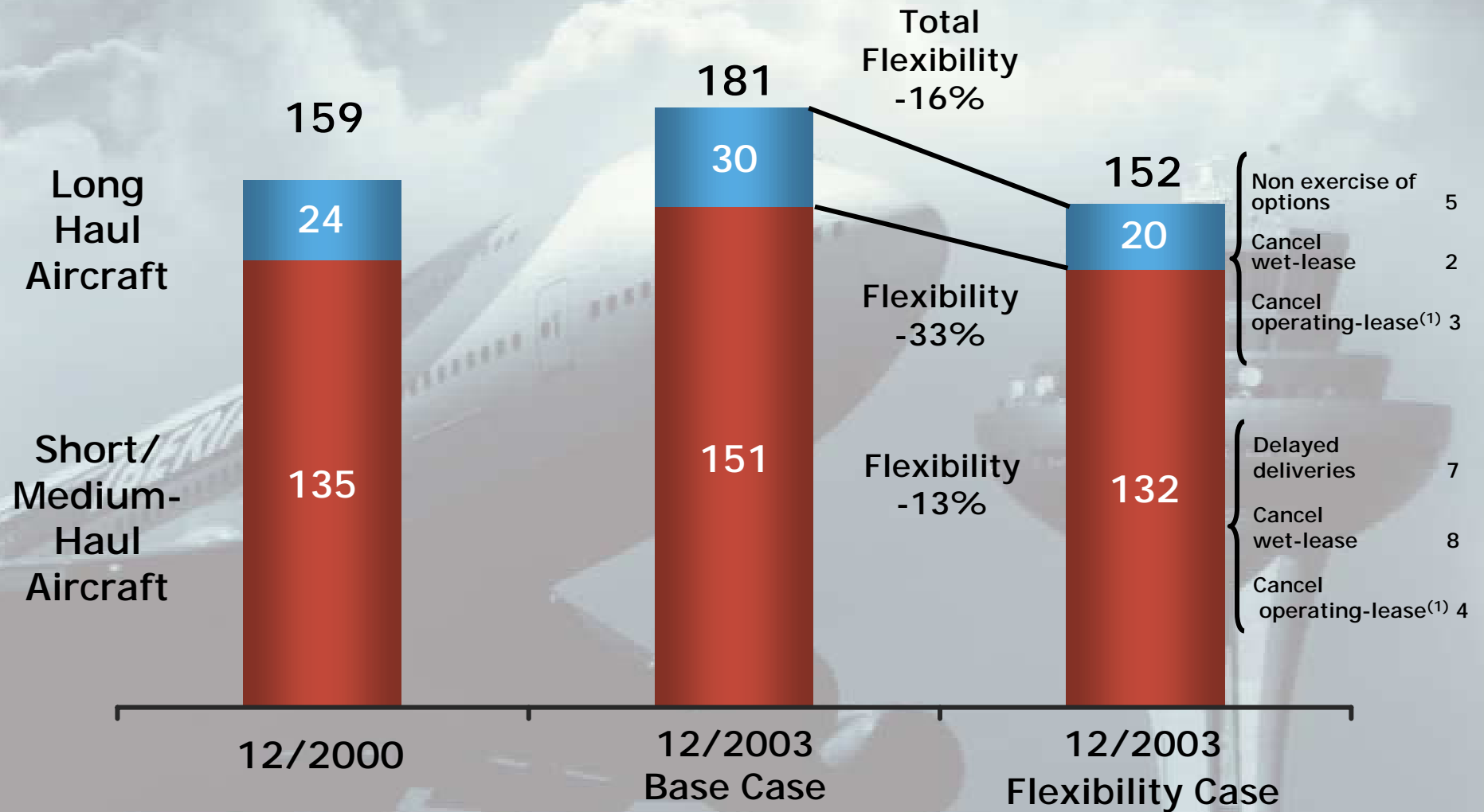
## An additional cash cushion in reserve

- Iberia still has an 18.3% interest in Amadeus, which represents a significant value reserve despite the decrease in the stock price.

### AMADEUS RESERVE VALUE

Iberia's stake in Amadeus	Nº of A Shares	Book value (MM/Euro)	Market value (MM/Euro)
closing of 16/11/2001	107,836,173	10	679.4

# Flexibility to adapt market conditions



(1) Excluding wet lease  
Data for Iberia LAE

Fleet Renewal Programme



# Labour Agreements already signed

	Term	Expiry Date
Ground Personnel (1)	2 years	31/12/02
Pilots	4 years	31/12/04
Flight Attendants	4 years	31/12/04
Flight Engineers	4 years	31/12/04

2001  
Actual CPI + 0,5%  
One off payment 2,54%

2002 - 2004  
Actual CPI

**Additional payments linked to results and productivity**

**Results of the arbitration ruling**

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

(1) It is being negotiated to extend the Agreement until 2004

# Adjustment Plan

---

- Reduction in capacity
- Headcount Reduction
- Cost Reduction Programme
- Cash Flow Improvement Plan
- Other Liquidity Sources
- Investment Plan Revaluation

## Reduction in Capacity

ASK	% 2001E / 2001 D.P.	% 2002E / 2001E	% 2002E / 2002 D.P.
Domestic	-3.4	-21.3	-27.0
Europe	-1.8	-9.2	-17.7
Intercontinental	-3.0	0	-7.5
Total	-2.8	-7.7	-15.0

### Objectives:

- Reduce capacity in less profitable domestic routes as a priority (mainly to the Islands).
- Delay our capacity growth in European network
- Maintain the capacity in Latin America, our main strategic market

# Markets Evolution Forecast

MARKETS	% 02 / 01
SPAIN - USA	-10.0
EUROPE - MID ATLANTIC	-8.0
EUROPE - SOUTH ATLANTIC	-7.0
SPAIN - EUROPE	-8.1
DOMESTIC	-7.0

## Expected Performance on Demand

Targets 2002			
	ASK	RPK	YIELD
Domestic	-21.3%	-19.3%	+10.2% <sup>(1)</sup>
Europe	-9.2%	-6.1%	-3.5%
Intercontinental	0%	+2.2%	-1.9%
Total	-7.7%	-5.1%	-1.9%

The reduction in capacity in the domestic market could be lower

(1) If we do not consider the reduction in capacity to the Canary Islands the estimate increase in yields will be +1,8%.

# • Reduction in Capacity

Planes in units

		TYPE	OCT 01	D.P. 02	E 02
FLEET OPERATED BY IBERIA	LONG HAUL	B747	7	7	8
		B767	2	2	0
		A340	15	18	17
	MEDIUM HAUL	A300	6	6	0
		B757	18	16	18
		B727	0	0	0
		A319	4	4	4
		A320	52	64	50
		A321	4	9	4
		MD87	24	24	24
MD88		13	13	13	
DC9	0	0	0		
TOTAL			145	163	138
WET-LEASE	LONG HAUL	B747 CC	2	2	0
	MEDIUM HAUL	B757 UX	6	8	0
		B737 UX	0	0	0
TOTAL			8	10	0
TOTAL FLEET			153	173	138

- Cancellation of wet leases
- Cancellation of 2 B-767 on operating lease
- Grounding of 6 A-300 and 2 A-320
- Delay deliveries of 1 A-340, 11-A-320 and 5 A-321

Year end 02	Vs Director Plan	Number of aircraft
138	173	-20,2%

# Headcount Reduction

---

A Social Plan is being negotiated with the Unions and will imply the reduction of 2.800 employees

- |                     |                                |
|---------------------|--------------------------------|
| • Estimated savings | 120 MM/Euro                    |
| • Cost of the plan  | 240 MM/Euro (Already provided) |

The Plan will be implemented through:

- Early retirements
- Voluntary Redundancies
- Temporary Measures



# Cost Reduction Plan

## Drastic cost reduction plan

- General Costs Cutting Programme
- Revision of all purchase contracts of goods and services
- Reduction in prices and improvement of terms
- Simplification of procedures

Target

5% 2002

54 MM/Euro

10% 2003

108 MM/Euro

# Working Capital Improvement Plan

---

Iberia's actual cash position reaches 852 MM/Eur and will be maintained

A number of measures will be implemented to improve the working capital:

- Room for manoeuvre to renegotiate terms with suppliers
- Improvement in the stock management
- Special Financing Strategies (Sale & Lease Back and securitizations)

The implementation of such plan would allow to raise over 450 MM/Euro of additional cash throughout the next 12 months

# Recent Transactions post 11th September

---

## Financing of 2 A-320-200 under Japanese Operating Lease Structures

- On October 30th, Iberia completed the Financing of 2 A320-200 amounting 85MM/Euro approx.
- Structure: combination of Japanese equity investments with long term secured bank debt.

## Sale & Lease Back of 6 A-320

- MOU already signed and fully committed.
- Amount of the transaction 138 MM/Euro approx.

# Investment Plan Revaluation

MM/Euro	2001E	2002 D.P.	2002E
•Fleet Predelivery Payments	136.2	323.5	0
•Fleet Payments	138.4	357.8	0
•Recoveries on Predelivery Payments	(142.3)	(285.7)	0
<b>Fleet Acquisitions (net payments)</b>	<b>132.3</b>	<b>395.6</b>	<b>0</b>
<b>Other Investments</b>	<b>160.4</b>	<b>159.1</b>	<b>69</b>
<b>TOTAL INVESTMENTS</b>	<b>292.7</b>	<b>554.7</b>	<b>69</b>
<b>Divestitures:</b>			
•Fleet & Others	(93)	(96.9)	0
•Sale & Lease Back Transactions	(304.8)	0	0
<b>TOTAL NET INVESTMENTS</b>	<b>(105.1)</b>	<b>457.8</b>	<b>69</b>



# Year 2002 Treasury Forecast

## Operating Cash Flow before Adjustment Plan

	Q4 01 -15%	Q1 02 -7%	Q2 02 -7%	Q3 02 -7%	Q4 02 -7%	Total 02
Current Revenues	995	907	1.092	1.075	1.120	4.195
Current Expenses	-1.013	-1.093	-1.130	-1.147	-1.087	-4.457
Quarterly Surp/Deficit	-18	-186	-38	-72	33	-263
Quarterly Ac. Surp/Déficit	-18	-204	-242	-314	-281	

## Net Effect: Operating & Investment Cutting Measures + Working Capital & Financial Improvement Measures

Quarterly Total	192	302	162	-181	26	309
Accummulated Total	27	494	656	475	501	

## Cash Flow Evolution after Measures

Quarterly Total	174	116	124	-253	59	46
Accumulated Total	9	290	414	161	220	

## Total Cash & Available Credit Lines (End of Quarter)

Cash	838	954	1.078	825	884	
Available Credit Lines	124	118	109	100	94	

MM/ Euro

# Impact of the Plan

## Impact of the Plan over 2002 Director Plan -15% capacity reduction

Savings in costs due to lower traffic and capacity reduction



-625 MM/Euro

Headcount Reduction



-120 MM/Euro

General Costs



-54 MM/Euro

Increase in cost

Insurance Costs

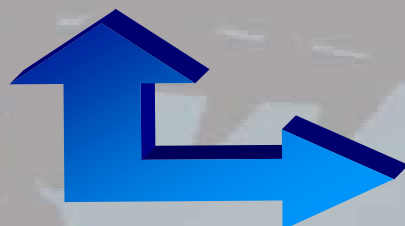


+84 MM/Euro

Airport Fees



+32 MM/Euro



TARGET: Positive EBIT in 2002