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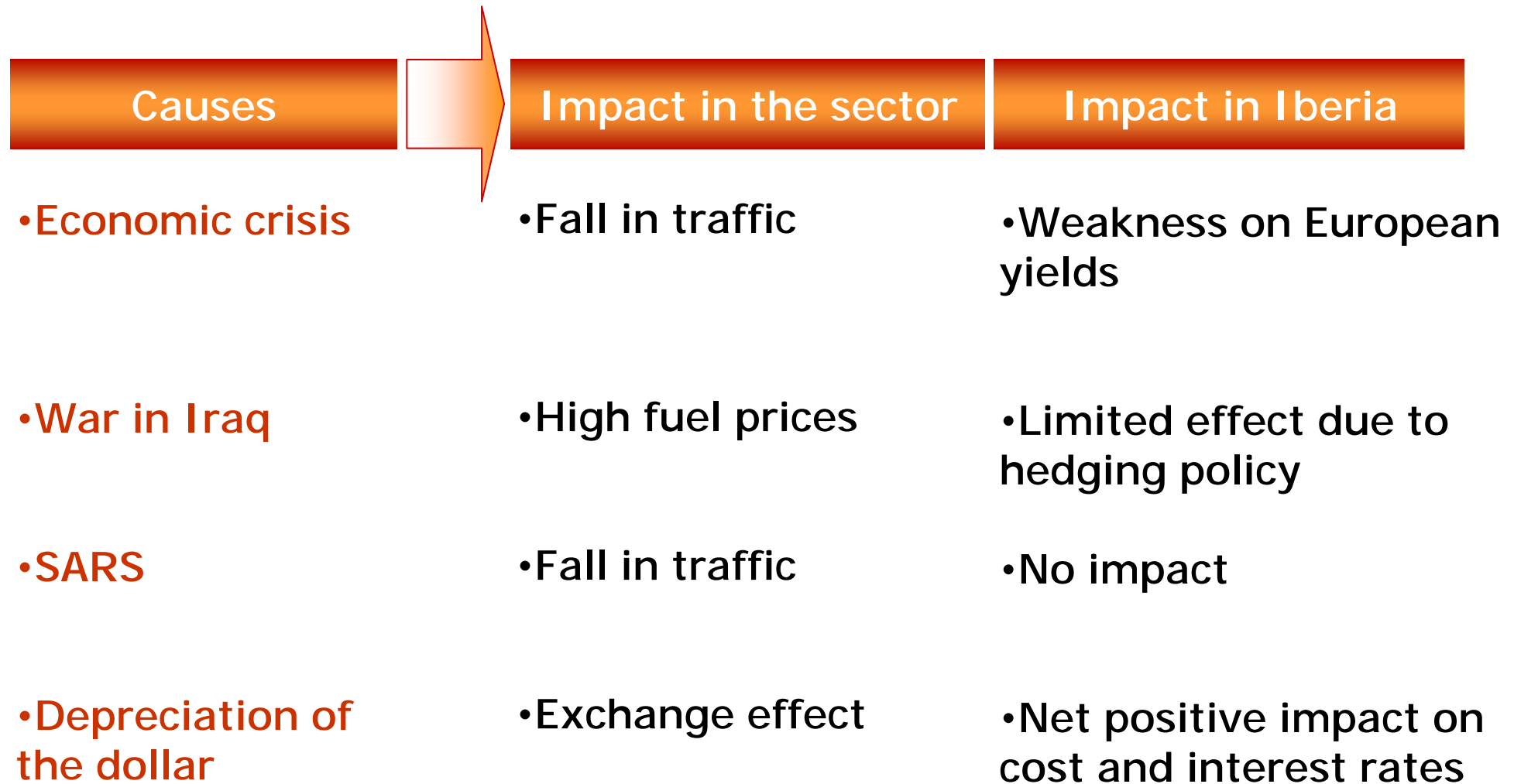
Year 2003:

Priorities, Results and Outlook

Priorities



2003 A very Difficult Year for the Airline Business



Iberia´s Reaction

Strategic

- First year of execution of the Director Plan 03-05

Tactical

- Capacity adjustment
- Cost control
- Implementation of new revenue management model



1st Year of Execution of the Director Plan

Reduction of travel
agencies' commissions

Started in 2002

2nd step agreement valid 2004/06

Productivity improvements

Ground (without handling) +2.7%

Flight attendants +3.9%

Pilots +1.4%

New on board service model

First phase July 2003

Second phase 2004

Intensification of co-operation with BA.

Anti Trust Immunity implementation process: Foreseen approval in 2003



January-September 2003



Capacity Adjustment

January-September	ASK	RPK	L.F.
Domestic	0.4%	3.0%	1.8 p.p.
Europe	0.6%	-1.2%	-1.2 p.p.
Long Haul	-1.9%	2.4%	3.4 p.p.
Total	-0.7%	1.6%	1.7 p.p.

- Implementing additional operational flexibility in the long range fleet
- Delaying deliveries of new planes
- Linking lease rents to utilisation



Operating Revenues

January-September 2003/2002

Total Operating Revenues	-3.2%
Passenger revenues	-6.2%
Cargo revenues	-4.5%
Handling	+16.6%
Maintenance	+22.0%
Commercial	+14.3%
Others	+11.7%

Revenue / ASK -2.5%



Operating Costs

January-September 2003/2002

Total Operating Costs	-0.5%
Personnel Costs	+3.0%
Commercial Costs	-12.6%
Fuel Costs	+4.0%
Aircraft Rentals + Amortisations	-3.9%
On-board Service	-22.3%
Insurance	-40.5%
Navigation Aids + Traffic Charges	+4.0%

Cost / ASK 0.2%



Unit Cost Evolution 03/02

Cost / ASK

Q1

+4.4%

Q2

-0.4%

Q3

-3.7%

Positive Results

January-September 2003

Revenues	3,443
Ebitdar	533.5
Ebitdar Margin	15.5%
EBIT	135.2
Ordinary Results	146.7
Net Income	108.7

Data in million €



Outlook 2003



Outlook

- We expect a slight improvement in the revenue trend in the last quarter
- The actions already implemented will produce a cost reduction in the last quarter of the year that will allow unit costs to be lower with respect to last year
- Our Cash Flow and Balance Sheet position will remain strong for the rest of the year

EBITDAR Margin will be above 14%

Results from Ordinary Activities will be around 150 MM/Euro





**Competitive Environment:
Markets**

Good Load Factor and Traffic Performance in 2003



Capacity Adjustment has produced High LF

Best performance among European peers

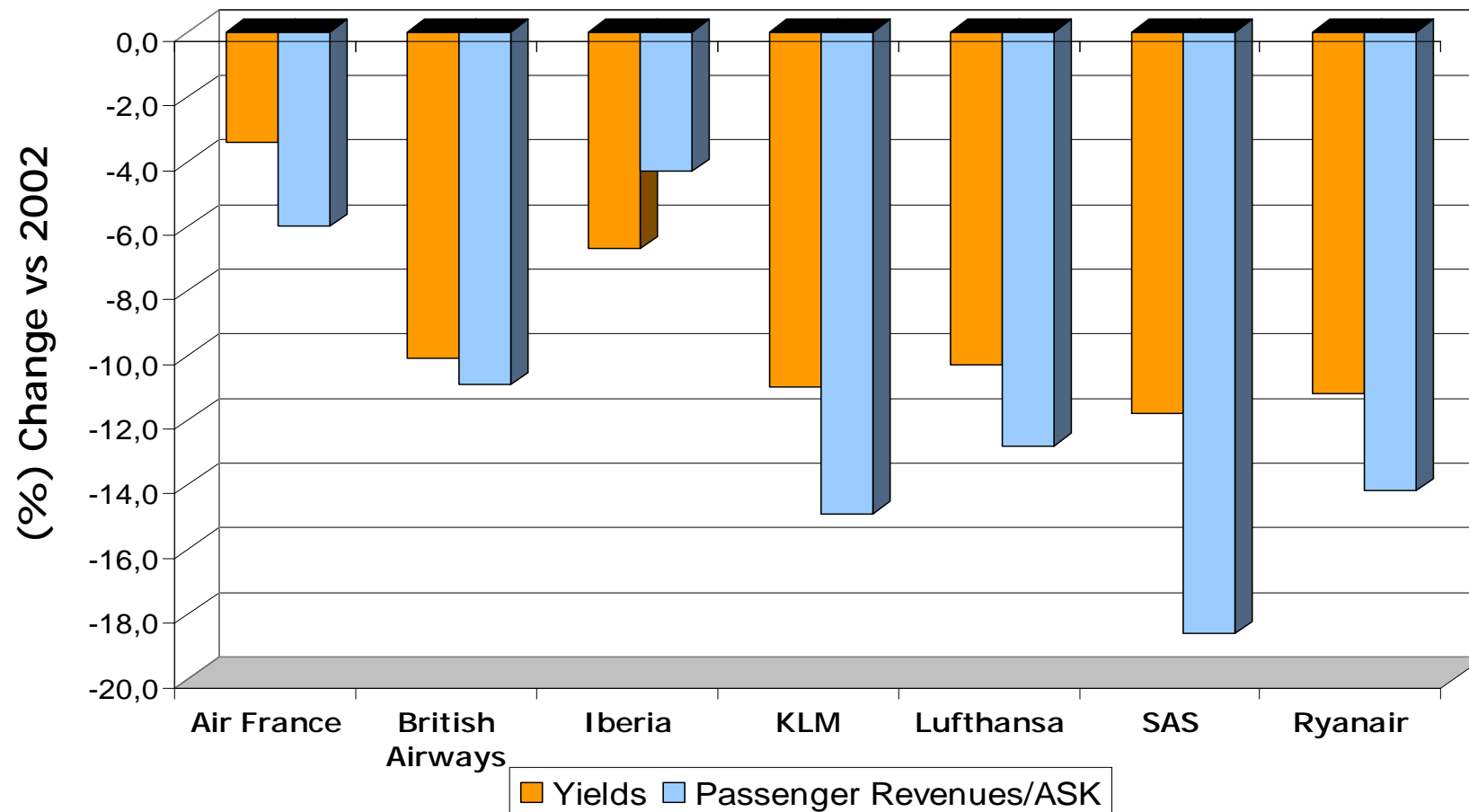
	Variation 2003/2003		
	ASK's (%)	LF (p.p.)	LF in 2003
	Jul-Sep	Jul-Sep	Jul-Sep
Air France	4.4	0.1	78.1
British Airways	3.4	-0.3	76.5
Iberia	1.9	1.4	79.9
KLM	-2.7	0.0	84.0
Lufthansa	1.2	-1.2	75.6
SAS	-2.9	-0.5	66.4

Source: Official press releases



Iberia is meeting the Challenge of Lower Unit Revenues

Evolution of Unit Revenues First Half 2003



Source: Interim reports, own calculation
Ryanair yield refers to rev. per PAX and Rev/ASK to rev. per seat

Steady Improvement during 2003

Iberia Operating Data 2003

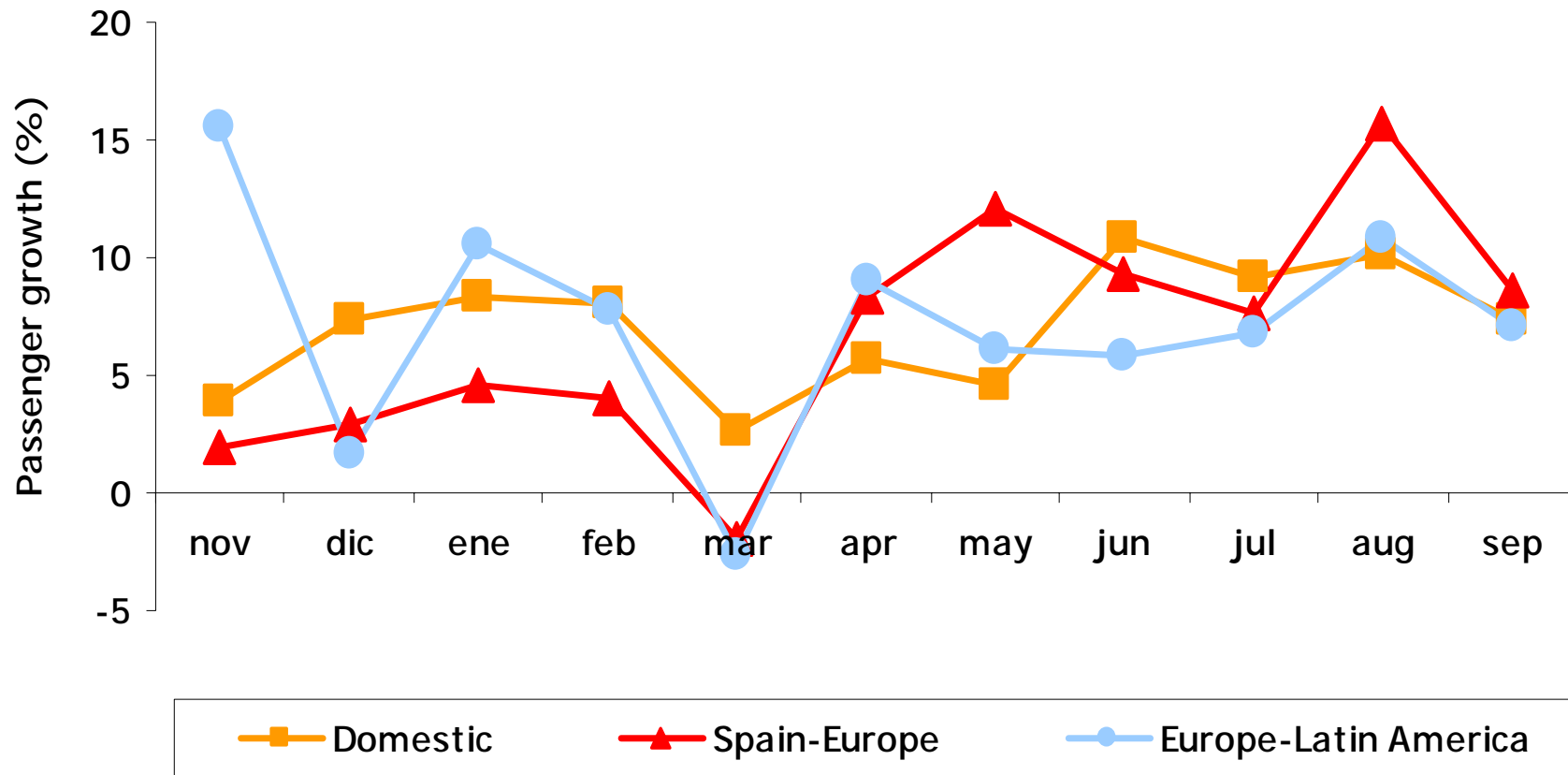
		2003		
		1Q	2Q	3Q
Domestic	LF	68.5	74.6	76.1
	LF variation (p.p.)	1.4	2.9	1.0
	Growth ASK, %	0.6	-0.7	1.5
Europe	LF	57.7	69.4	74.9
	LF variation (p.p.)	-4.9	0.7	0.7
	Growth ASK, %	6.0	-3.8	0.1
Latin America	LF	81.6	75.0	84.0
	LF variation (p.p.)	6.4	1.5	1.9
	Growth ASK, %	-6.7	-1.5	5.0

Iberia already started to restore capacity during the third quarter



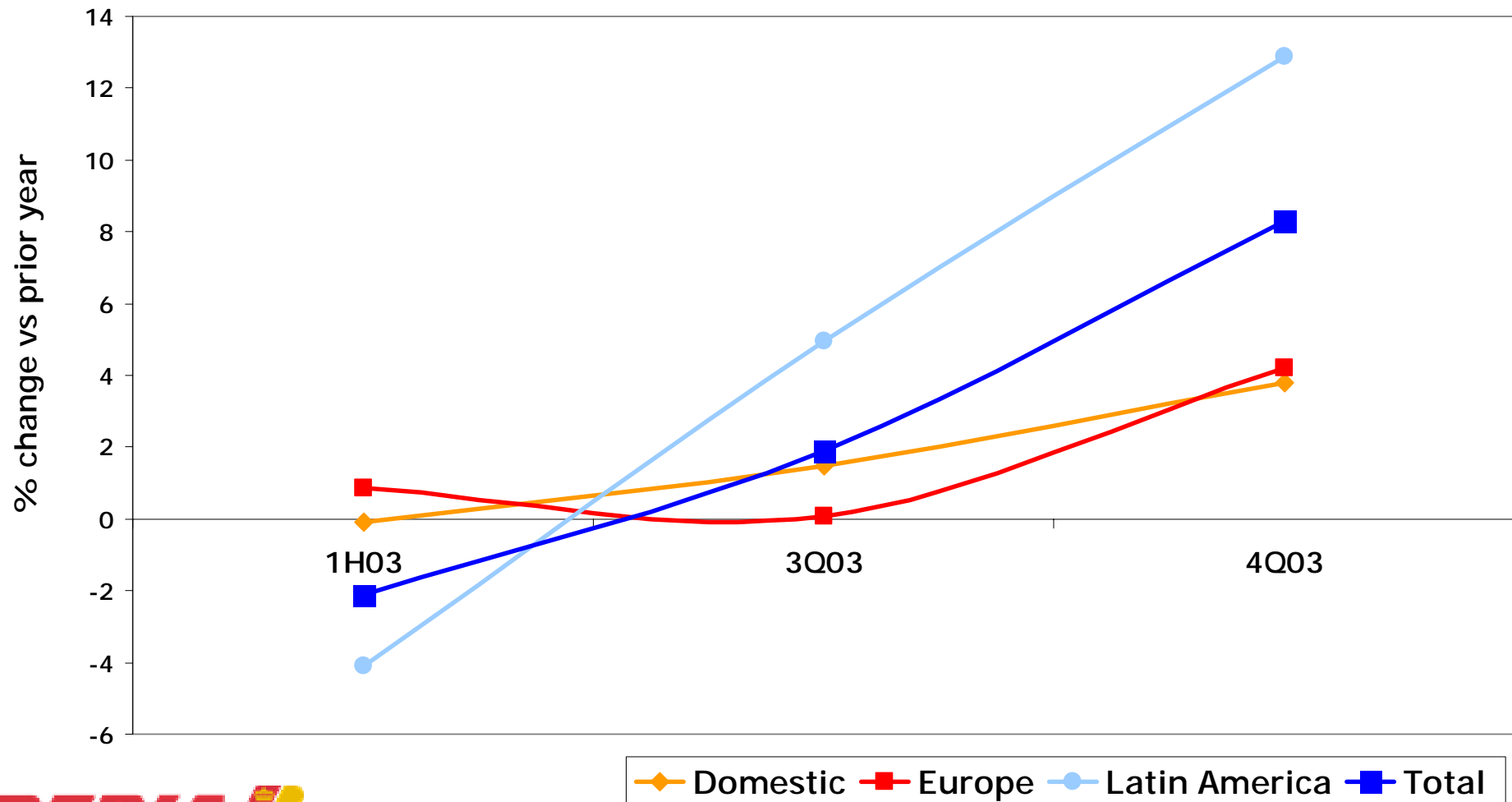
Market Trends already show Improvement

Evolution of Key Markets (Nov-02 to Sep-03)



Capacity Management is responding to Market Trends

Iberia Capacity Evolution (ASKs)



Domestic Market: Focus on Profits



Sustainable Profitability in the Domestic Market

	2002 Jan-Sep	2003 Jan-Sep	Change p.p.
Iberia domestic marketshare	58.5%	56.9%	-1.6
Mainland-Islands	43.9%	39.8%	-4.1
Rest	66.3%	66.5%	+0.2

Source: AENA

Increase in revenue per ASK 2001-2003: 9.3%

Domestic premium marketshare 2002: 84.3%

- Network rationalization of late 2001 has led to stable profit improvement
- Preventive introduction of the new domestic fare structure in April 2003



Latin America: Leadership and Profitability



Market Leader between Europe and Latin America

	2001	2002	2003 Jan-Sep	change 01/03 (p.p.)
Marketshare Iberia (%)				
Total traffic	15.8	16.5	16.2	0.4
Business	16.0	17.5	18.3	2.3
Capacity and LF				
ASK growth (%)	10.5	-3.1	-1.0	na
LF (%)	75.8	77.4	80.3	4.5

Source: MIDT's

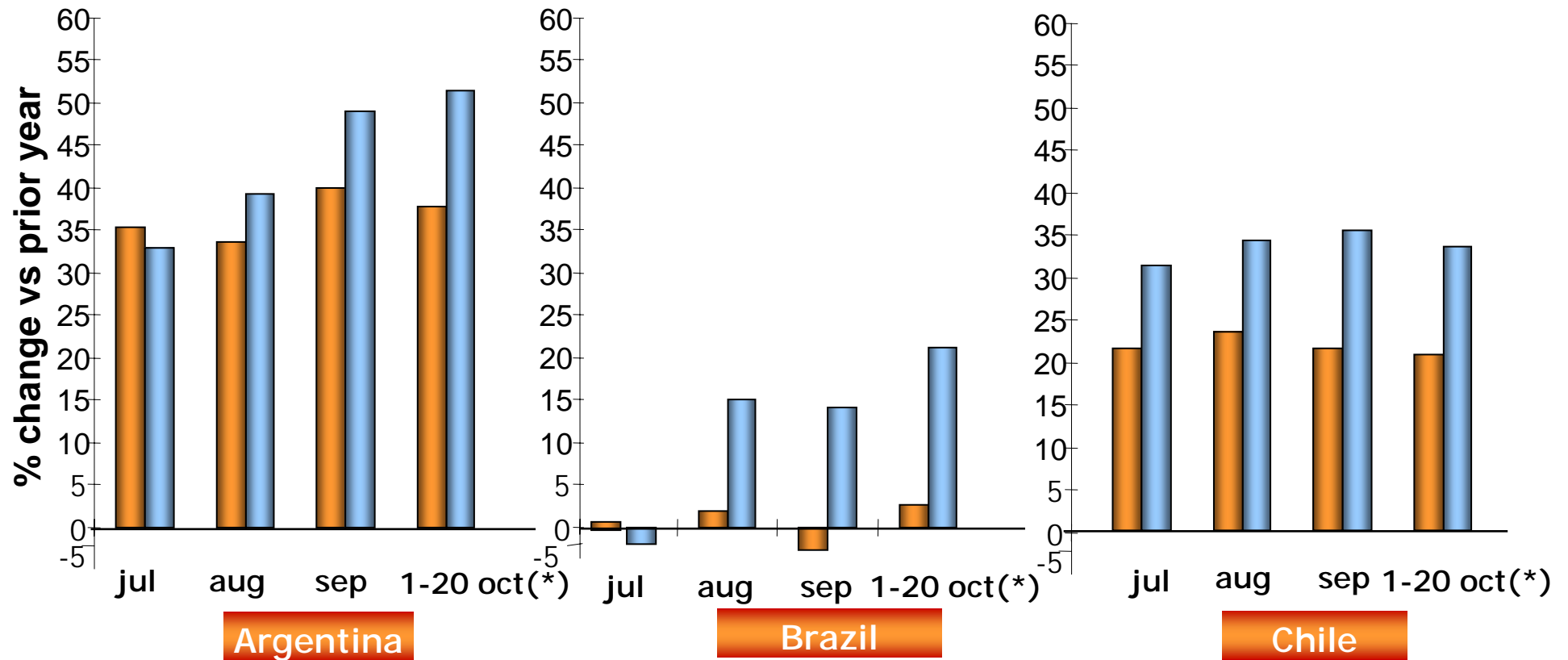
Sustaining improvement in the business segment to boost profitability



The Southern Tip of South America is booming

Iberia traffic performance in selected South American markets

Jul - Oct 2003



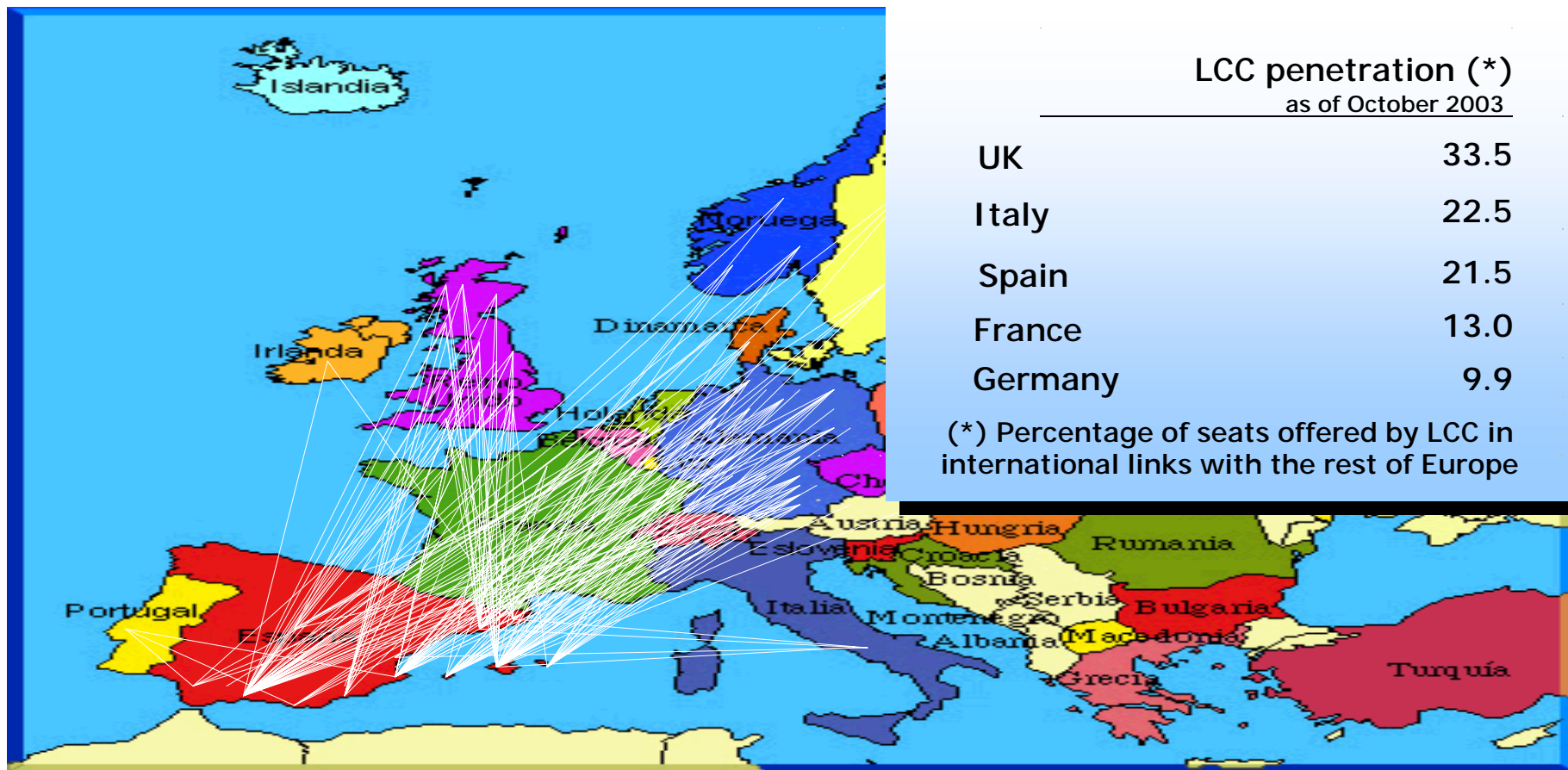
ask % rpk %

Europe: Reversing the LCC Threat



The LCC's are already here

Spain has high exposure to LCC's: third market in Europe after the UK and Italy (First if charter activity is included)



IBERIA

Source: OAG MAX Oct 03

LCC's are capturing Traffic mostly from Former Charter Activity

From 2001 to 2003 Iberia has gained 0.2 percentage points of market share in the total traffic between Spain and Europe

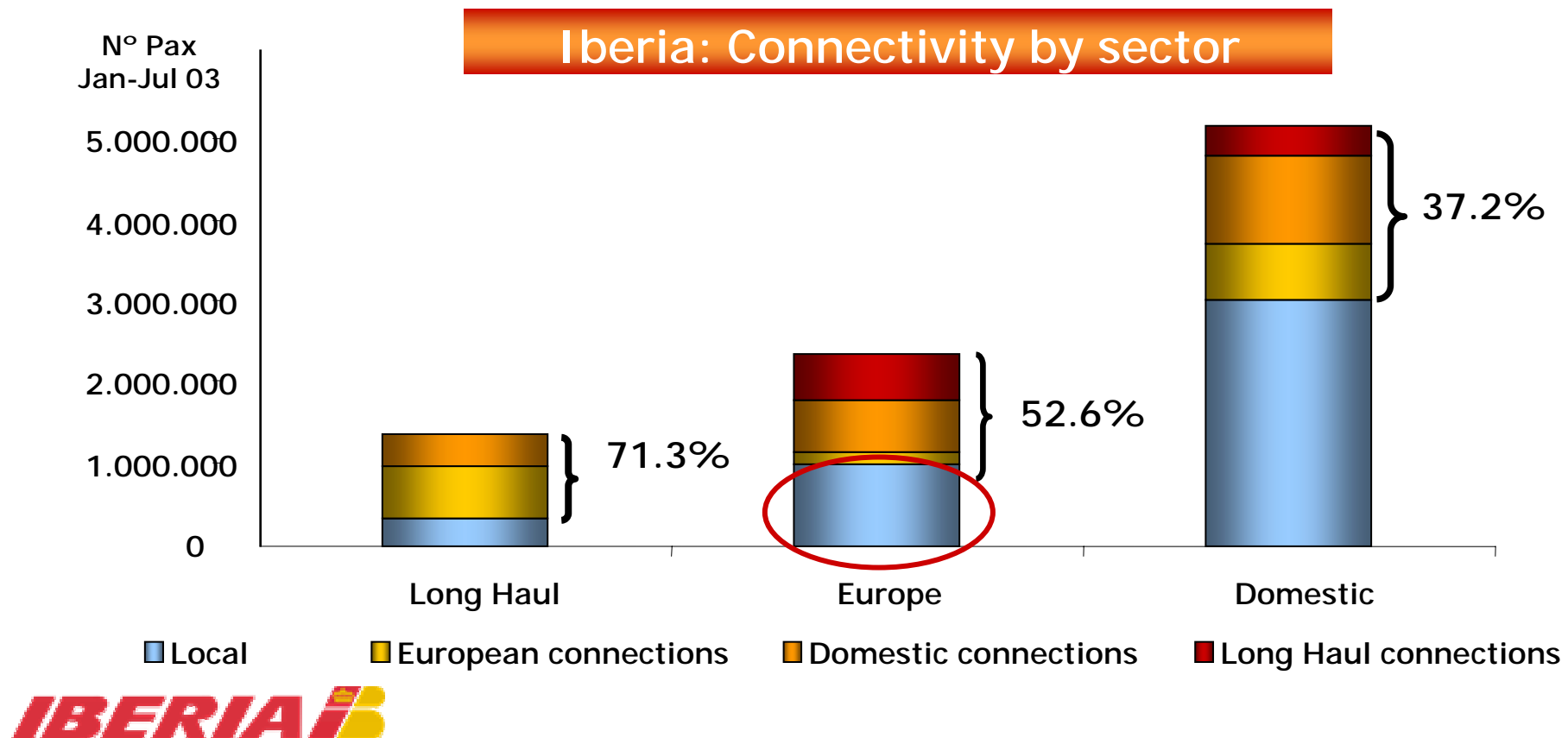
In the same period Low Cost Carriers have increased their market share by 6 percentage points

Charter carriers have reduced market share by 5.1 percentage points



Network Carrier Advantages

- Hub-and-spoke economies of scale
- Established customer base
- Product differentiation



Outlook for 2004



Better Economic Environment in Iberia Key Markets

Higher GDP forecasts in Spain and Latin America:

	2002 Real	2003 Estimated	2004 Forecast
Spain	2.0	2.1	2.8
European Union	0.8	0.5	1.8
Latin America	-0.6	1.0	3.6
USA	2.4	2.6	3.7

Iberia is ready to grow again in 2004

- Stability at the domestic market
- Recover growth path in Europe
- Improve market share in Latin America

Capacity growth 2004/2003

Domestic

3.4

Europe

10.1

Long haul

9.2

Total Iberia

8.0

Percent increase in ASK's

Estimated passenger growth in October 03 --European sector-- is 9%





**Risk Management, Flexibility and
Value Creation**

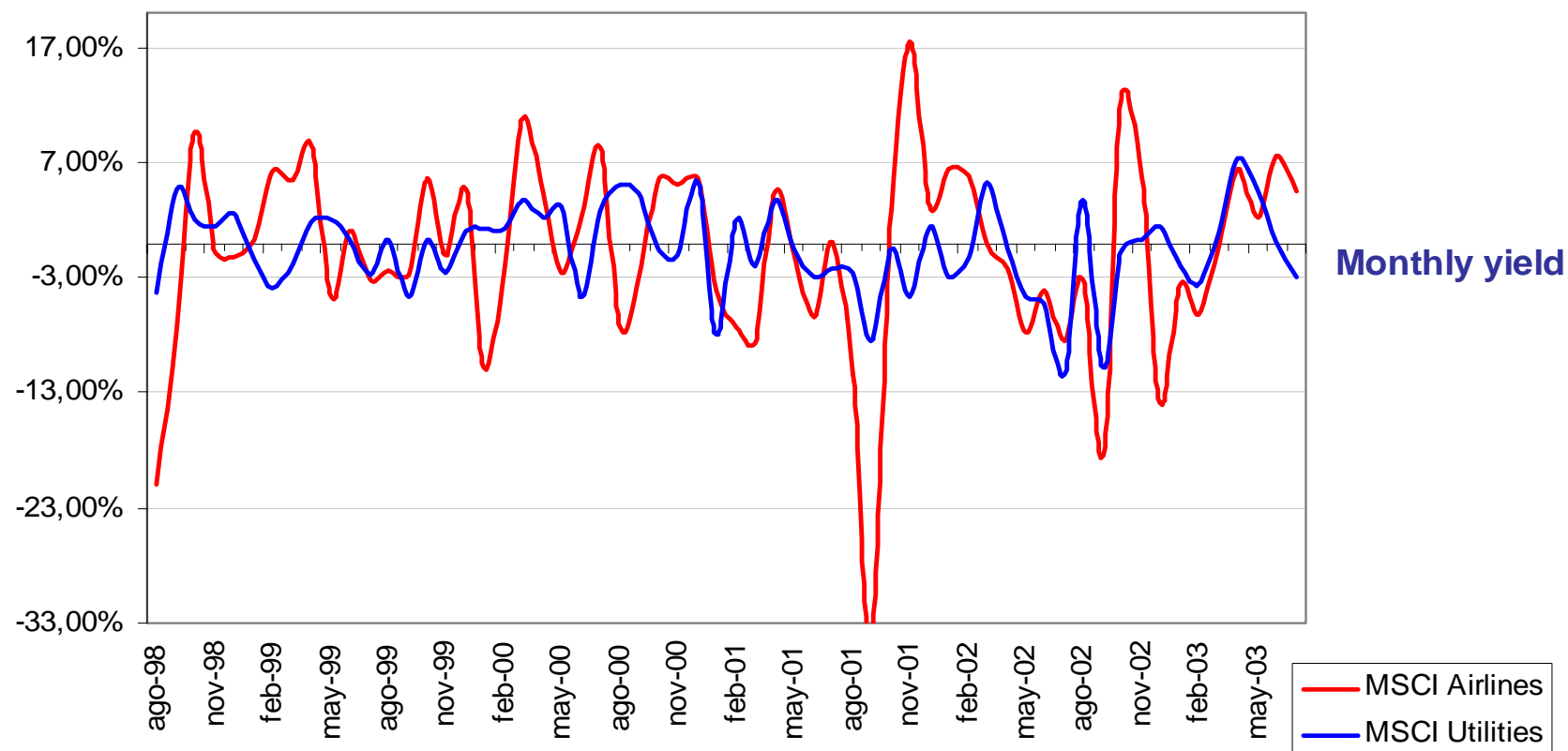
Management of Non Operating Risks



Volatility in Airlines Industry

■ Airlines Stock Volatility: 30%

■ Utilities Stock Volatility: 13.5%



Stock prices index by Morgan Stanley



Hedging Program (2003-2005)

Currency risk: structural short position of USD 500 million approx

- Strategic: up to 50% of net position, swap lease rentals from USD to EUR/CHF/GBP
- Tactical: flexible insurance collar, seagull and forward agreements

Interest rate risk

- Increase fixed/protective debt portion to a maximum of 70%/80% of the total debt, taking advantage of the historic low interest rate levels

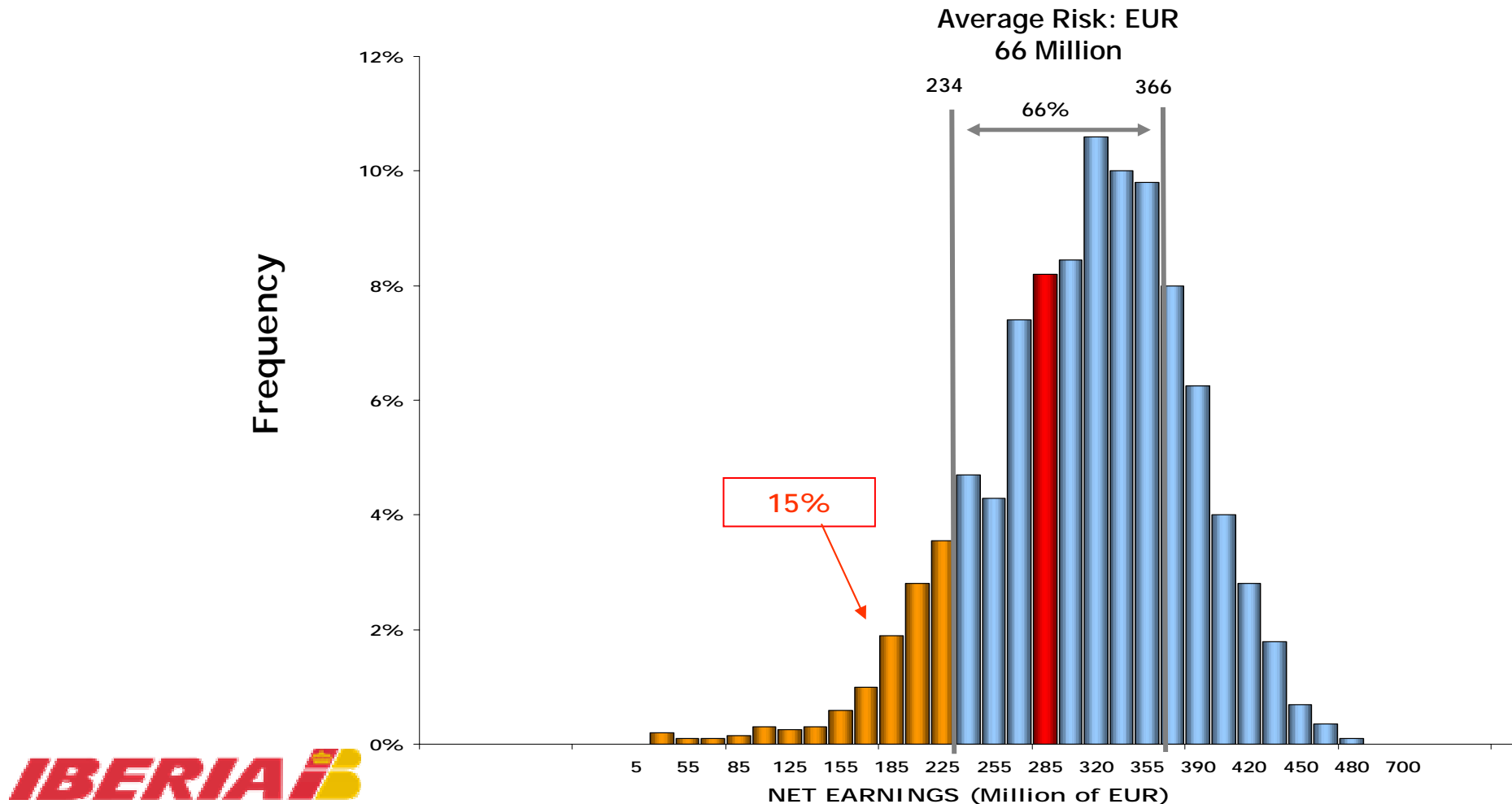
Jet fuel

- Strategic: hedging 50% of the consumption at Director Plan reference
- Tactical: hedging up to an additional 30%



Iberia Distribution of Net Earnings after Hedging Program

Likelihood of getting a reduction in Net Earnings higher than 42 M Eur has now been reduced to 15%



Flexibility and Capacity Management

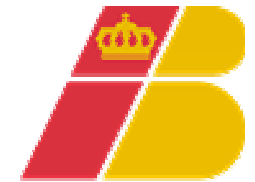


Flexibility and Ownership Cost Optimization

		Options to Return (number of aircraft)	
		Period 2003-2005	Period 2006-2009
% Operating Leases			
Long Range Fleet			
A340-300	100%	4	8
A340-600	100%	0	0
B747-200/300	35%	3	3
Total Long Range Fleet	95%	7	11
Short/Medium Range Fleet			
A319/320/321	80%	7	23
B757	95%	16	0
MD 87/88	15%	6	0
Total Short/Medium Range Fleet	65%	29	23
Grand Total	70%	36	34

- Opportunities to benefit from price reductions in brand new and second hand market
- Flexibility to move towards more efficient fleet mix

Ownership Cost and Value Creation



Cost of Debt in Iberia

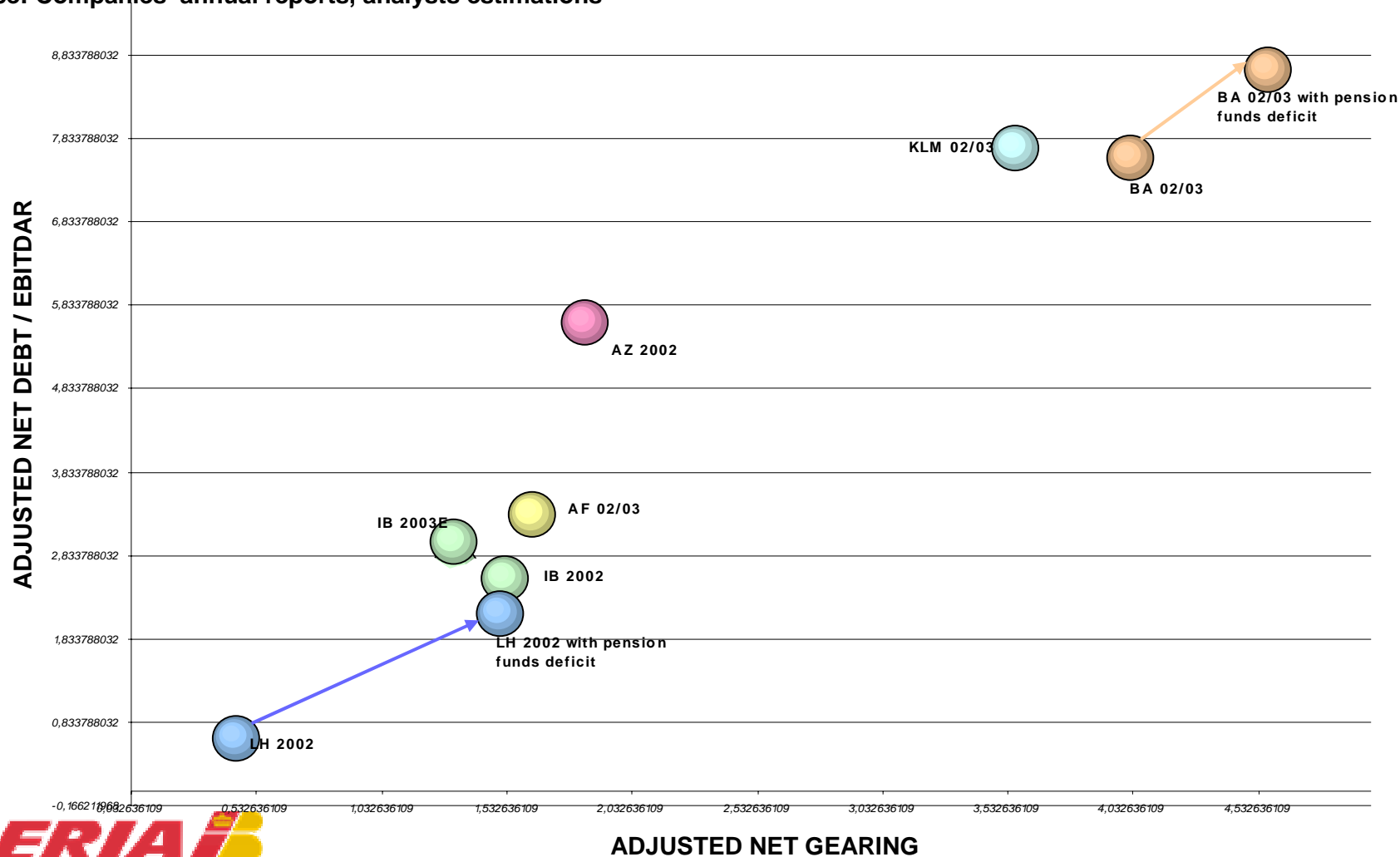
	June 2001	June 2002	June 2003
On balance sheet debt	5.56%	3.72%	3.02%
Off balance sheet debt	5.01%	3.33%	2.58%
Total debt	5.28%	3.42%	2.67%
Short term investments	(4.57%)	(3.52%)	(2.43%)
Total net debt	5.46%	3.31%	2.70%

IBERIA has substantially decreased its cost of financing, which reflects in the lowest ownership cost of the sector

Comparative Analysis – Financial Strength

IBERIA: One of the stronger financial positions

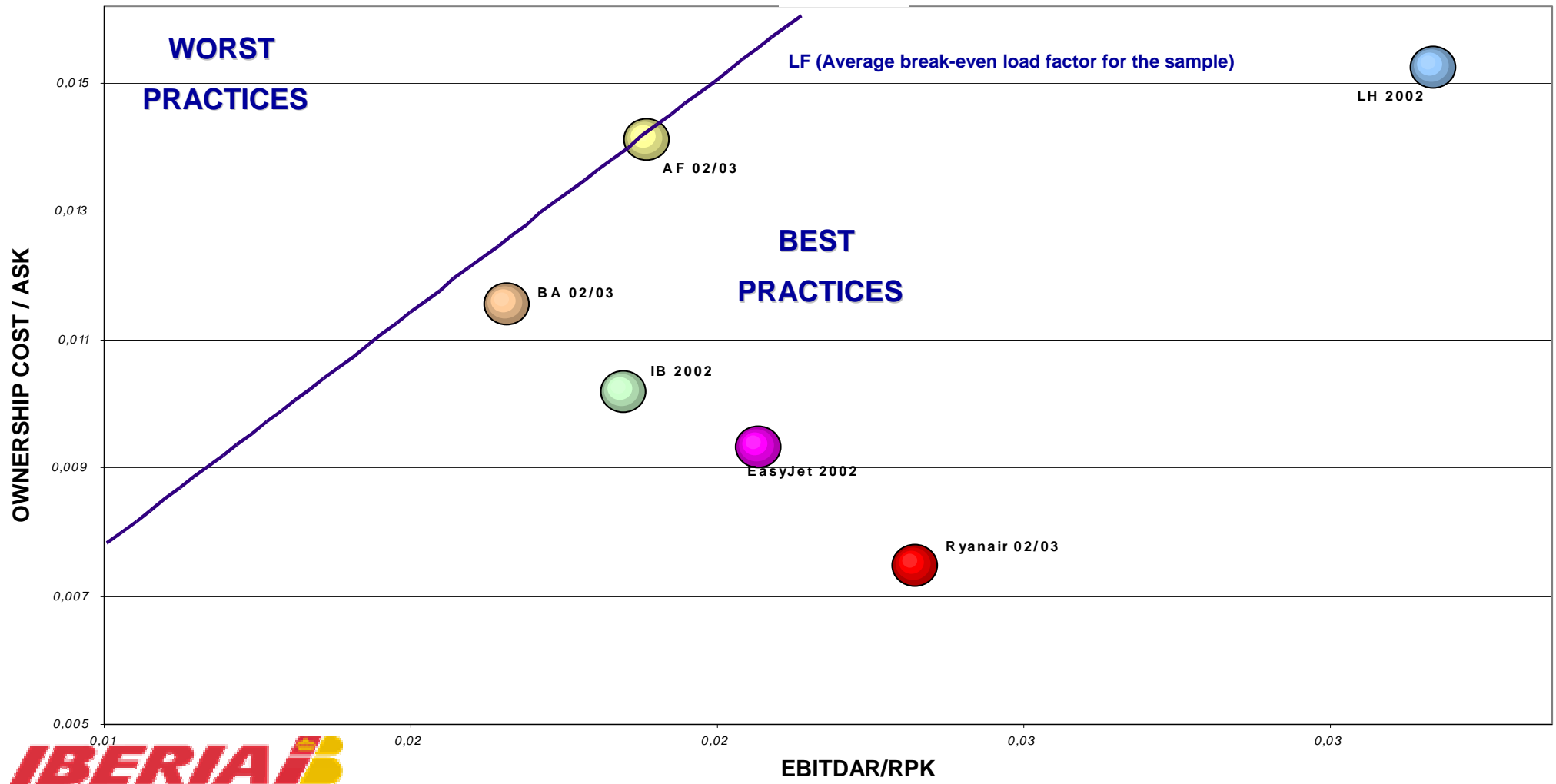
Source: Companies' annual reports, analysts estimations



Comparative Analysis

IBERIA: One of the lower ownership cost

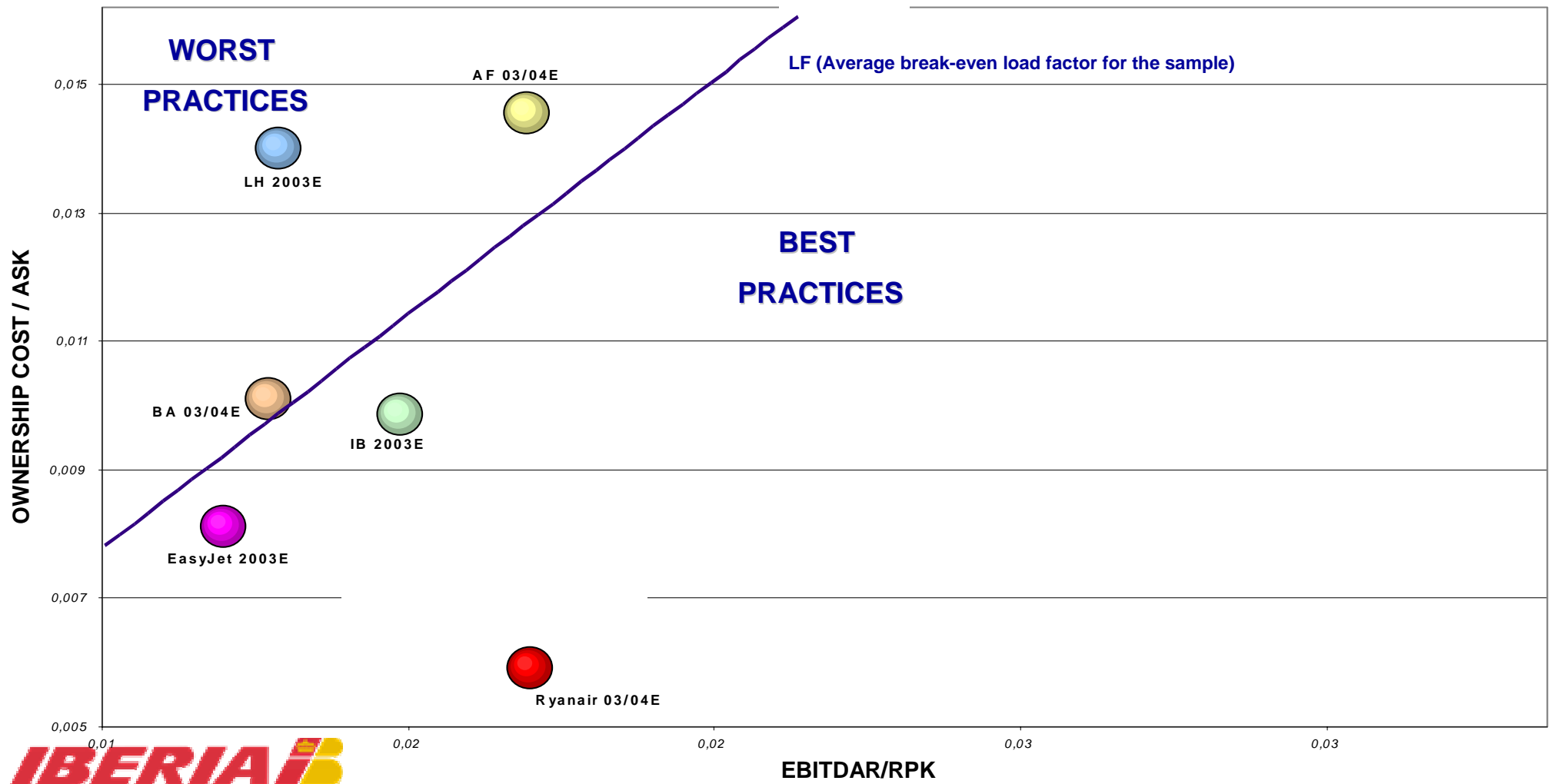
Source: Companies' annual reports, analysts estimations



Comparative Analysis

IBERIA: One of the lower ownership cost

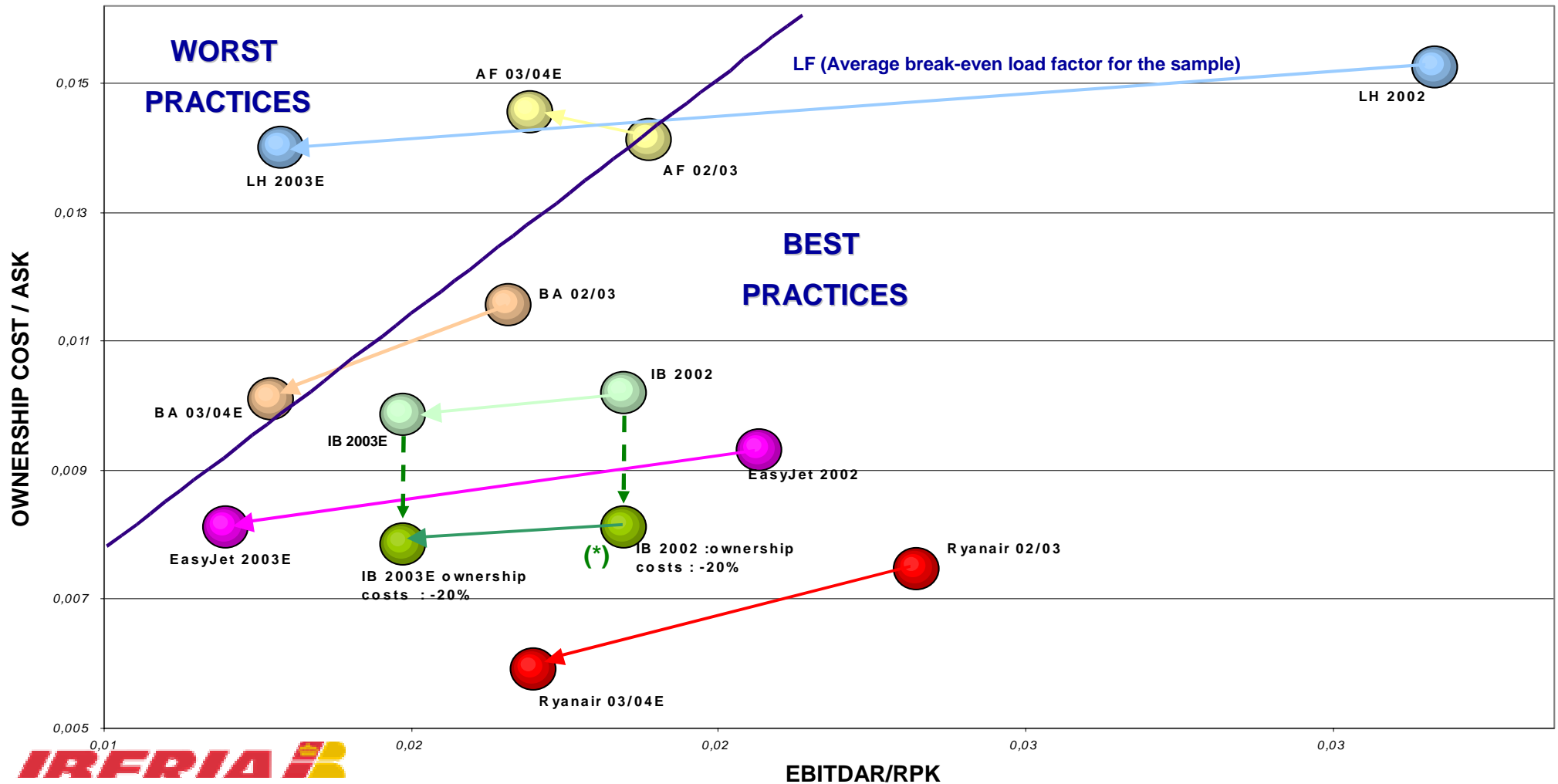
Source: Companies' annual reports, analysts estimations



Comparative Analysis

IBERIA: One of the lower ownership cost

Source: Companies' annual reports, analysts estimations

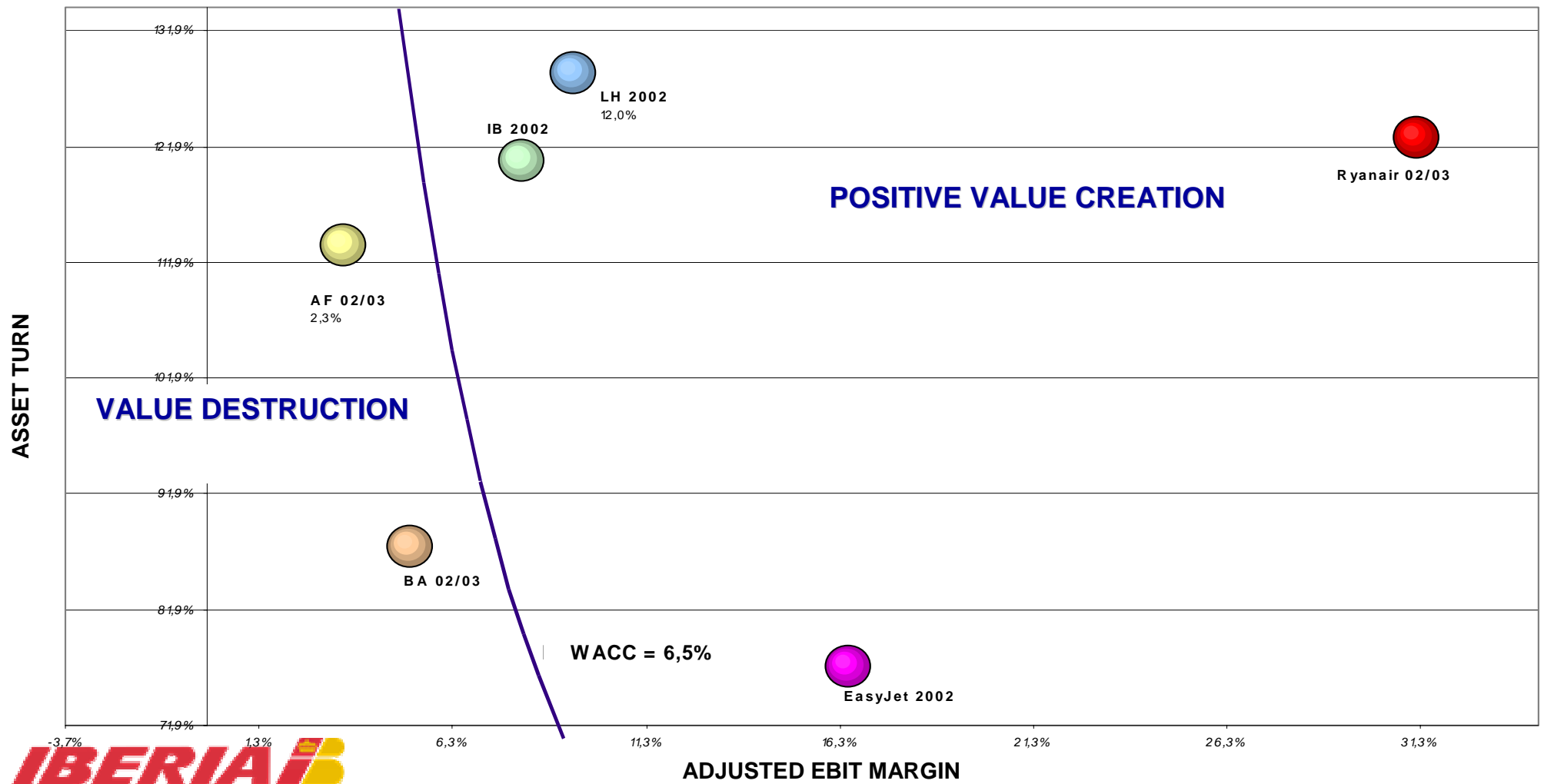


(*) Densification equivalent to the one applied by low cost carriers

Value Creation

IBERIA: Creating value for shareholders in 2002 and 2003

Source: Companies' annual reports, analysts estimations





Director Plan 2003-05

Director Plan 2003-2005

Director Plan

December 02/January 03

Review of Director Plan

May/June 03

Challenges and Opportunities for Iberia in 2003-2005

Madrid and Barcelona
Airport expansion (2004-2005)

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

Competitive
environment for
Iberia 2003-2005

Latin America: Take
advantage of leadership
position to benefit from
growth potential of this
region

Madrid-Barcelona
high speed train (AVE)
to enter operation
in 2005-06



Acceleration of Changes in the Sector

- Weakness of European economies
- Socio-political factors: war in Iraq



- Lower traffic and higher fuel prices (Temporary)

- Growing competition of the Low Cost Carriers in Europe and new fare structure in the domestic market



- Anticipation of new revenue model (Structural)

- Delay of the high speed train



- Delay of the impact until 2005/2006

Strategic Objectives 2003-2005

The Director Plan 2003 – 2005 continues and strengthens the track record established by previous Director Plans

TO GROW WITH FLEXIBILITY AND SERVICE QUALITY

1. Increase capacity to strengthen leadership positions at MAD/BCN
2. Maintain strategic operating and financial flexibility, to match growth rate to evolution of markets operated
3. Improve competitive positions via benefits of alliances
4. Redefine service model
5. Better service quality and closer relationship with high-value customers



Strategic Objectives 2003-2005

The Director Plan 2003 2005 continues and strengthens the track record established by previous Director Plans

TO FURTHER IMPROVE COMPETITIVENESS BY STRONG FOCUS ON UNIT COST REDUCTION

1. Implementation of new distribution strategy
2. Increase productivity of human resources
3. Pro-active risk and financial management
4. Efficient management of the portfolio of airline-related businesses

Our New Air Transport Business Model Needs to Be Built on Three Main Lines

Domestic/Europe/Long Haul

Retain business traveller revenues

- Improve service and maintain price differential

Domestic/Europe

Defend point-to-point traffic

- Be competitive in costs
- Wide range of destinations and frequencies

Europe/Long Haul

Continue to efficiently provide connecting traffic to long haul routes

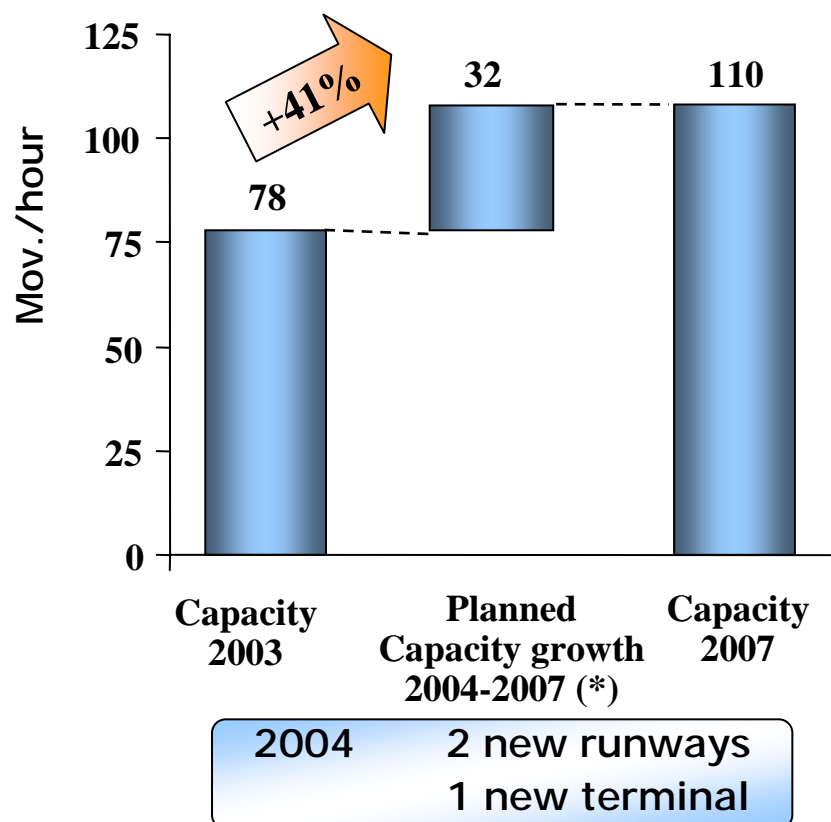
- Ensure connectivity of Madrid and Barcelona



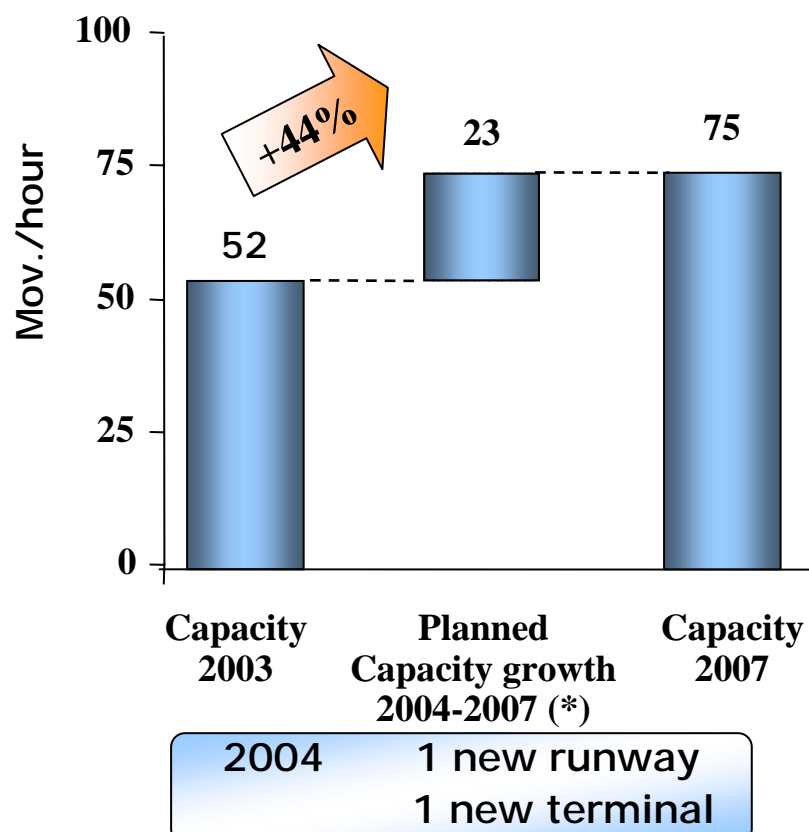
The Expansion in Madrid and Barcelona Will Allow Iberia's Growth

Madrid and Barcelona are among the fastest growing airports in Europe

Madrid expansion to 2007



Barcelona expansion to 2007



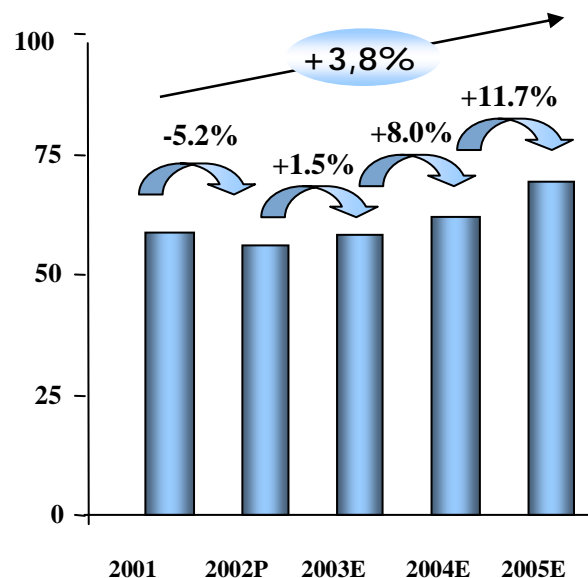
(*) IB forecast



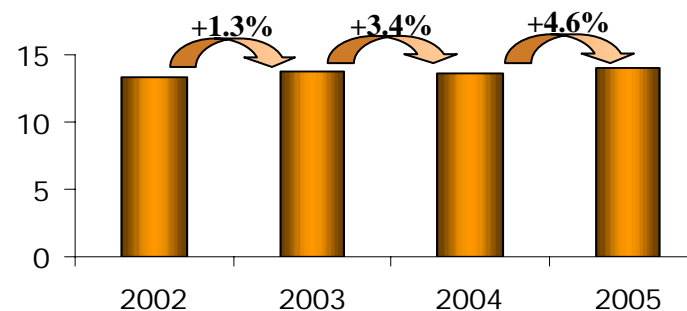
Iberia Will Grow Taking Advantage of the Expansion Capacity of Madrid Hub

Capacity

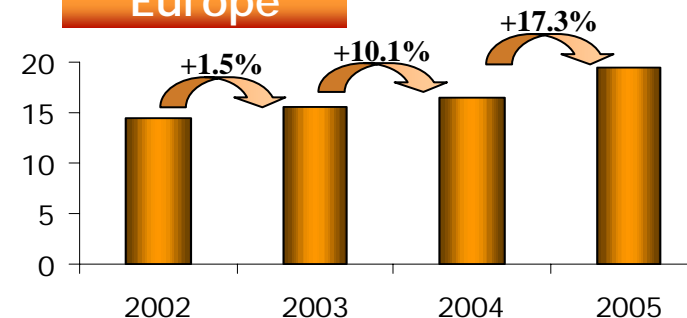
MM ASK's



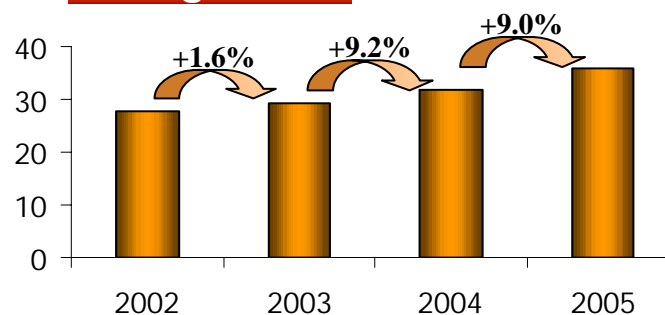
Domestic



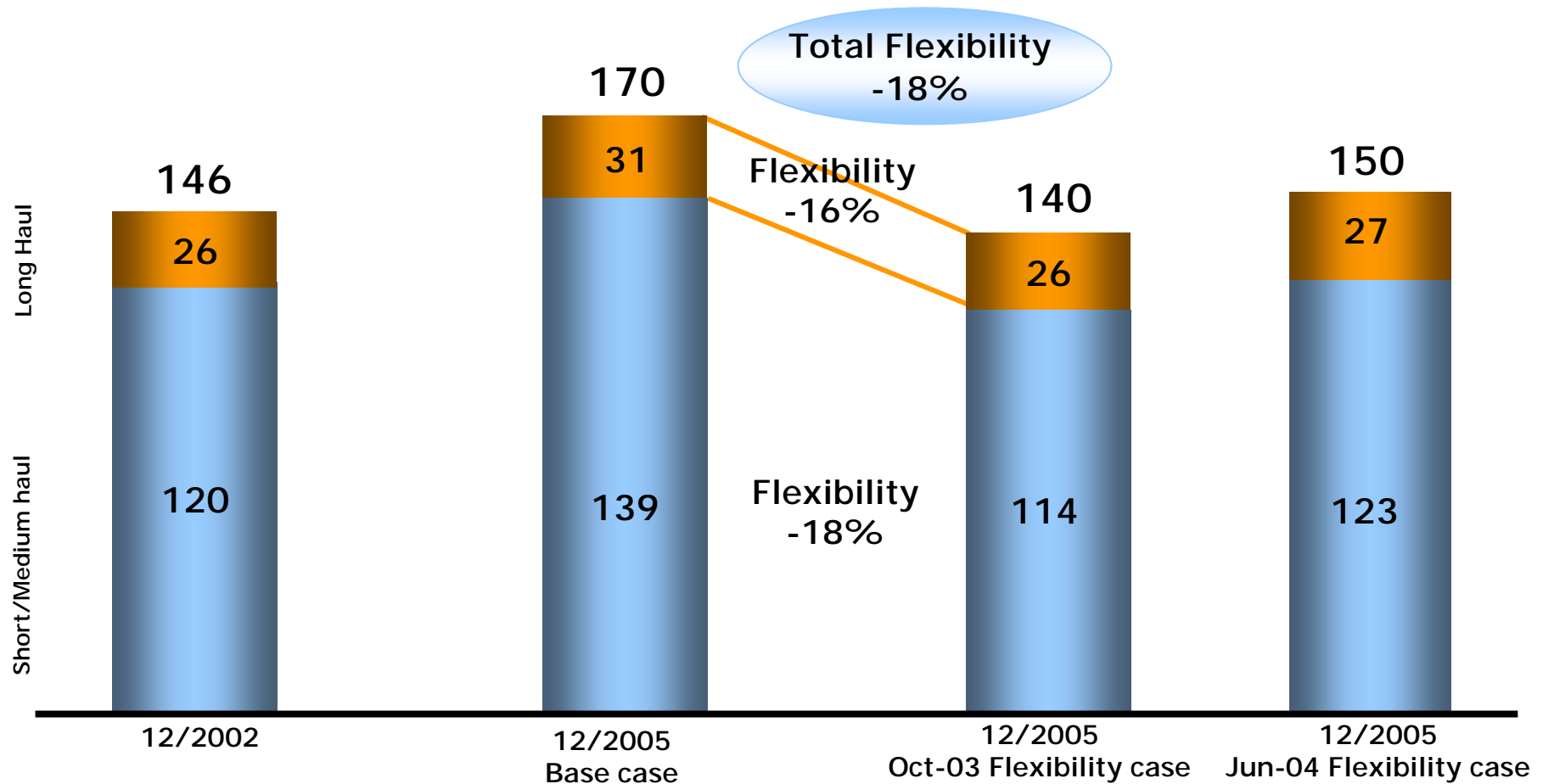
Europe



Long Haul



Flexibility - Remains a Key Tool

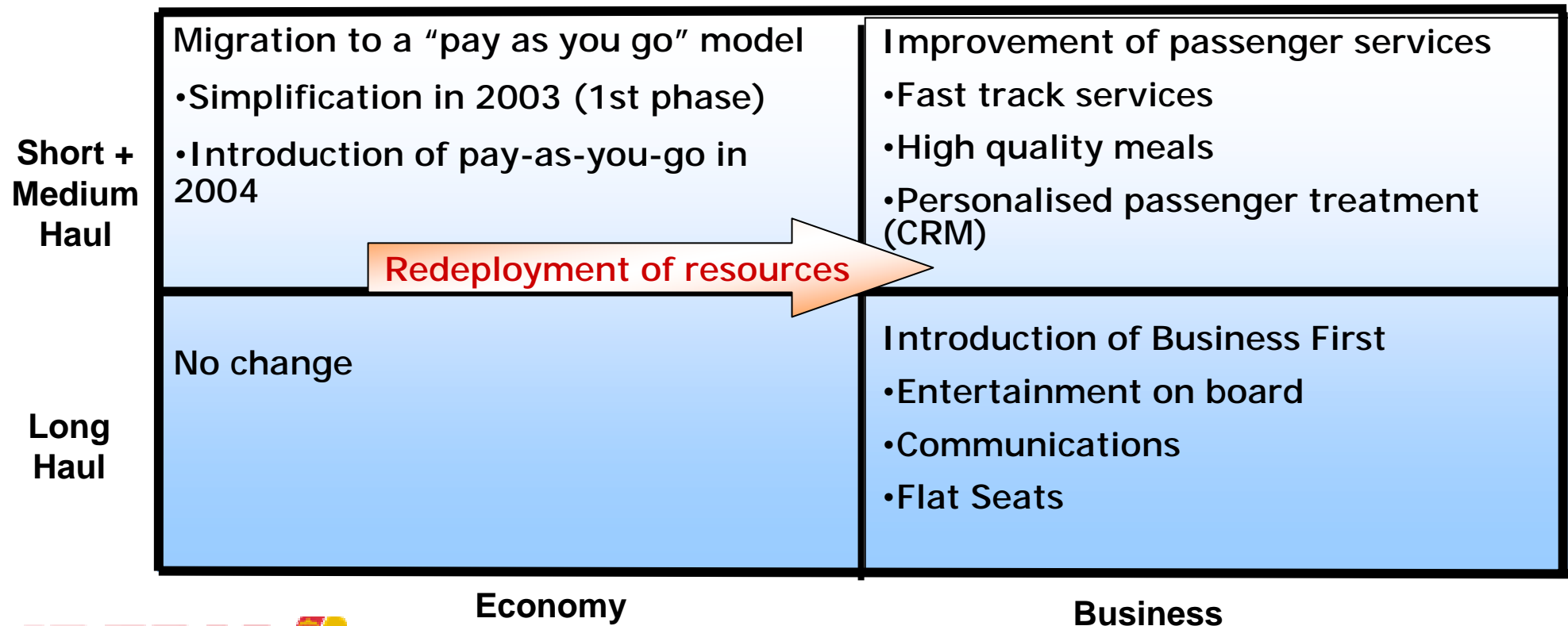


- Non renewal of Operating Leases or non exercise of options
- Cancel new hiring of Wet Leases (starting in 2004)

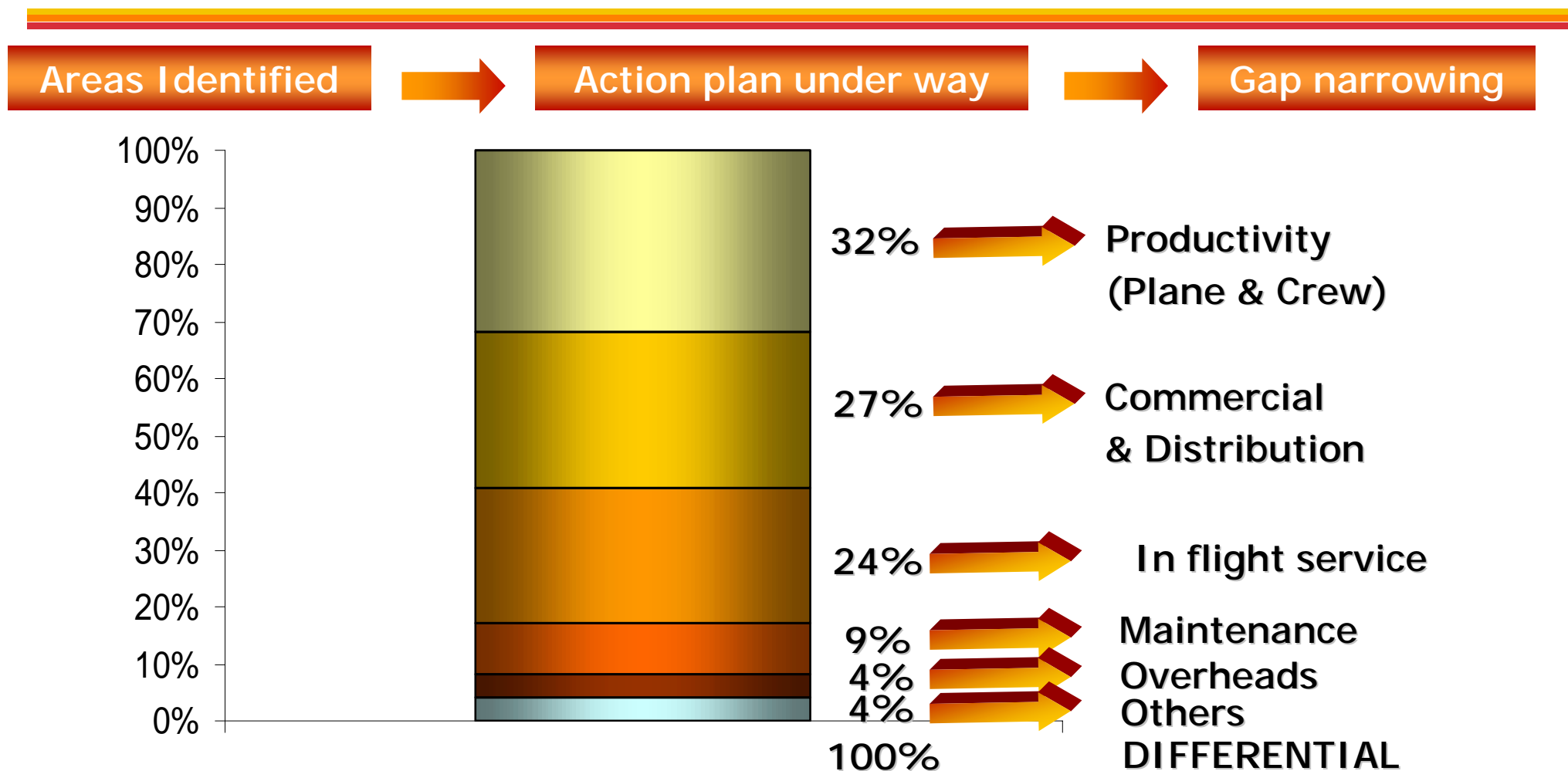
Adapting the Business Model of Iberia. New Products

- The short / medium haul economy product will be transformed: Unbundling the product
- The proposal offered to business traveller will continue to be enhanced

Modifications to Service Model



Cost Differential Iberia-Low Cost Carriers



The Director Plan will narrow this differential by 60% in 3 years



Asset Utilisation

35-45
MM/€

- Improvement of 0.8 Block Hours/ Day in medium haul aircraft through optimisation of slots and night aircraft utilisation
- Optimisation of short/medium haul fleet : Increase number of seats per aircraft by 5%

Additional measures

- Accelerate the phase out of B747-200
- Utilise financial tools will add flexibility in fleet incorporation
- Optimisation of A 340-300. Change of crew rest zone

Personnel Productivity

65-75
MM/€

Productivity improvement and reduction of unit costs

Director Plan targets:

- Ground Staff Cost/ASK: 10-13%
- Pilots Cost/Block Hour: 4-8%
- Flight attendants Cost/Block Hour : 10-15%

Some measures:

- Reduction of flight attendants for short and medium flights
- Reorganisation of regional offices
- Crew Multilicences

Commercial and Distribution Costs

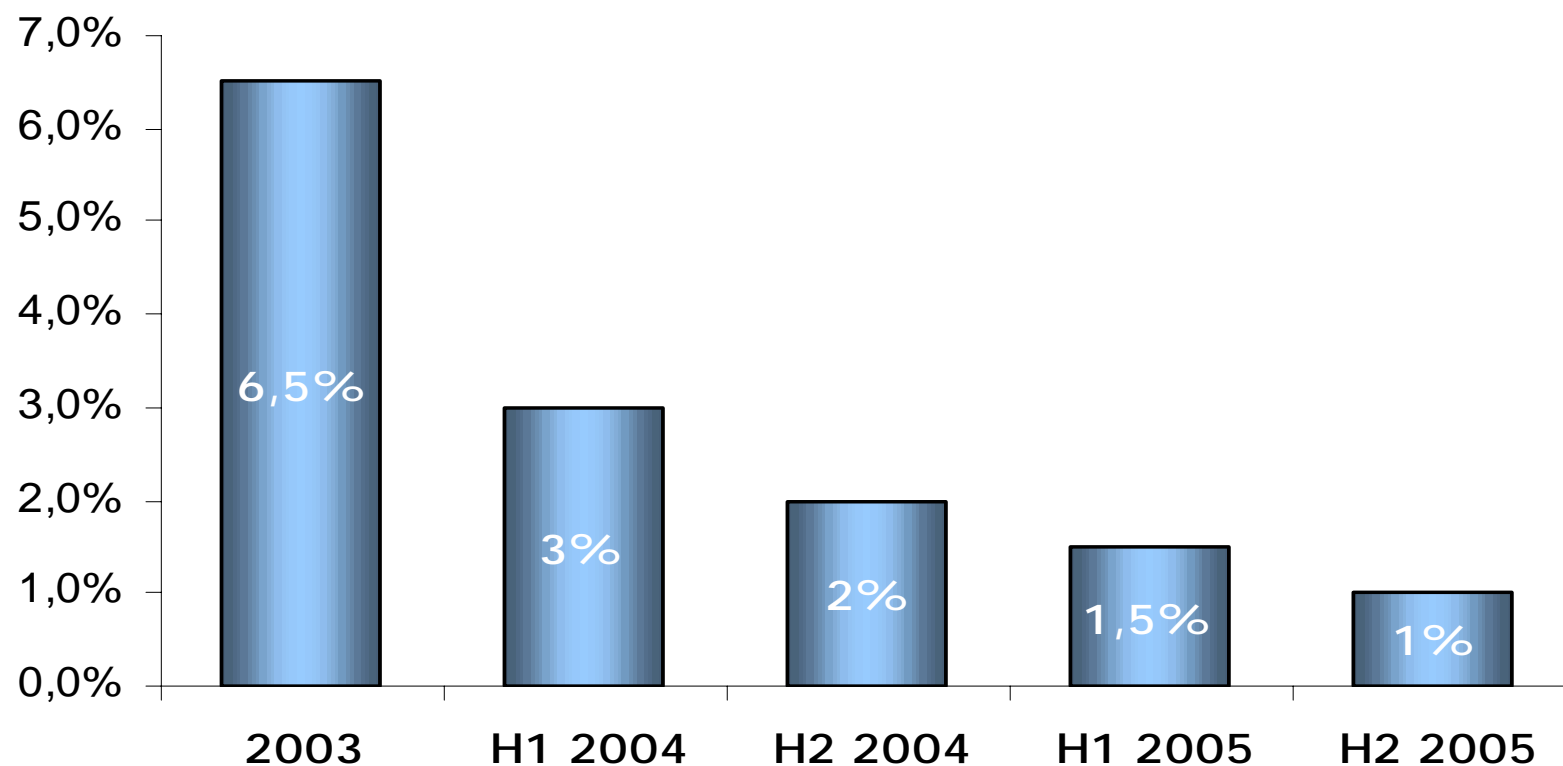
100-110
MM/€



Reduction in distribution costs

- New role of Travel Agencies
- New role of direct channels
- Increase corporate agreements under management fee
- Implement program for small companies

Reduction of Basic Travel Agencies' Commissions in Spain



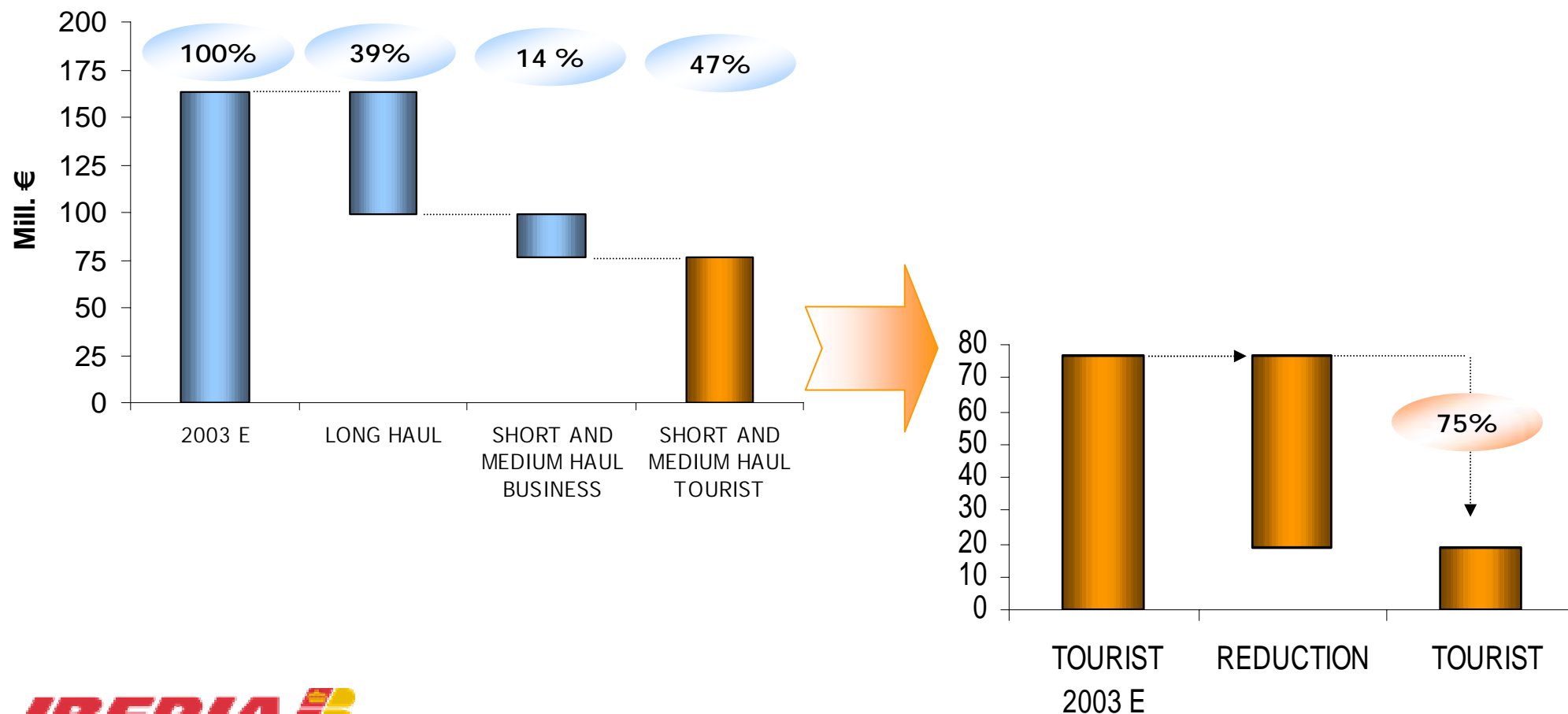
New Customer Service

40-50
MM/€



- CRM implementation
- Improved on-board service in business class
- Pay for meal service in medium/short haul tourist class

New on Board Service in Medium Haul Tourist Class



Other Costs

110-120
MM/€



Improvement in maintenance

- Improve productivity
- New Fleet
- Purchasing policy
- Increase third party revenues

Reduction in other costs

- Reduction in global purchasing costs
- Overhead reduction

Reducing Costs

Impact in 2005 MM/ Euro

Director Plan

Asset utilisation	35-45
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Personnel costs	65-75
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Commercial costs	100-110
------------------	---------

Service on board	40-50
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Other costs	110-120
-------------	---------

350-400



Note: Targets of cost reductions over base case 2005

Updating Our Plan - Accelerating Projects

New implementation date

Reduction of travel agencies' commissions	January 2004
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Revision of the new Maintenance program impact	2003
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New on board service model	July 2003
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Restructuring of foreign offices	2003-2005
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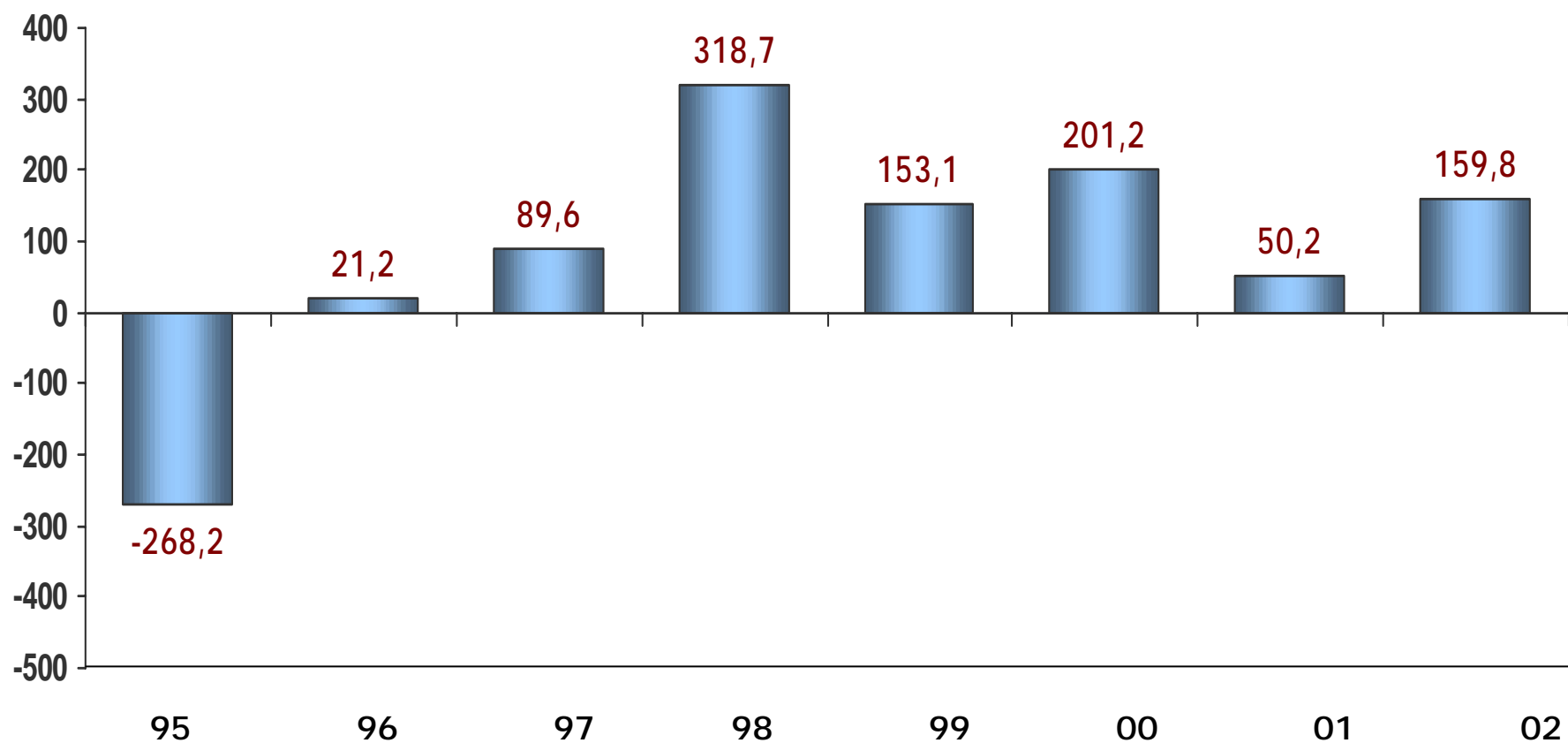
Improvement of ground and flight staff productivity	2004-2005
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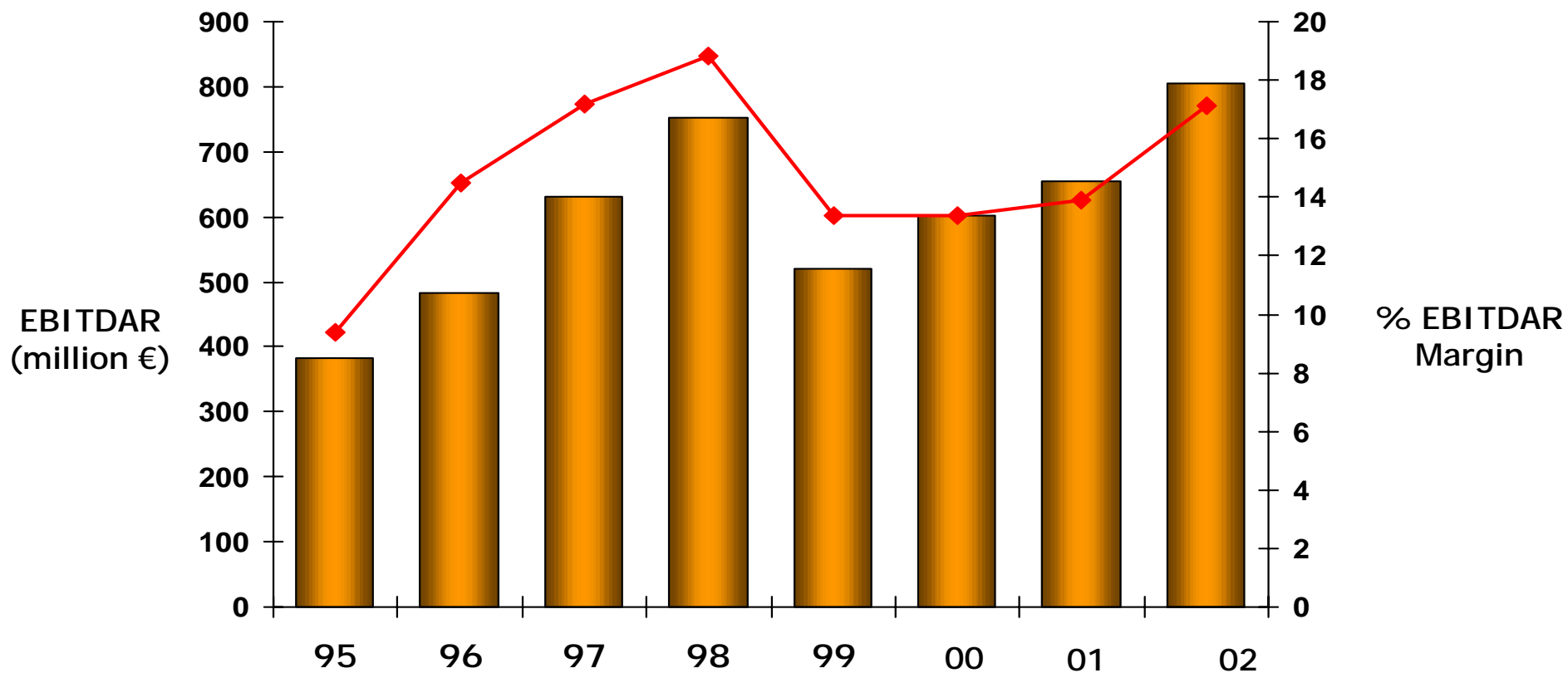
Summary



Iberia Net Results (Million €)

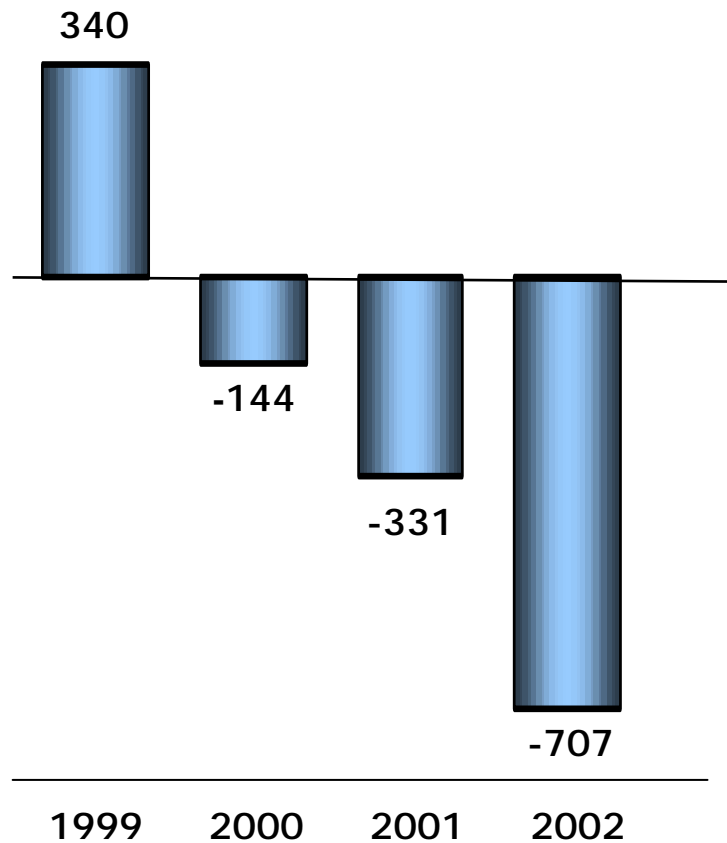


Profitability Evolution



Strong Balance Sheet

Net Financial Debt (Euro Mill.)



Strong Cash Position
September 2003
1,170 MM/ Euro



Vision of the Director Plan

- Maintain our leadership position in the domestic and Europe-Latin America market

Enhancing business class and maintaining connecting traffic

- Develop competitive service and prices in Domestic and European point-to-point routes

Redefining the service model in tourist class

- Maintain a competitive cost base even with Low Cost Carriers

- Maximise the value of the different airline related businesses

Maintain the leadership in profitability among the European airlines



Shareholder Value Creation

Iberia, a Consistent Project

- Seven consecutive years of profits

- Third Director Plan in place

- An experienced Management Team leading the company since 1996

Our Objectives Remain Unchanged

