Iberia Financial Management

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FINANCIAL STRATEGY IN IBERIA

- Flexible fleet management
- Debt / Liquidity management
- Optimising cost of capital
- Controlling financial risk
- Financial guidelines

1.- Objective: managing the fleet under flexible schemes

- Intensive use of operating leases and wet leases
- Development of cost efficient synthetic operating lease structures.
- Use of AVGs (Aircraft Value Guarantees) to limit asset risk and enhance financing structures
- Flexible financing structures leads to off balance sheet treatment

Benefits of flexibility

- Synthetic tax leases offer various possibilities at the end of the lease term through the use of AVGs
  - Market value < Terminal value
  - and Iberia willing to stop operating the aircraft

→ Option to dispose of the aircraft

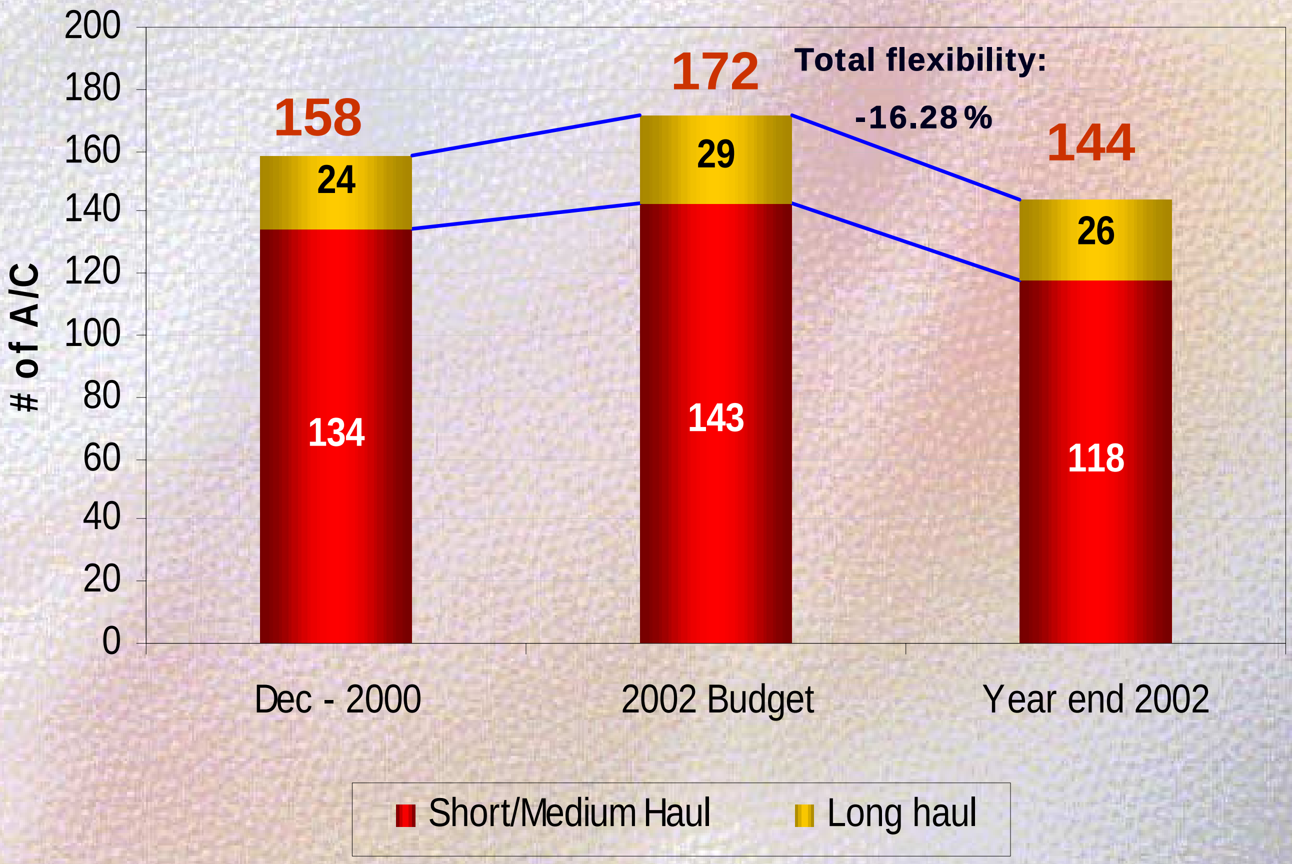
  - Market value > Terminal value
  - and Iberia willing to keep the aircraft

→ Option to exercise the purchase option or refinance the aircraft

- Flexibility provide three main advantages:
  - Adjustment to cycle
  - Aircraft asset risk management (market and obsolescence risk)
  - Benefit from price improvement due to the learning curve

2.- *Flexibility achievement in 2002*

- **Reduction of 16% of aircraft thanks to Iberia's flexibility tools**



Measures implemented

- **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**

3.- Fleet ownership structure

Figures in Million of Euros

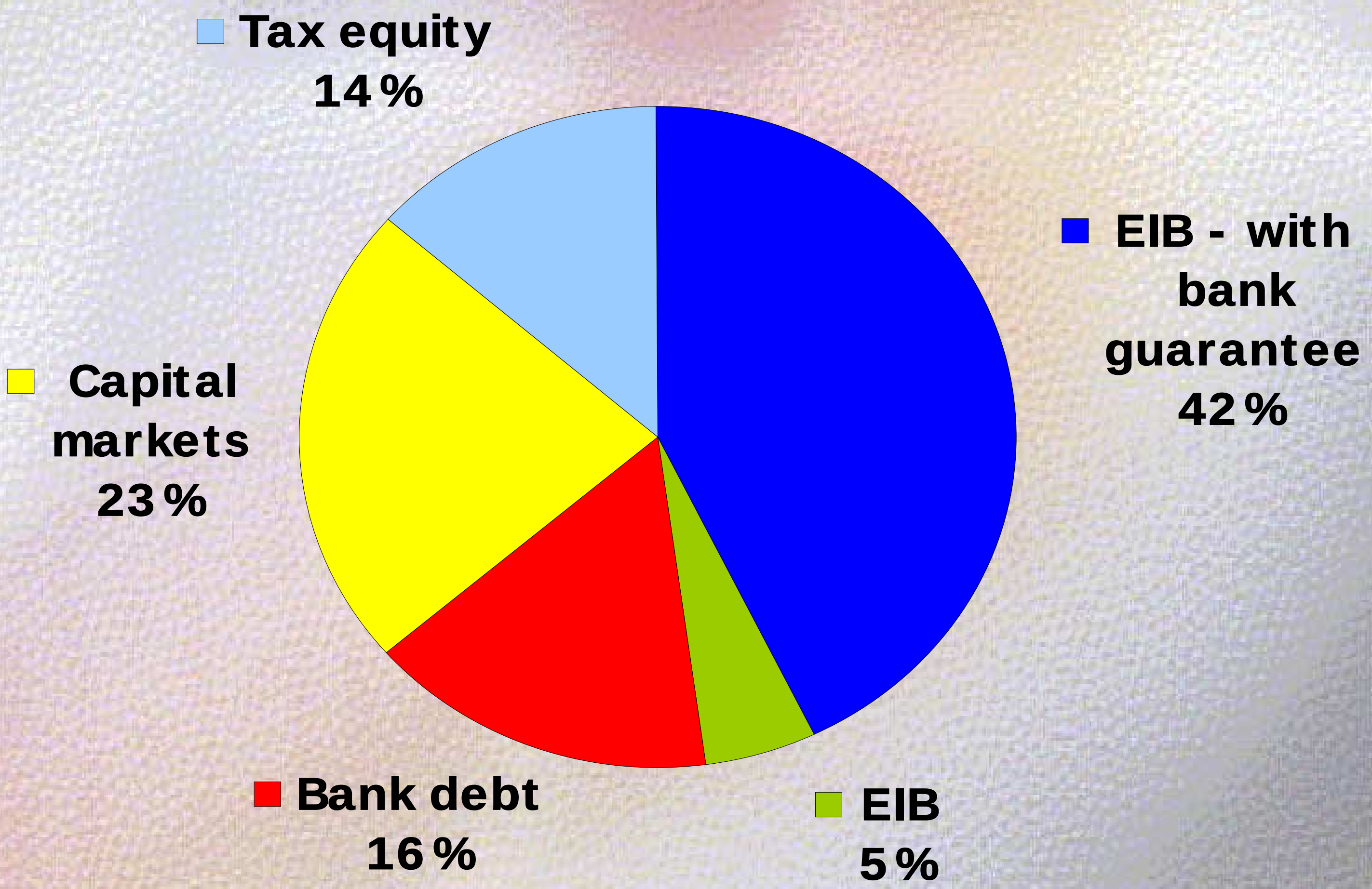
BY TYPE OF LEASE AND AMOUNTS (as of AUGUST 2002)

417 (10%)	Finance Leases
740 (19%)	Owned
2.027 (51%)	Synthetic. Op. leases
812 (19%)	Operating Leases
3.996	Total Assets

Finance Leases + Owned → **Total Assets "On Balance Sheet" 1.157 (29%)**

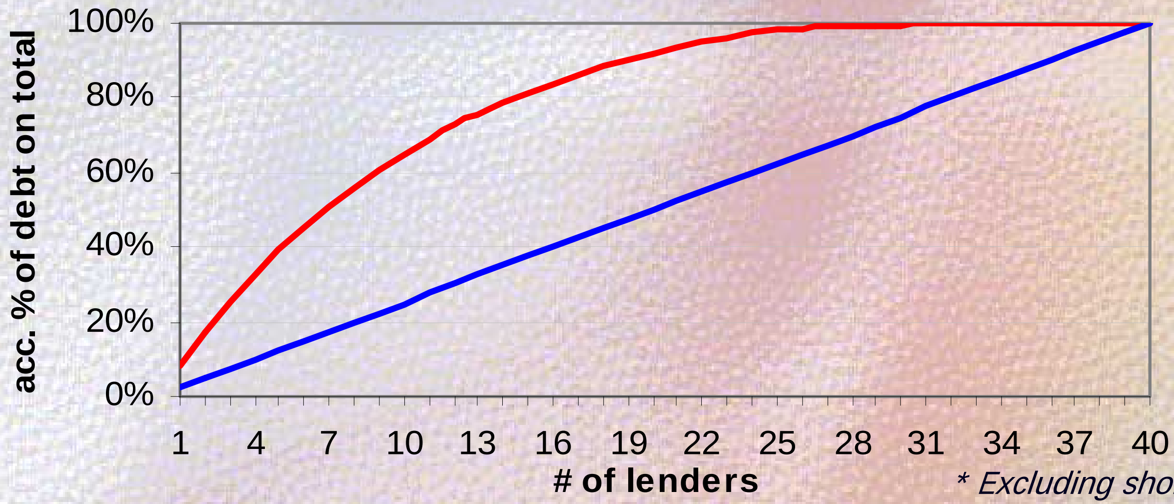
Synthetic. Op. leases + Operating Leases → **Total Assets "Off Balance Sheet" 2.839 (71%)**

1.- Balanced fleet financing sources (I)



1.- Balanced fleet financing sources (II)

- **Managing banks capacity ***



** Excluding short term credit lines*

- **Regular access to capital markets**
- **Tax Equity**
  - **Use of diversified cross border tax leases: JLL, GLL, INTOL, JOL**
  - **Priority resource due to its attractive cost of financing**
  - **In 2002 Iberia has been the most active company in Japanese tax equity market**

2.- Financial cushioning

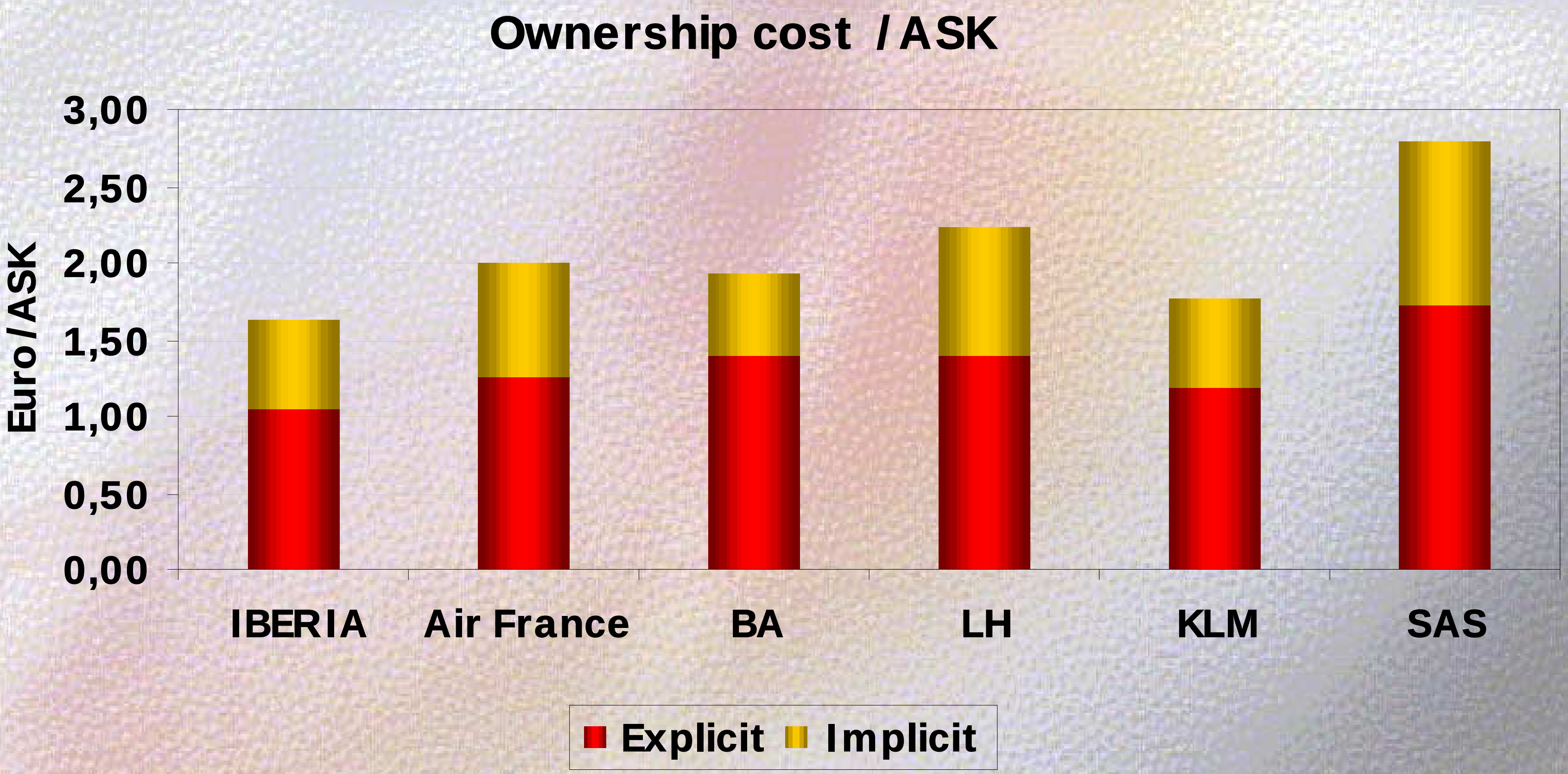
- **Cash position equivalent to aprox. 90 days of revenues**
- **Cash position as of September 2002**

Cash position	1.055 MM/Euros
Unutilised credit lines	93 MM/Euros
Total liquidity	1.148 MM/Euros
Days of Revenues	89.4 days

- **Additional cushioning**
  - 18,3% interest in Amadeus (market value of 400 MM/€ approx.)
  - Other unencumbered assets (properties of La Muñoza and Barajas)

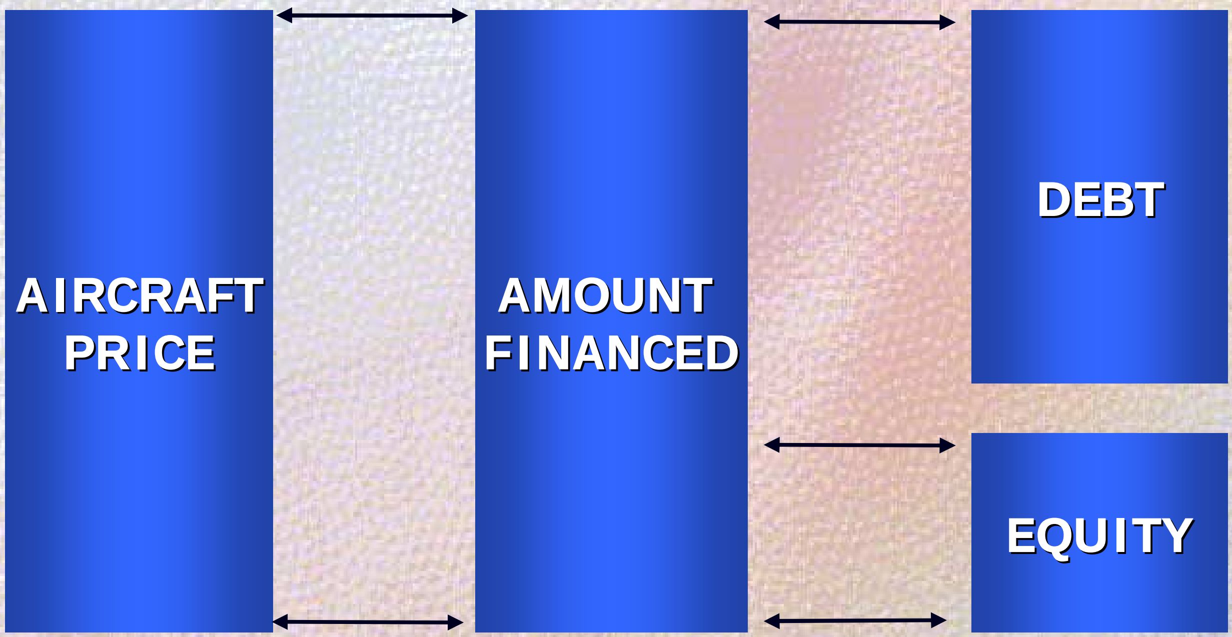
1.- *Position in the sector*

- **Iberia has one of the lowest cost of capital in the sector**



Including second quarter results. Data as of July 2002
Explicit ownership cost/ASK = (Leasing + Amortization + Int)/ASK
Implicit ownership cost/ASK = (Shareholder's Equity * 12% / ASK)

- **Cost of capital enhanced by extensive use of synthetic tax lease structure**



<u>EXAMPLE</u>
COST COMPOSITION

LIBOR + 0,45%

LIBOR - 1,70%

LIBOR - 0,55%

- **Selective use of sophisticated financing structures**
  - **8 awards of *deal of the year* over the past years for innovative aircraft transactions, in particular IBERBOND 1999 and IBERBOND 2000**
- **Continuous innovative strategy**
  - **2002 Warehousing 6 A-320/321**
  - **2002 EIB securitization for 2 A-340-300**
    - Combination of Japanese Operating Lease with tranched debt and liquidity facility.

2.- Managing cost of debt

- Low cost of debt (below 3,50 %), benefiting from interest rates and currency management and leveraged tax leases
- Return on short term investments above average cost of net debt

	GROSS DEBT (1)		FINANCIAL ASSETS		NET DEBT		AVERAGE REFERENCE RATE 10 YRS
	Amount	Final Rate	Amount	Final Rate	Amount	Final Rate	
TOTAL IN BALANCE DEBT	670	3.22 %	1,037	3.50 %	(367)	-0.28 %	
TOTAL OFF BALANCE DEBT (Capitalised Leases)	2,571	3.23 %	0	0	2,571	3.23 %	
AVERAGE RATE	3,241	3.23 %	1,037	3.50 %	2,204	3.19 %	4.27 %

Figures in Million of Euros

(1) Including margin and NPV savings

- **Integrated approach to non operating risks (FX, Interest Rates and Jet Fuel)**
- **Currency and interest rate risk**
  - **Using outflows in rentals to compensate structural positions (long in GBP and Euros, short in USD)**
- **Fuel hedging program**
  - **Strategic: 50 % on a 3 year basis**
  - **Tactical: 25 % one year rolling scenario**
- **Iberia hedging program: savings achieved (against market prices)**

	Jet fuel	Forex & Int. rates	Total
2000	130	60	190
2001	30	27	57
Total	160	87	247

Figures in million of USD

	Current position (2002 Estimation)	Director Plan objective (2005)	Sector average
Leverage	65,57%	65% - 70%	72,55%
Interest coverage	4,91	> 4	4,07
Debt / Ebitdar	3,49	< 3	6,12

Leverage= Net Debt / (Net Debt + Equity)
Interest coverage = Net interest / EBITDAR
Net Debt = Long term debt + Short term debt - Cash - Short term financial investments + 7 * Lease rentals