Iberia 2003-2005: 3 Year Vision

Xabier de Irala

Chairman & CEO

Industry Challenges

- Market and business model specialisation: Define the service model for each segment
- Cost pressures by Low Cost Carriers
- Focus on customer: service differentiation and customer loyalty programmes
- Industry consolidation
- Efficient portfolio management and increase specialisation bringing in new partners
- Security, environment, infrastructure

Redefinition of traditional airline business model

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

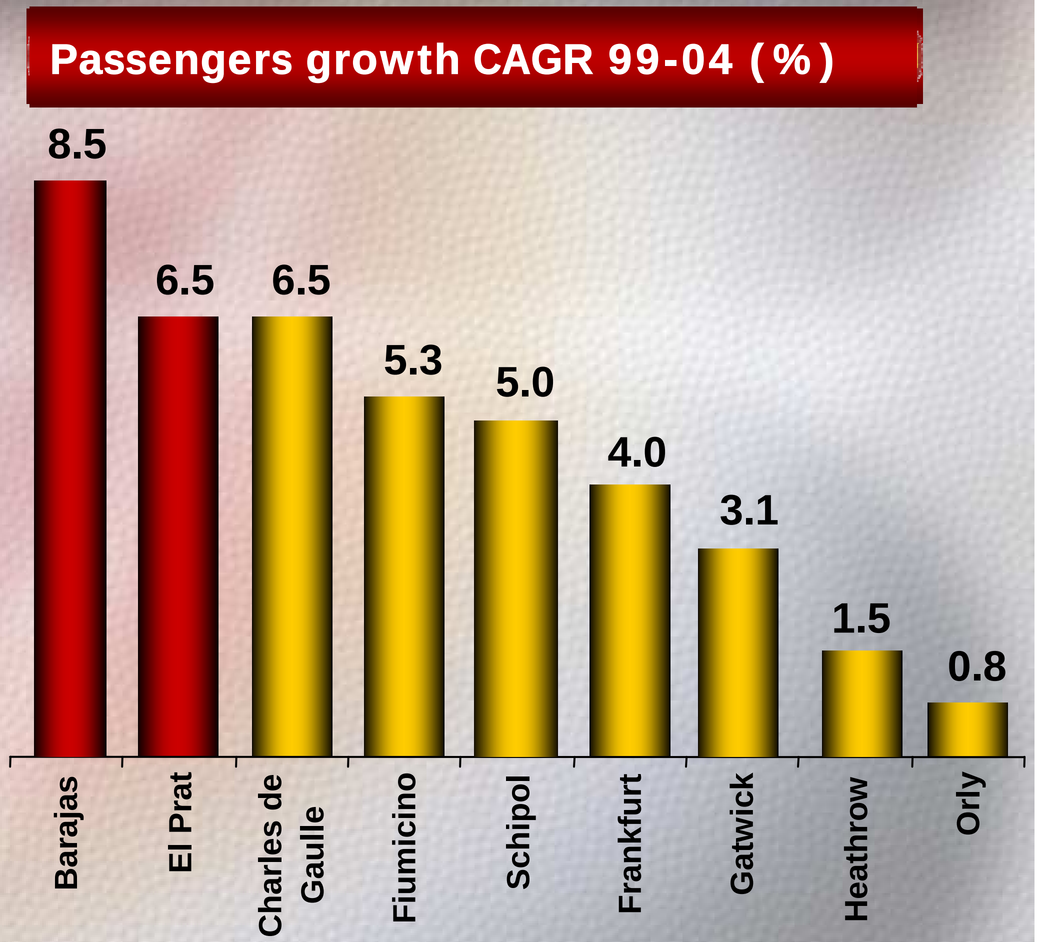
High speed train (AVE) coming into operation at the end of 2004

Expansion Potential in European Airports

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

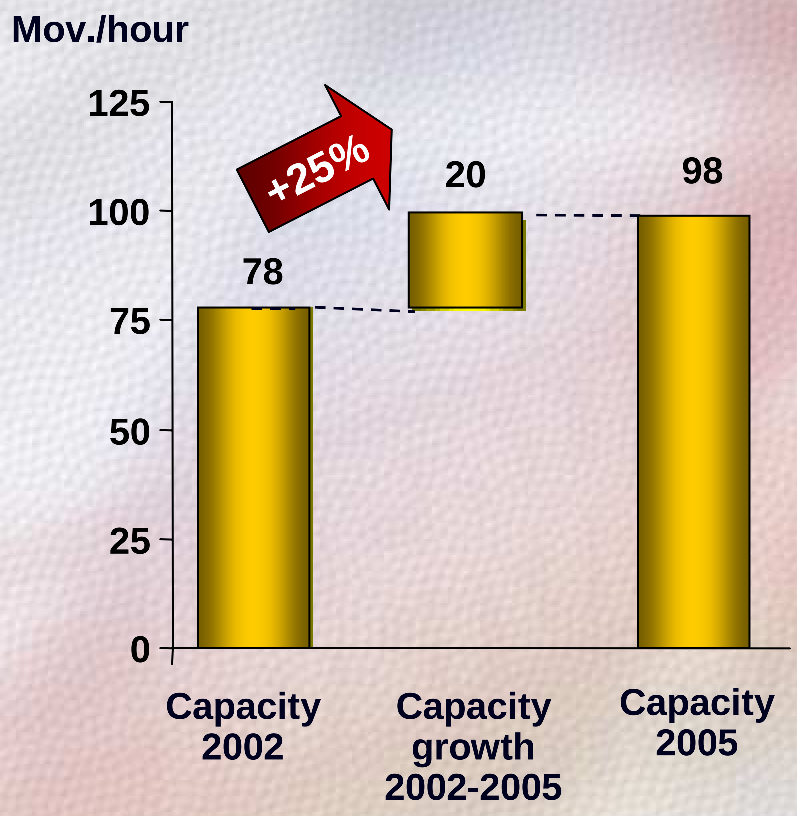
Capacity growth 2004-2006

Madrid
Barcelona — 30-40%

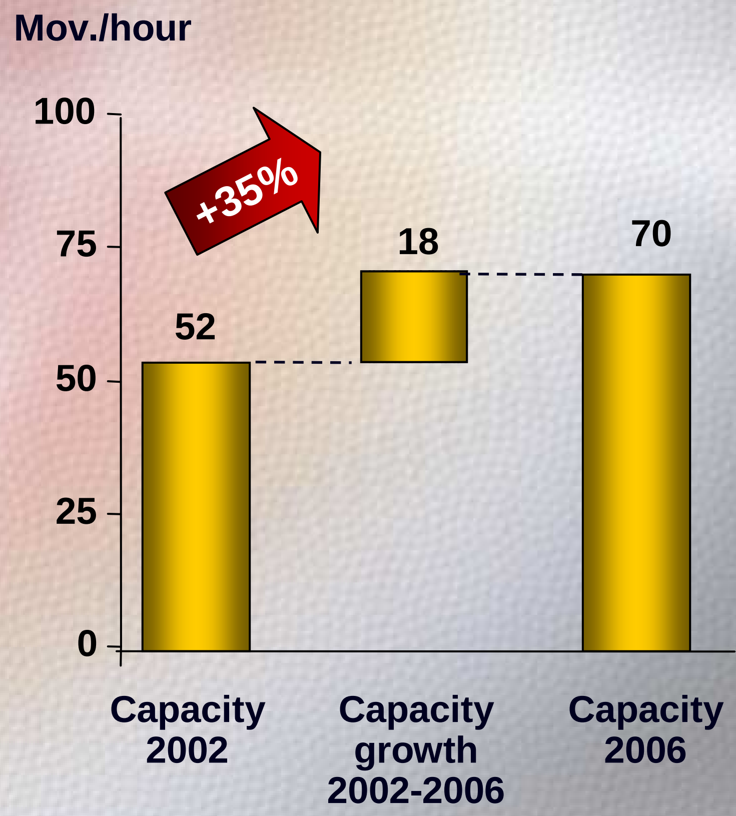


The Expansion in Madrid and Barcelona Will Allow Iberia's Growth

Madrid expansion in 2005



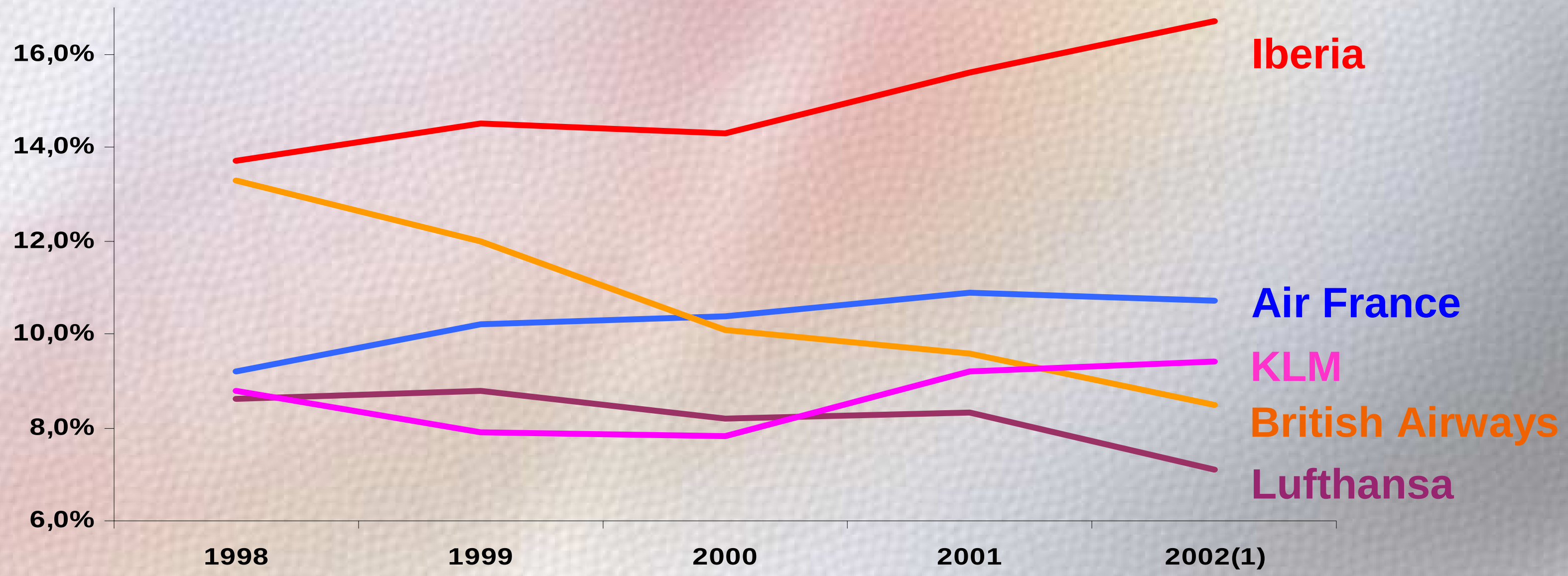
Barcelona expansion in 2006



Leadership in the Europe-Latin America Market

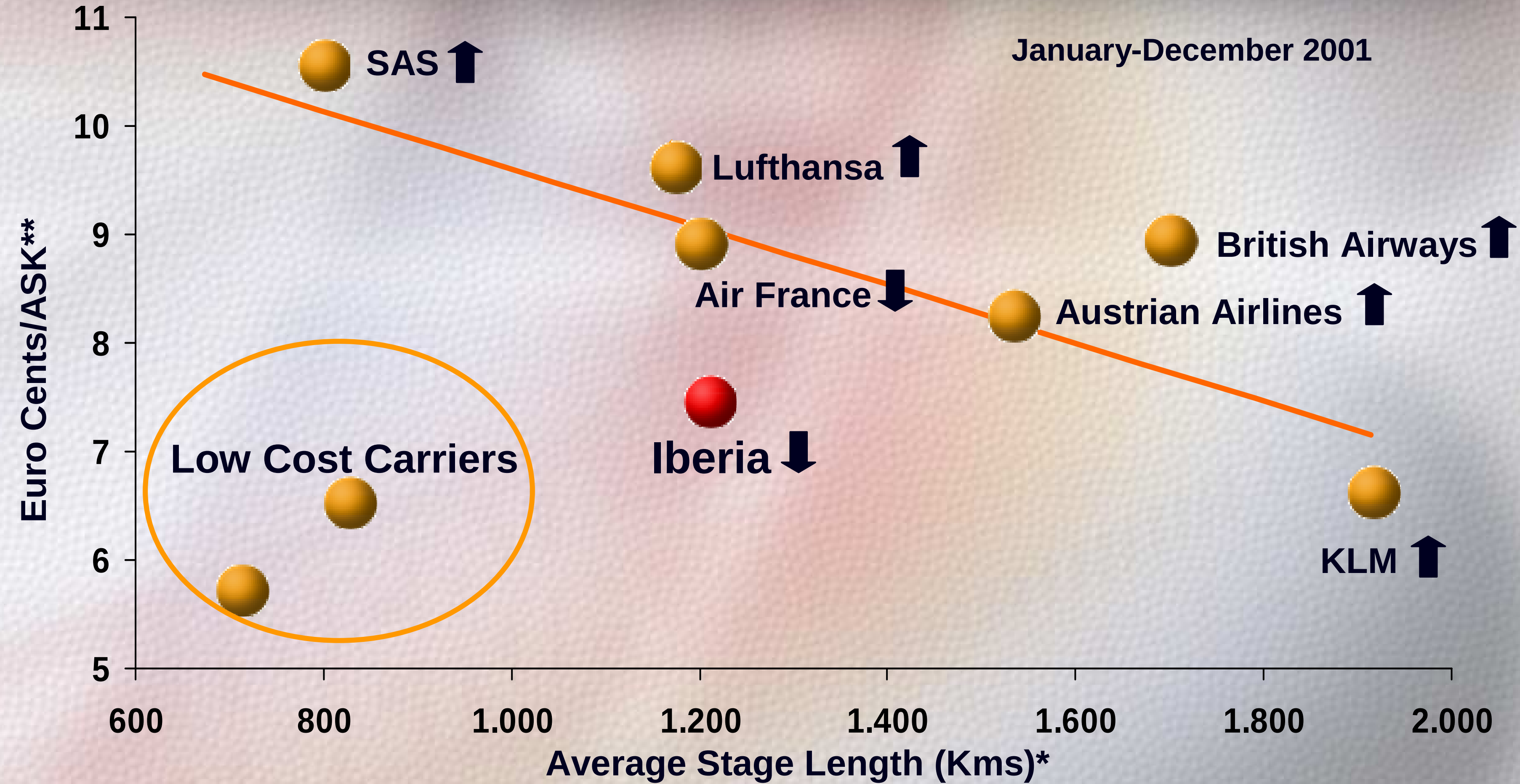
- **Iberia´s leadership will allow to benefit from the potencial growth of this region**
- **Iberia has a superior product in:**
  - Number of destinations
  - Number of non-stop flights
  - Daily frequencies

Market share evolution Europe-Latin America



(1) January-September 2002

Unit Costs Significantly below the Average



Date for period January - December 2001, except Ryanair and Easyjet fiscal year 2001.

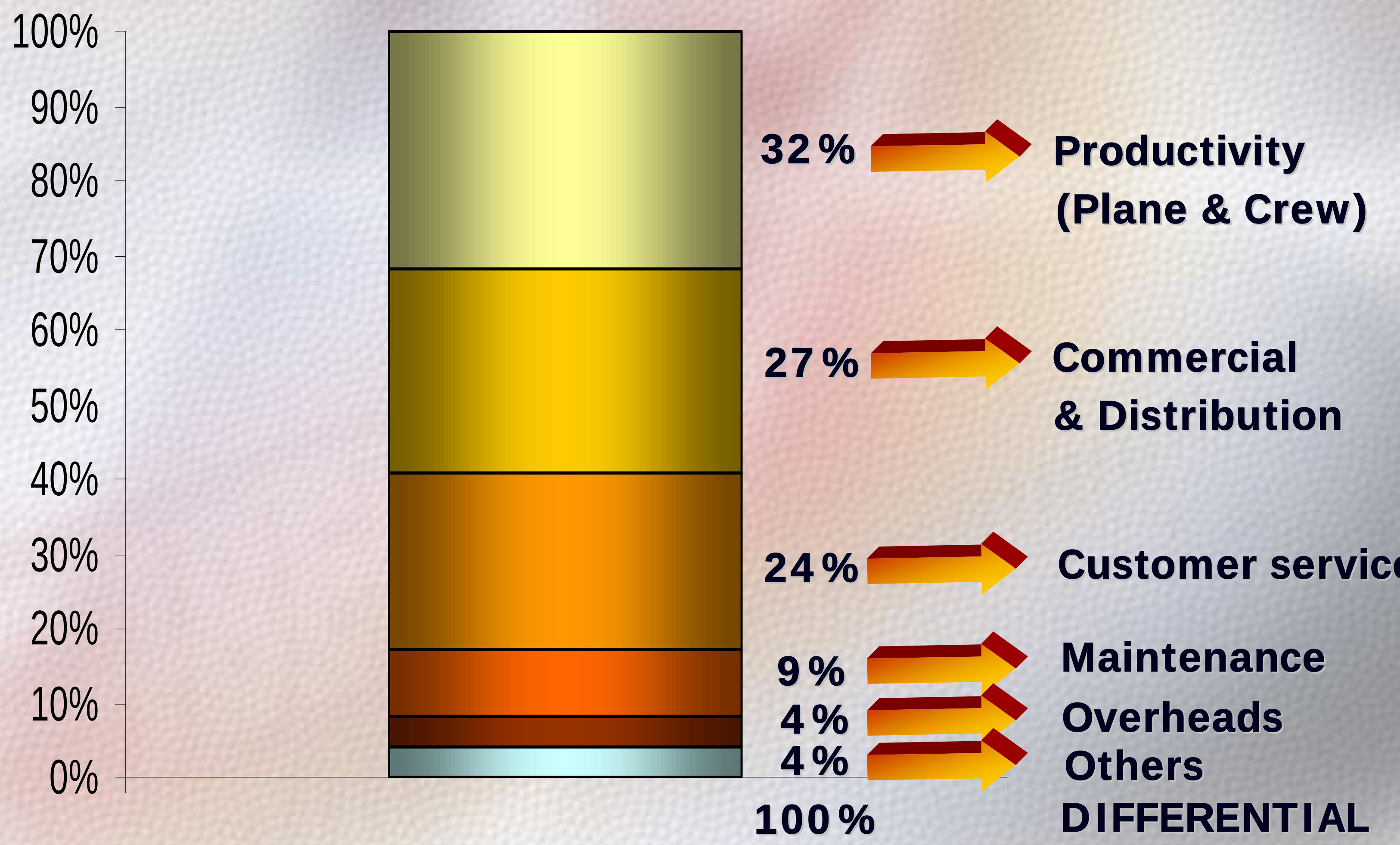
⬇⬆ Variations Jan-Dec 01 with respect to Jan-Dec 00

* Source: AEA

**Operating costs (less 33% of Operating Leases) less Other non-airline Revenues

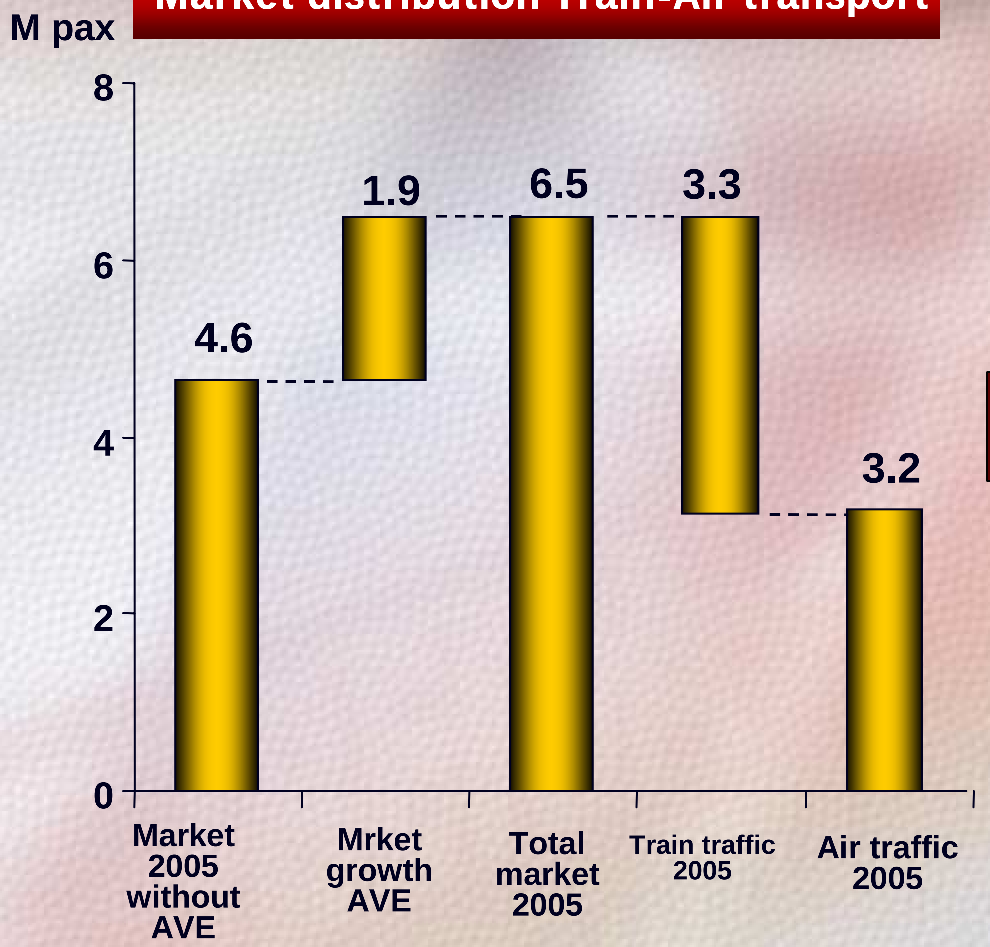
Cost Differential Iberia-Low Cost Carriers

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



AVE (high speed train) Madrid-Barcelona 2005

Market distribution Train-Air transport



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

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

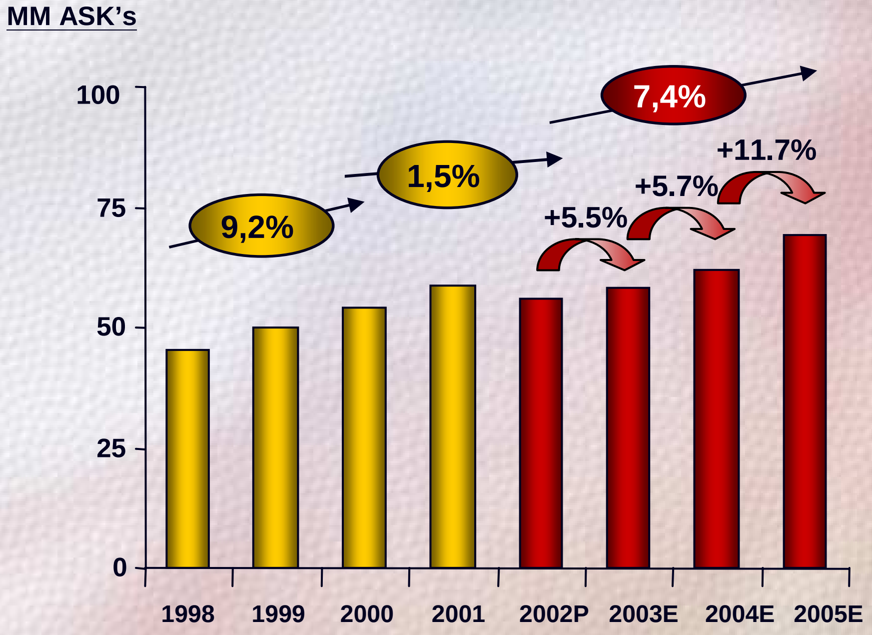
Continue to efficiently provide connecting traffic to long haul routes
- Ensure connectivity of Madrid and Barcelona

The limits set by the current model require changes in:

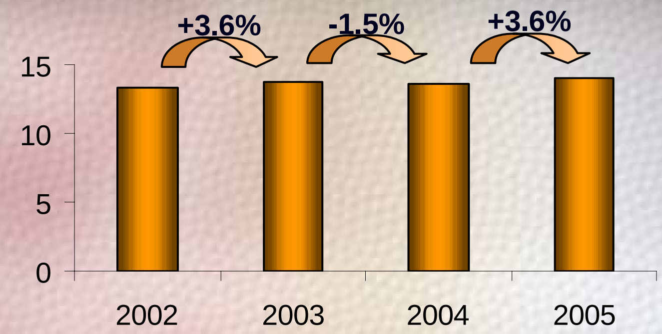
- Mix
- In-flight service
- Destinations
- Schedule
- Density

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

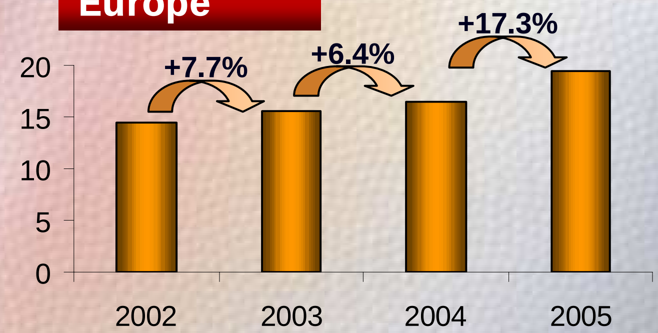
Capacity



Domestic

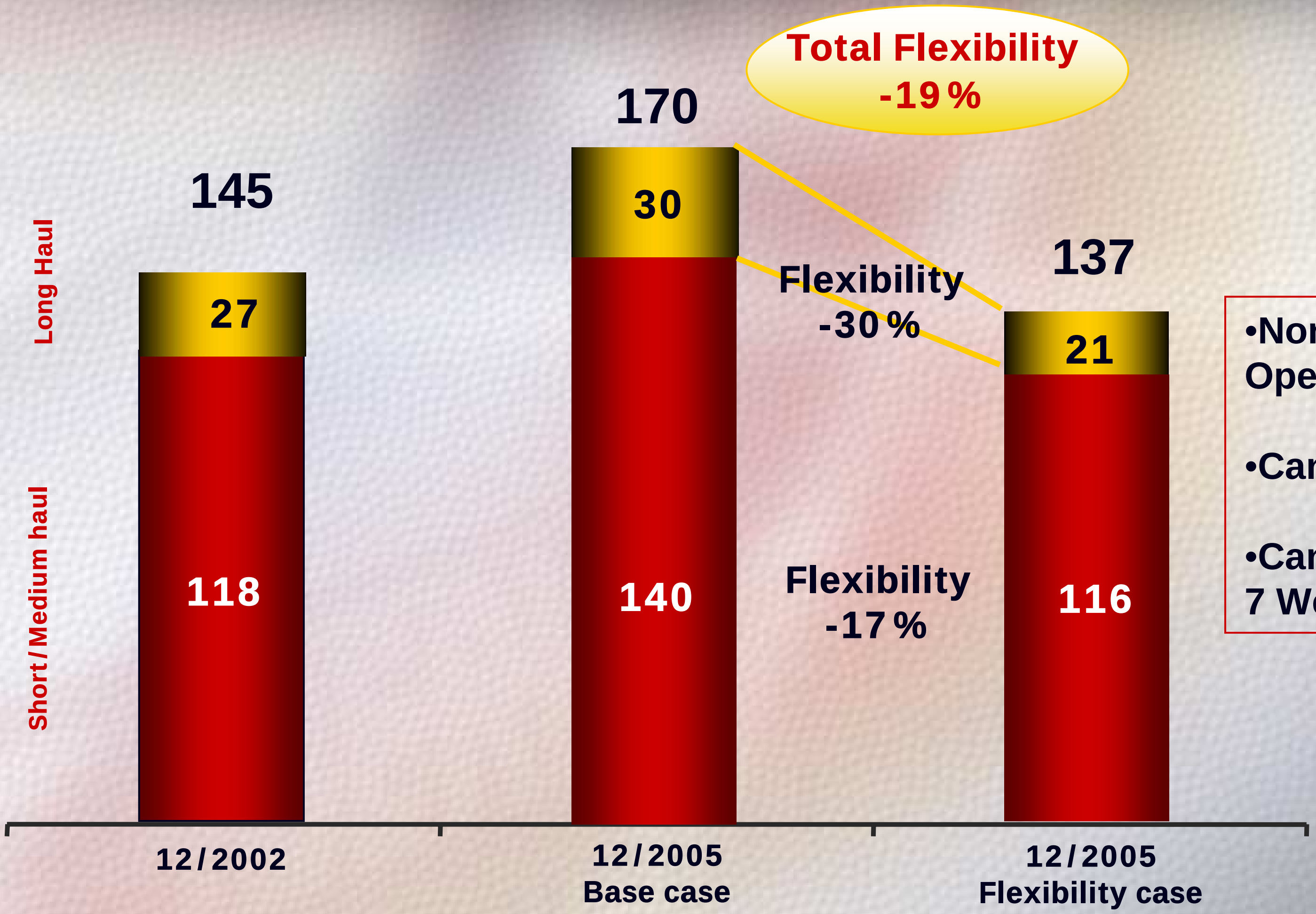


Europe



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

Efficient Management of the Business Portfolio

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**

New public bids:

2003 Liberalisation of airports under 1 Mill. Pax / year

Renewal in the rest of the Airports

Limited impact → **Possible loss of margin, but possibility of transferring employees to the new entrant**

3 Year Vision: Strategic Priorities

- **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
- **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**

Targets 2005

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