IBERIA

Iberia's Turnaround

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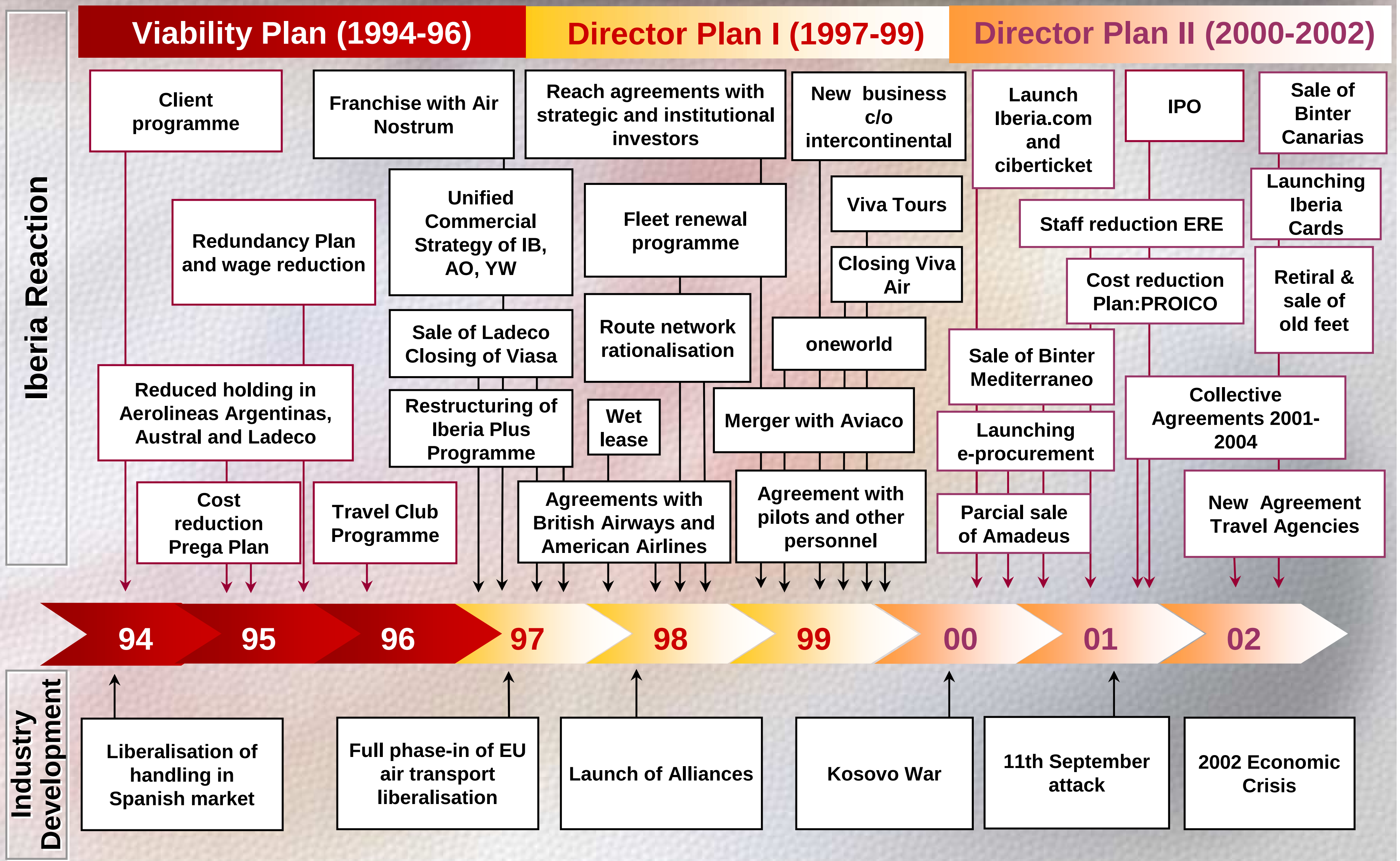
Transformation Process

Transformation Process in Iberia



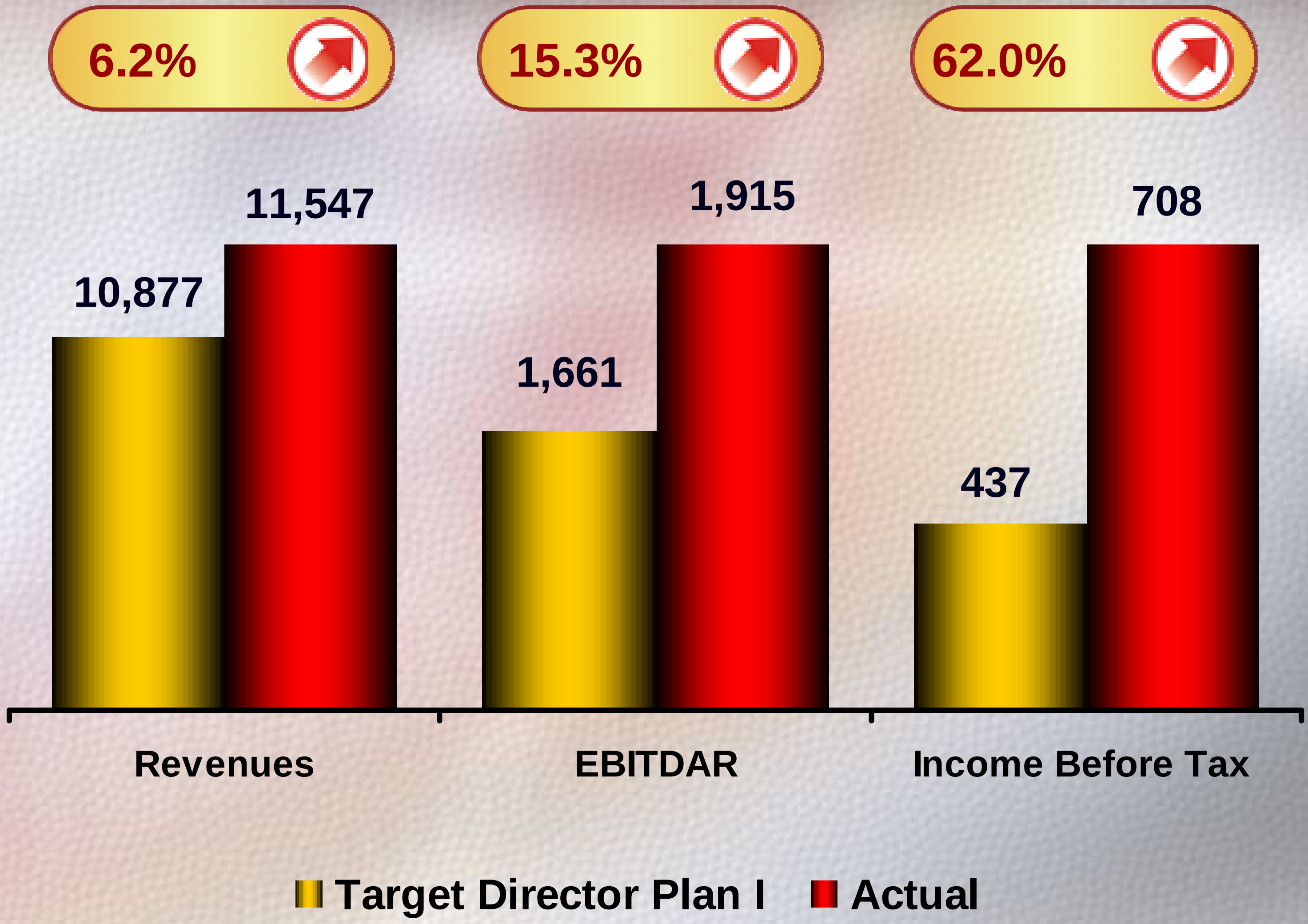
The Director Plan I (1997-1999)

Growth and Profitability

Strategic Objectives	Key Achievements
• New management model	• Loss-making activities fixed, closed or sold • Creation of 6 profitable business units
• Restructure Latin American investments	• Reduce ownership in Aerolineas • Closing of Viasa • Sale of Ladeco
• Strategic alliances	• Alliances with American Airlines and British Airways • oneworld
• Fleet renewal	• Short and medium range: A320 family • Long range: A340
• Reorganise network and enhance commercial activities	• Integration of Aviaco and franchise with Air Nostrum • Enhancement of business class products and Iberia Plus programme • New incentives programme for travel agencies (operating since 1998) • New yield management system (“Pros4”) operating since 1998

Director Plan I Results: Meeting and Exceeding Targets 1997-1999

Amounts in MM/Euro



The Director Plan II (2000-2003)

2000- Until September 11 2001

- ♦Strong Growth of the European Network
- ♦Development of customer service plans
- ♦Launching of Iberia.com and electronic ticketing
- ♦ Fleet renewal program
- ♦Launching of e-procurement project
- ♦Privatisation: Strategic shareholders and IPO

From 11 September 2001 → **Anticrisis Plan**

Anticrisis Plan

Quick and flexible adjustment to demand evolution

Selective approach to strategic markets

Decrease unit costs

→

Increase Operating Results

Reduction in Capacity

ASK

The reduction in capacity began in November 01:

- **-11.3% in 2002 versus budgeted (Director Plan)**

	2002 vs. 2001 ASK	Load Factor
Domestic	-11.5%	+1.1 p.p.
Europe	-1.6%	+ 2.1 p.p.
Intercontinental	-3.9%	+2.9 p.p.
Total	-5.2%	+2.3 p.p.

Number of Aircraft

- 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

Year end 02	Vs Budget	Number of aircraft
147	173	-15%

Iberia L.A.E data

Aggressive Cost Cutting Program

10% Headcount Reduction

- Iberia Social Plan approved by Labour Authorities: 2.515 employees
- Total Staff reduction 2.800 employees
  - By the end of September 2.343 people have already left the Company

Annual estimated savings	124 MM/ Euro
Cost of the plan	240 MM/ Euro (Provided at Dec 01)

General Costs Cutting Programme

Target

5%	2002	54 MM/ Euro
10%	2003	108 MM/ Euro

- 735 programs in place with identified savings of 54.6 MM/Euro

Commercial Cost Reduction

- Net Commercial Costs 9.3% of traffic revenues compared to 10.5% in 2001

2002 Results

Operating Revenues -0.8%

Operating Expenses -6.0%

Important improvement in margins

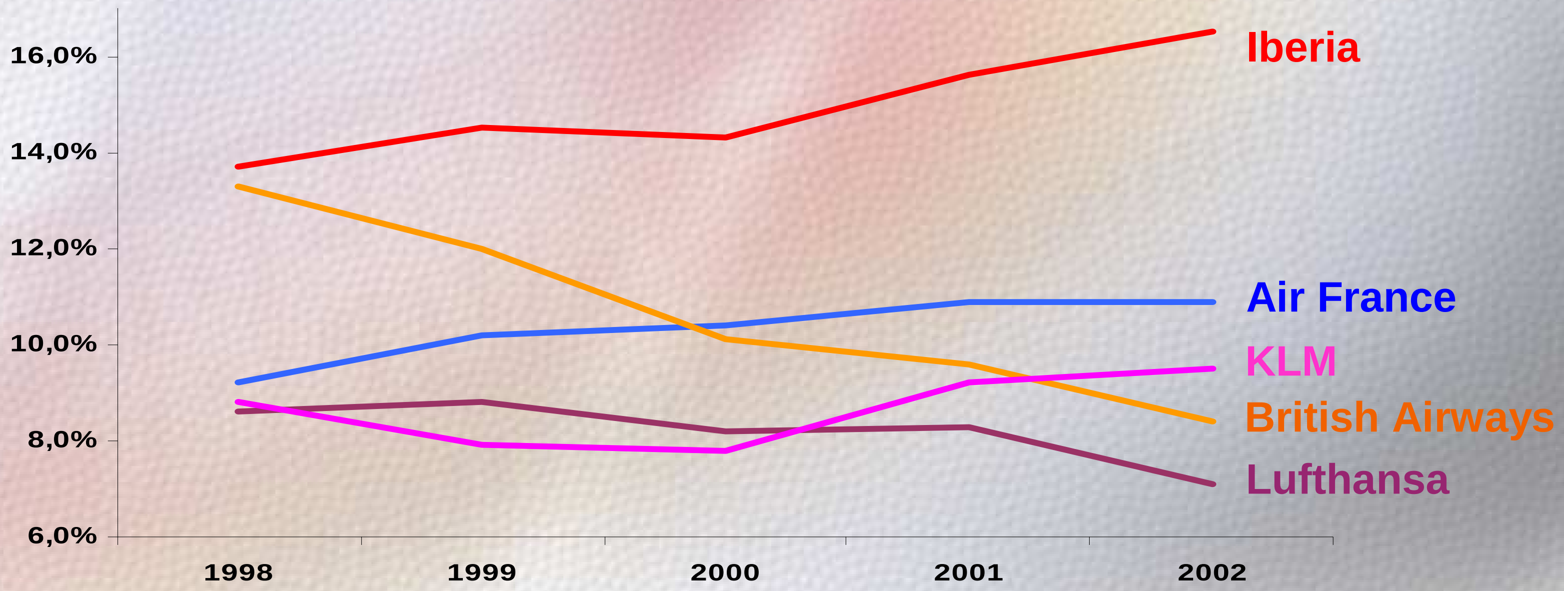
	2002	2001
EBITDAR	805	655
Ebitdar Margin	17.1%	13.8%
EBIT	249	5
Ordinary Results	241	31

Competitive Strengths

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

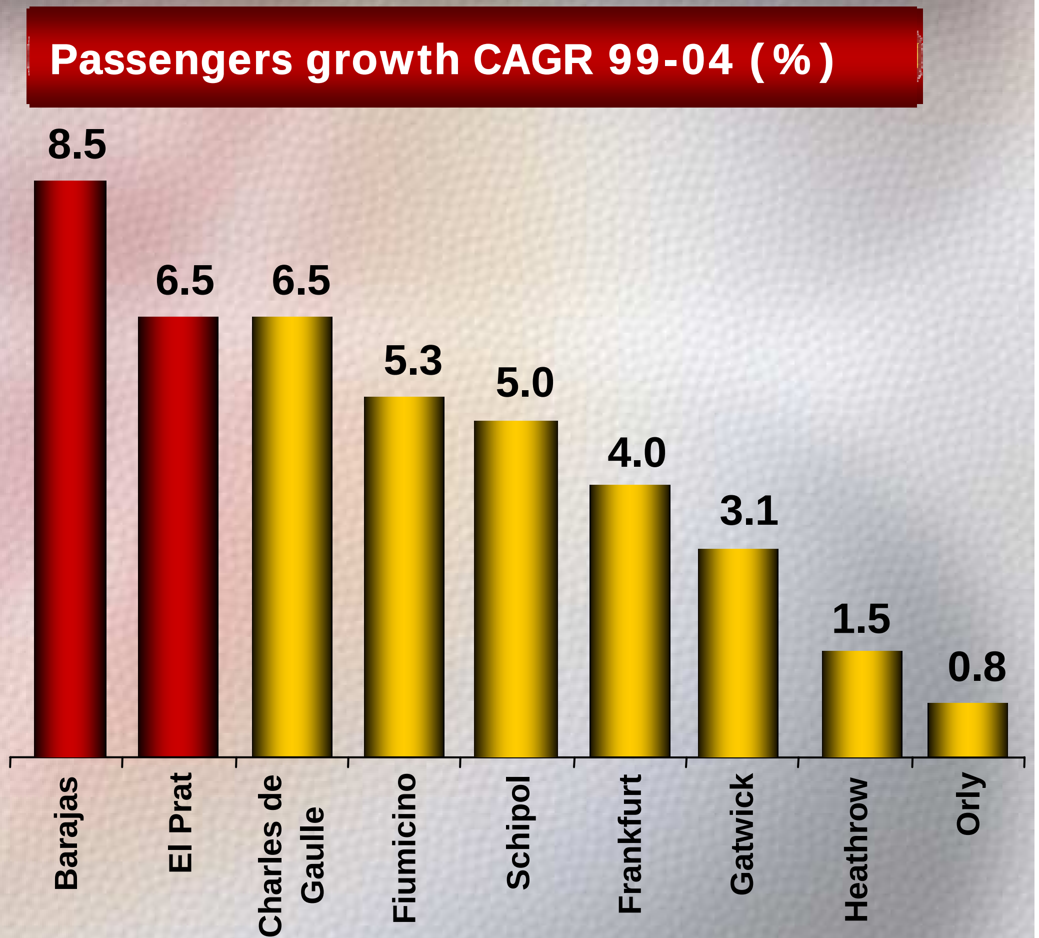


Expansion Potential in European Airports

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

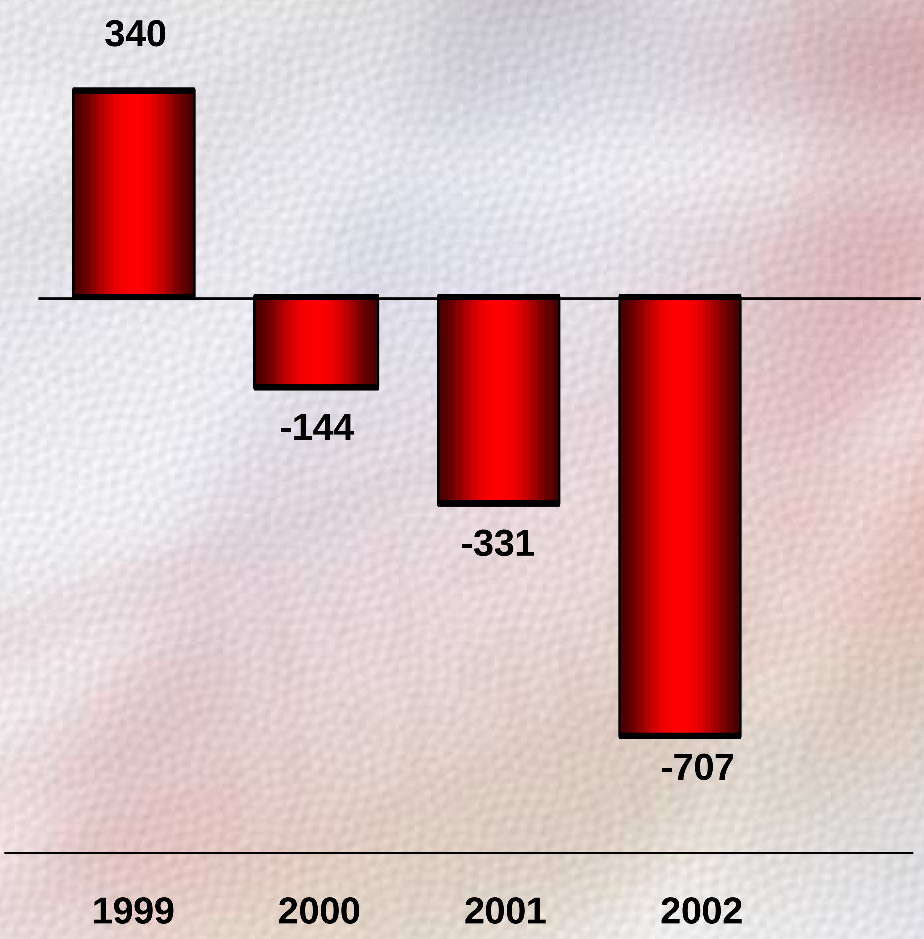
Capacity growth 2004-2006

Madrid
Barcelona
30-40%



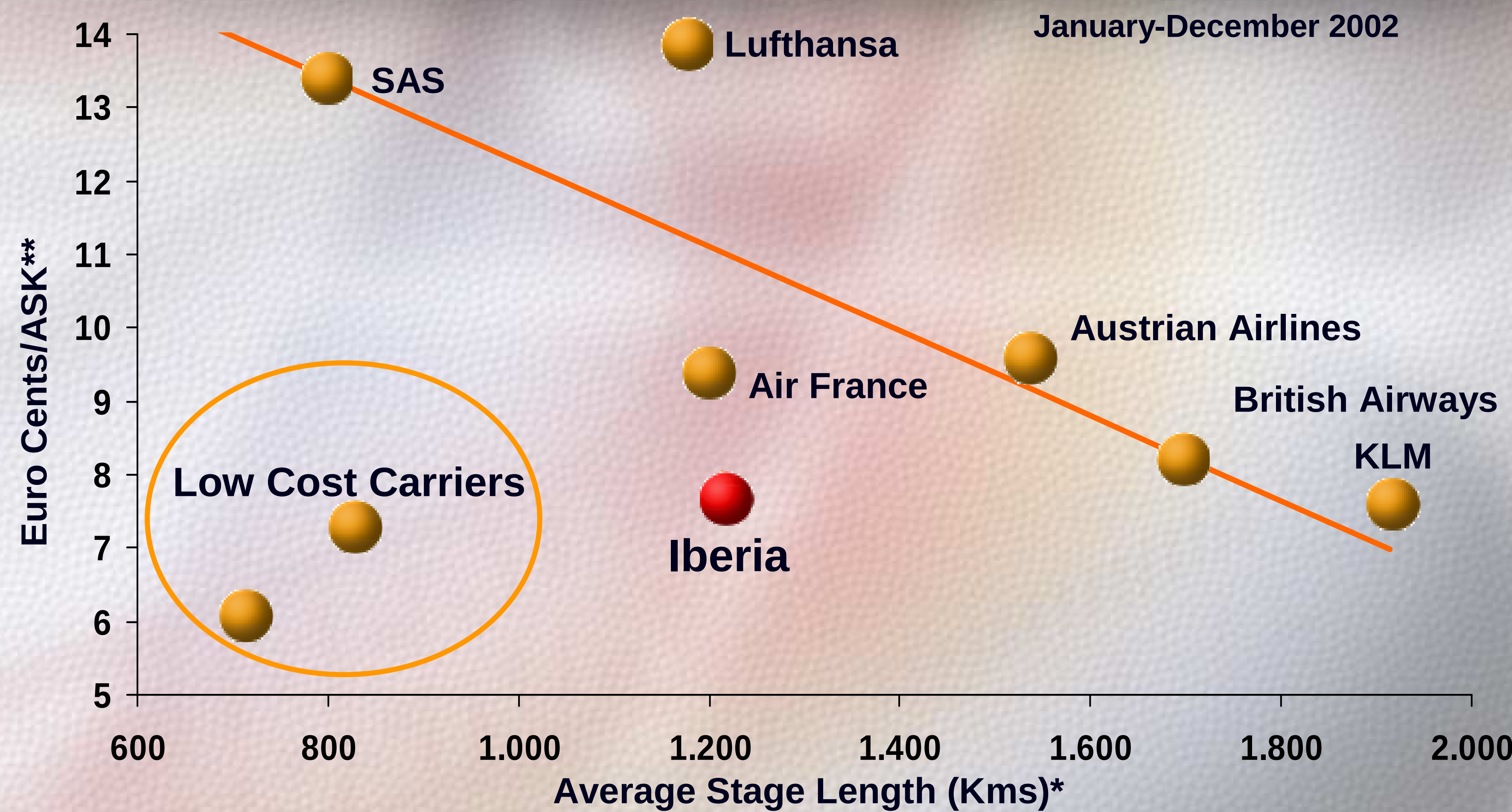
Strong Balance Sheet

Net Financial Debt
(Euro Mill.)



Strong Cash Position
December 2002
1.209 MM/ Euro

Unit Costs Significantly below the Average

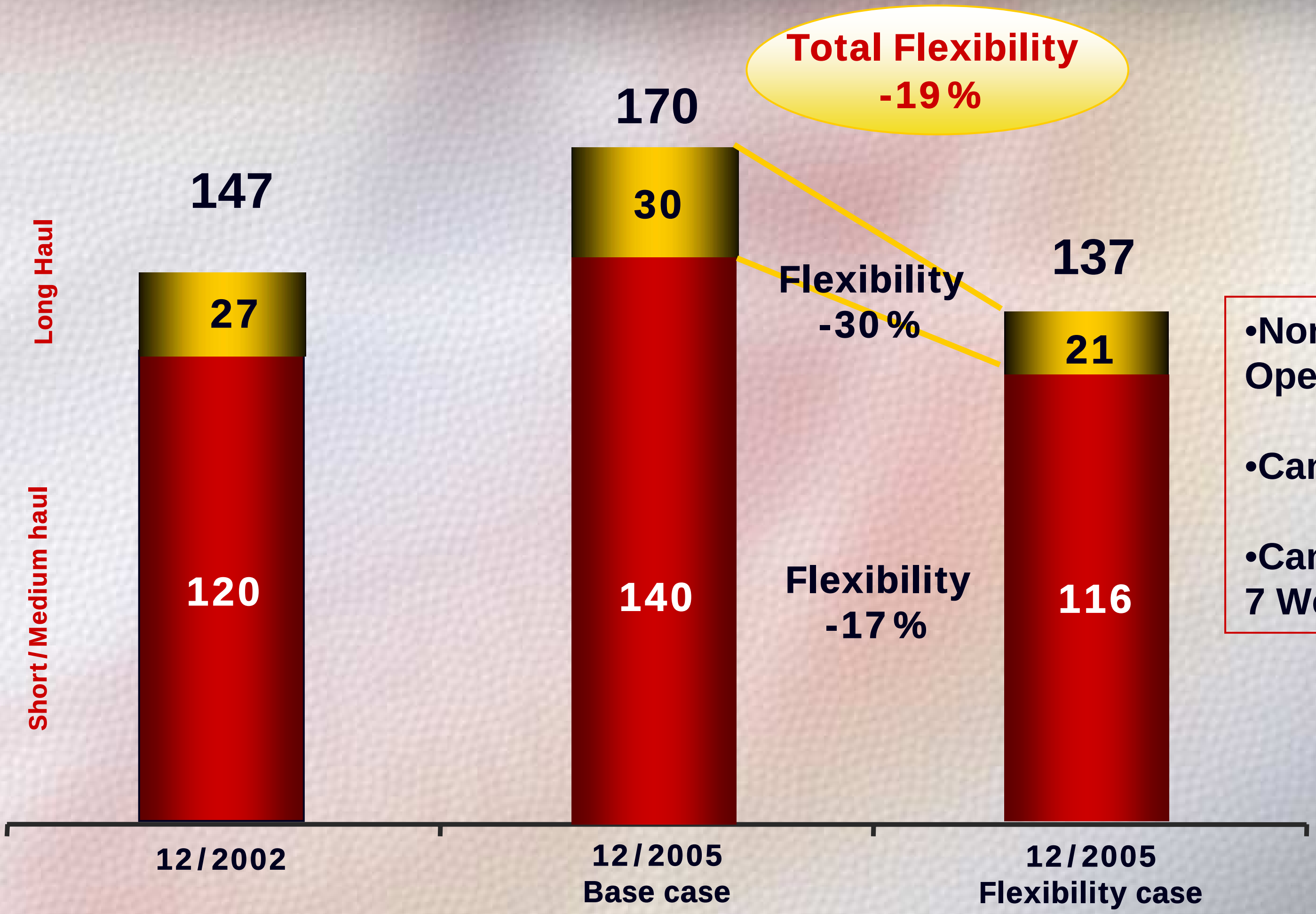


Date for period January - December 2002, except Ryanair and Easyjet fiscal year 2002.

*** Source: AEA**

****Operating costs less 33% of Operating Leases**

High Level of Flexibility



- Non renewal of 17 Operating Leases
- Cancel 9 options
- Cancel new hiring of 7 Wet Leases

Challenges and Opportunities 2003-2005

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Challenges and Opportunities for Iberia in 2003-2005

Competitive environment for Iberia 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
- 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

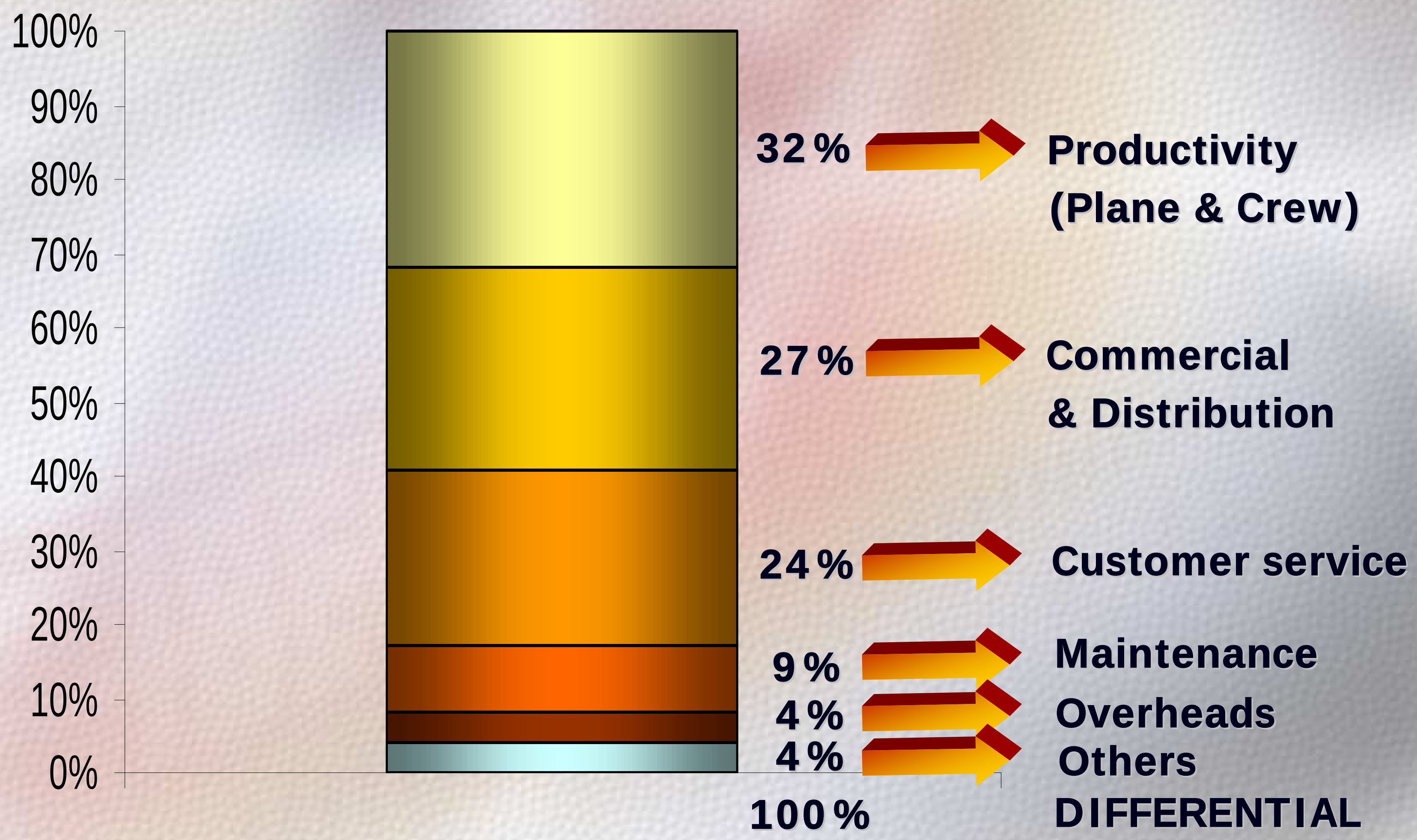
Iberia will improve efficiency

Strong unit costs reduction

- **Increase short and medium haul aircraft utilisation**
- **Productivity improvements and reduction of personnel unit costs**
- **Reduction in commercial costs**
- **New model of on board service**
- **Other costs reduction**

Cost Differential Iberia-Low Cost Carriers

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



Price Share Evolution

	3-apr-01	10-jun-03	% Variation
BRITISH AIRWAYS	301,75	162,75	-46%
AIR FRANCE	18,35	12,11	-34%
LUFTHANSA	19,60	10,10	-48%
ALITALIA	1,18	0,23	-81%
KLM	19,35	8,48	-56%
AUSTRIAN	12,50	7,78	-38%
IBERIA	1,19	1,68	41%
SAS	nd	42,50	nd
EASYJET	307,64	195,00	-37%
RYANAIR	4,90	5,97	22%
CONTINENTAL	39,59	13,88	-65%
SOUTHWEST	17,38	16,51	-5%
AMERICAN	33,74	8,78	-74%
DELTA	38,15	14,40	-62%
UNITED	31,40	0,76	-98%
Local Currency			