



Flexibility and cost cutting: Reaching targets

UBS Transport Conference

13th September 2004

Competitive Strengths



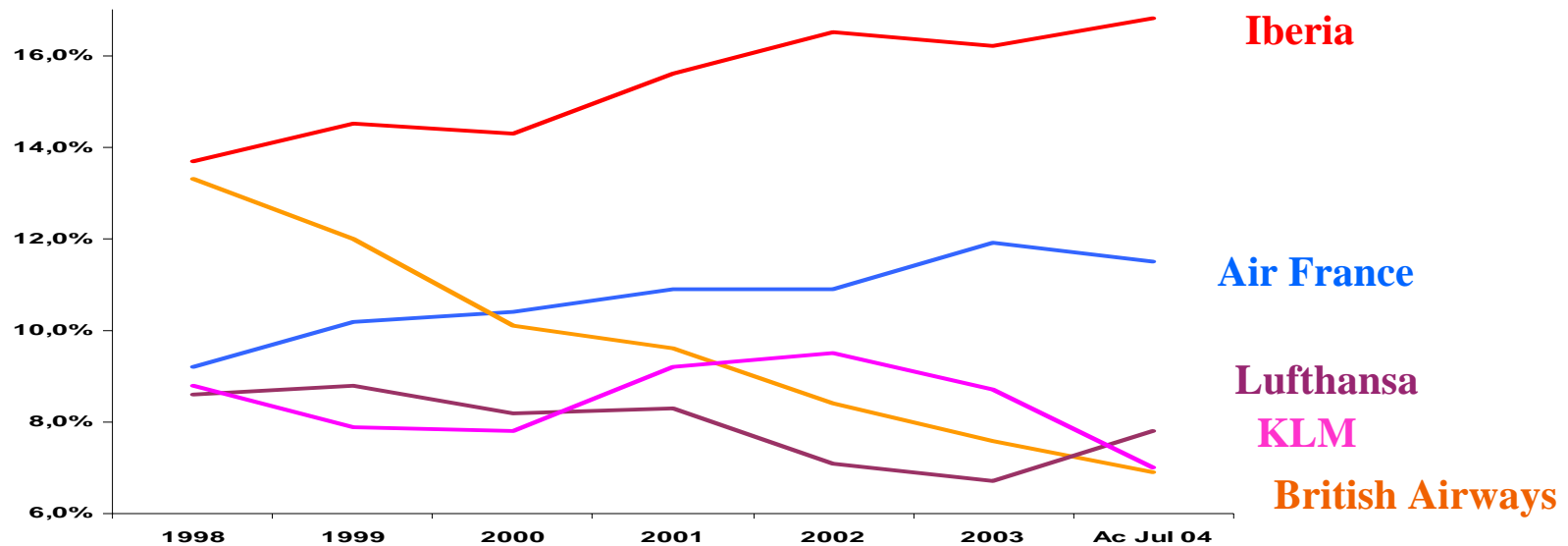
Leadership in the Europe-Latin America Market

Iberia's leadership will allow to benefit from the potencial growth of this region

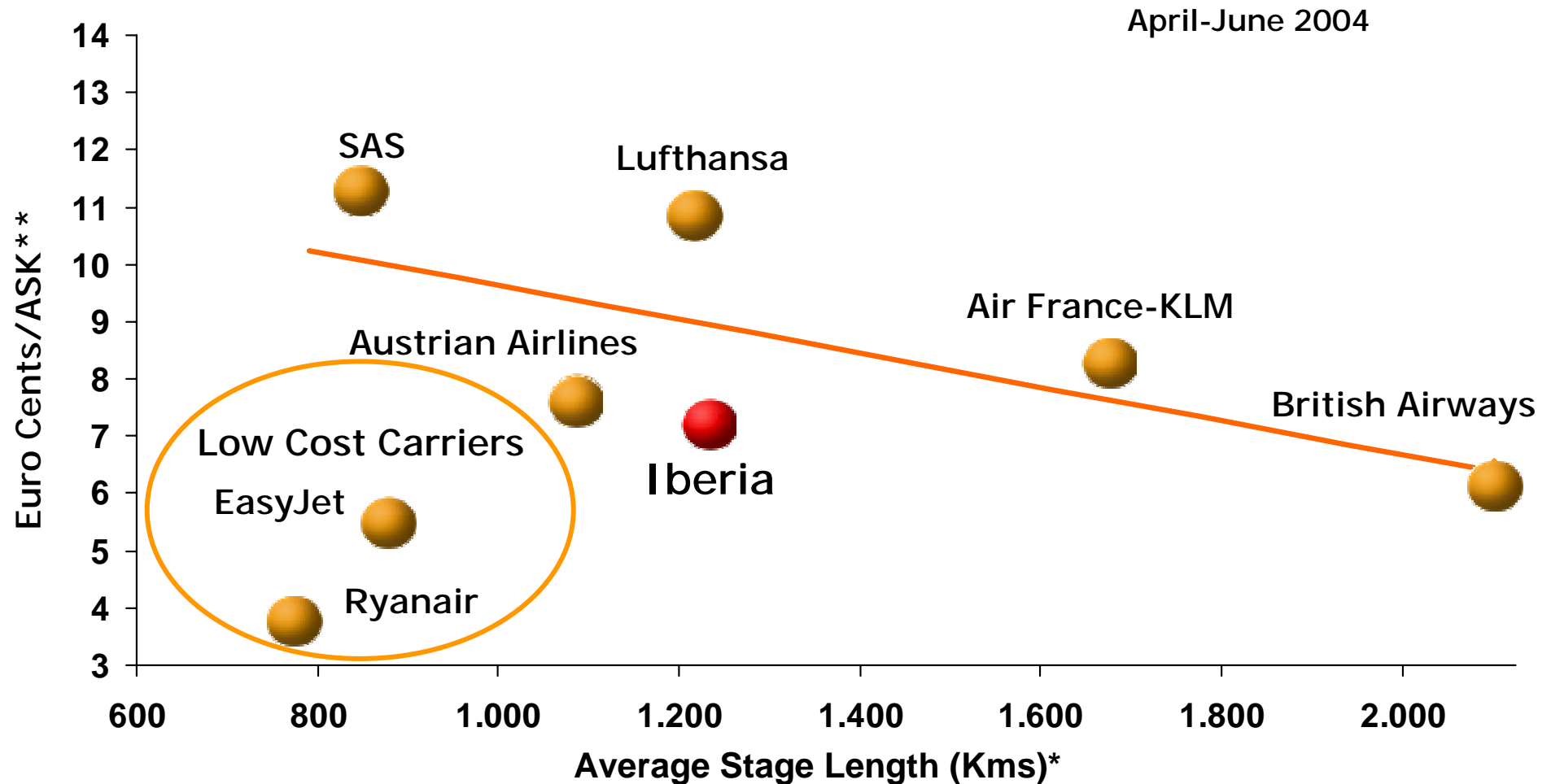
Iberia has a superior product in:

- ✦ Number of destinations
- ✦ Number of non-stop flights
- ✦ Daily frequencies

Market share evolution Europe-Latin America



Unit Costs Significantly Below Industry Average



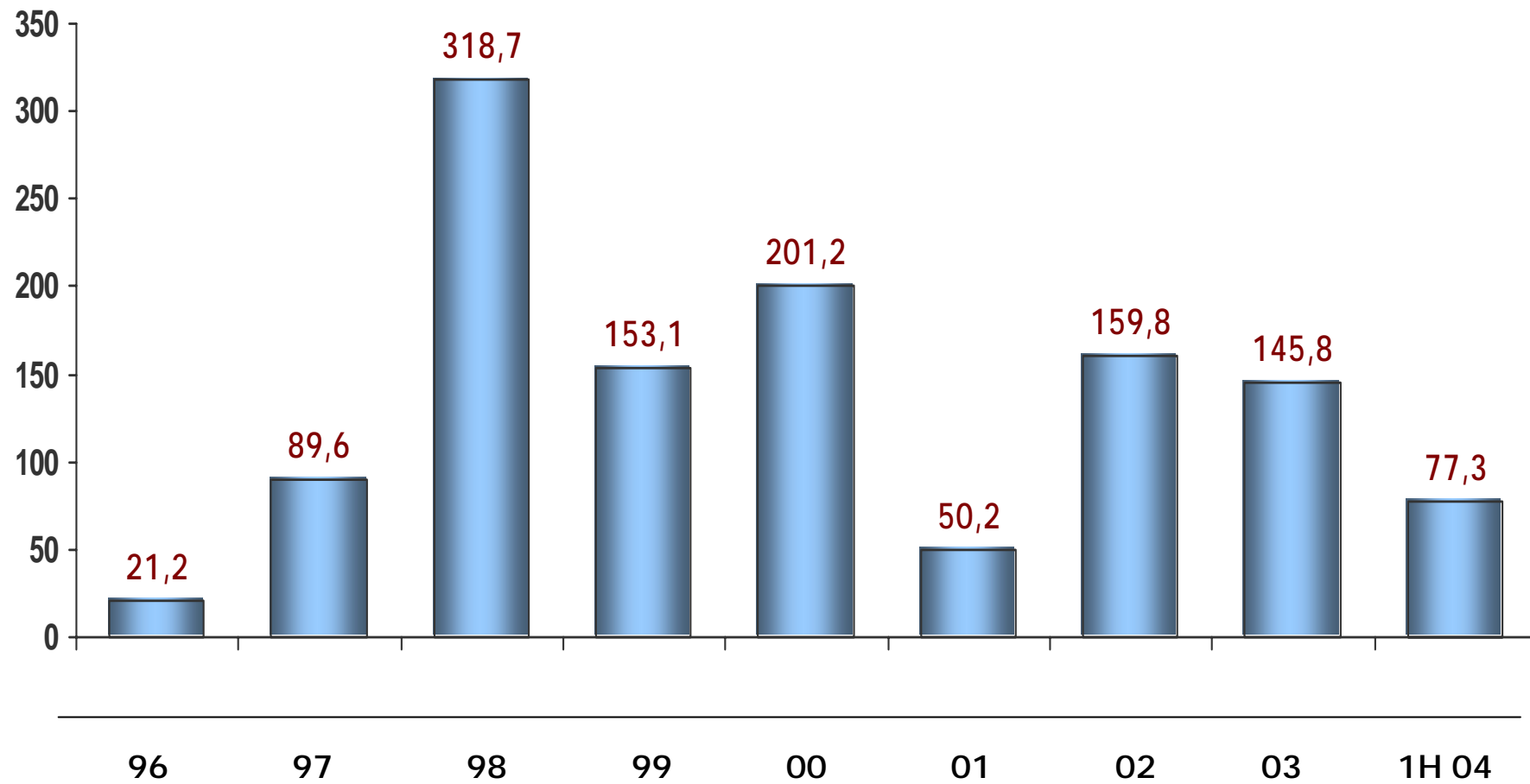
Date for period April - June 2004, except Easyjet fiscal year 2003 (ended September).



* Source: AEA

**Operating costs less 33% of Operating Leases less other non-airline revenues

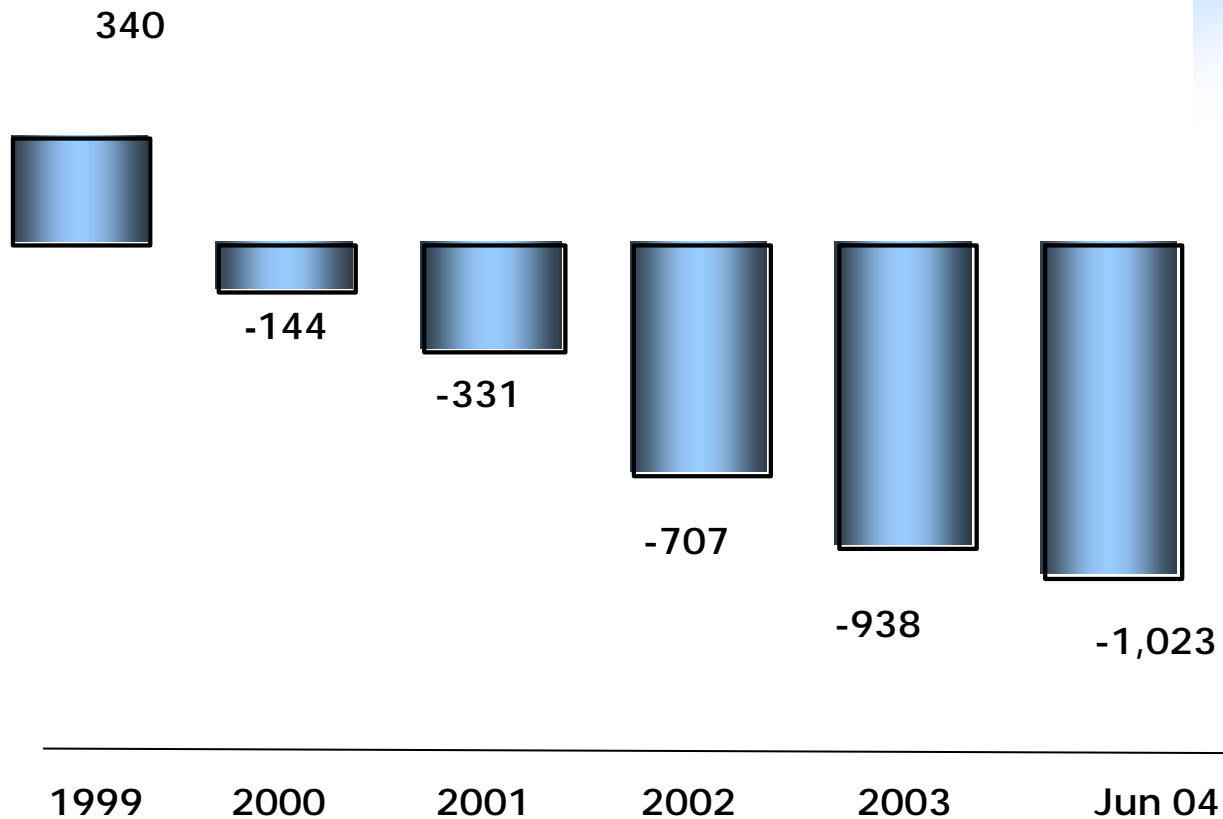
Eight Consecutive Years of Profits



Net Profit (MM/Euro)

Strong Balance Sheet

Net Financial Debt (Euro Mill.)



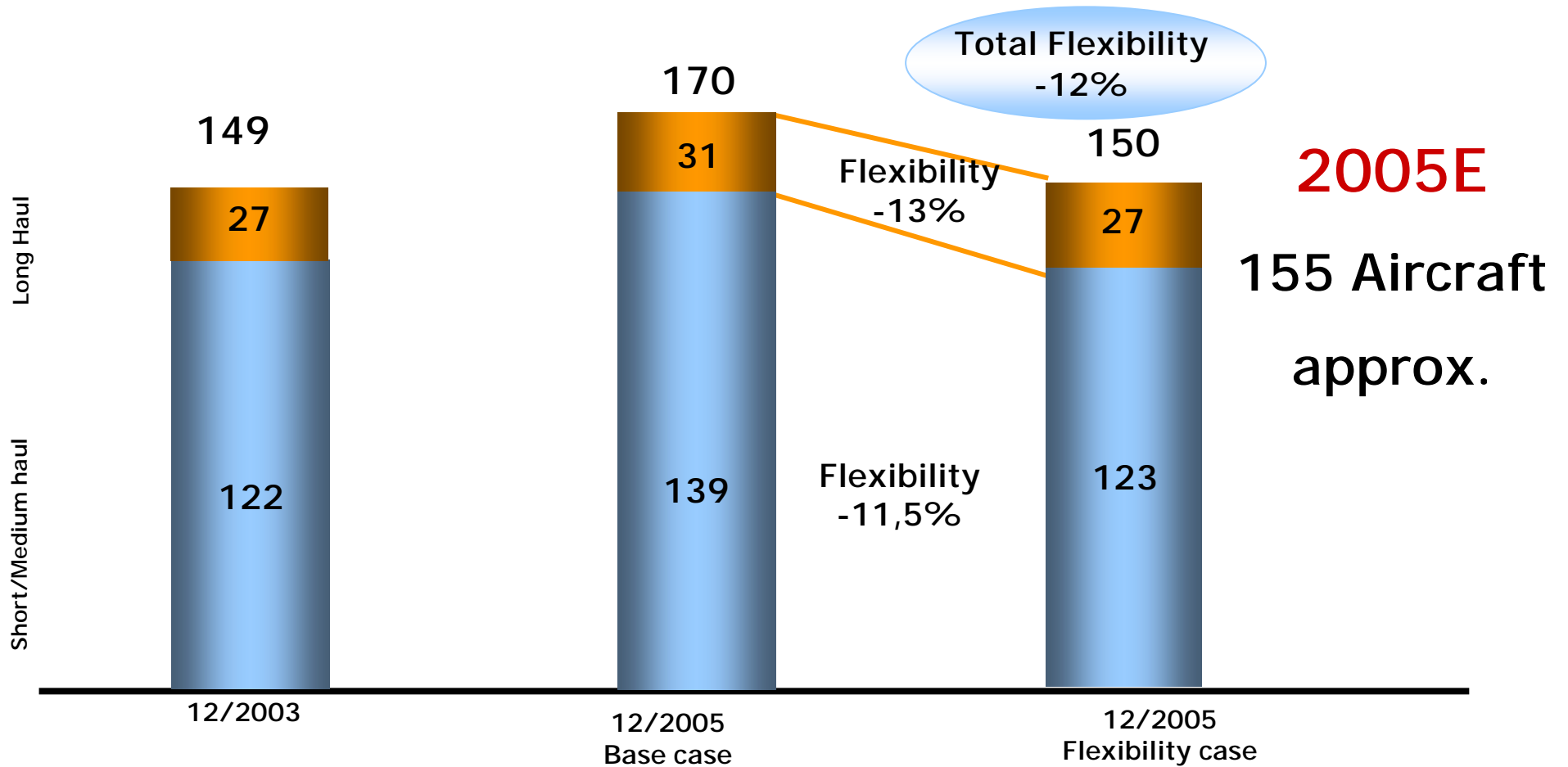
Strong Cash Position
June 2004
1,480 MM/ Euro



Director Plan 2003-2005
Flexibility and cost cutting

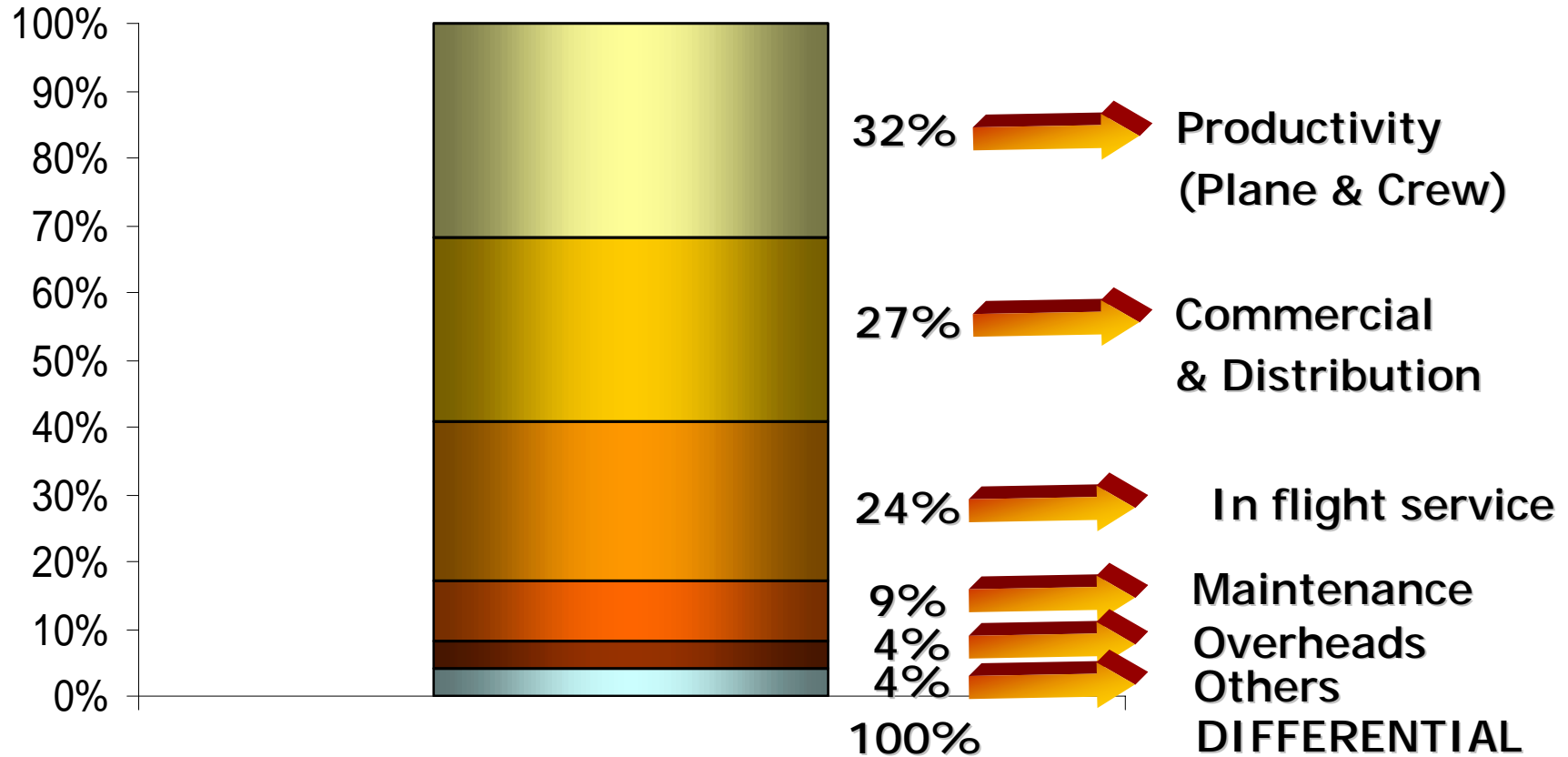


Flexibility - Remains a Key Tool



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

Cost Differential Iberia-Low Cost Carriers



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



Reducing Costs

Impact in 2005 MM/ Euro

Director Plan

Asset utilisation 35-45

Personnel costs 65-75

Commercial costs 100-110

Service on board 40-50

Other costs 110-120

350-400



Note: Targets of cost reductions over base case 2005

Our Objective

2005/02

Unit Cost



10-12%

Asset Utilisation

35-45
MM/€

- Improvement of 0.8 block hours/ day in medium haul aircraft through optimisation of slots and night aircraft utilisation. Full impact when Barajas opens (Nov 05 E)
- Optimisation of short/medium haul fleet : Increase number of seats per aircraft by 5%. Started in 04, 66 planes from 84 will be densified through the year
- Accelerate the phase out of B747-200
- Optimisation of A 340-300. Change of crew rest zone adding more seats (will take place in 05)

17% of the target already achieved in 2004E




100% in 2005E

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

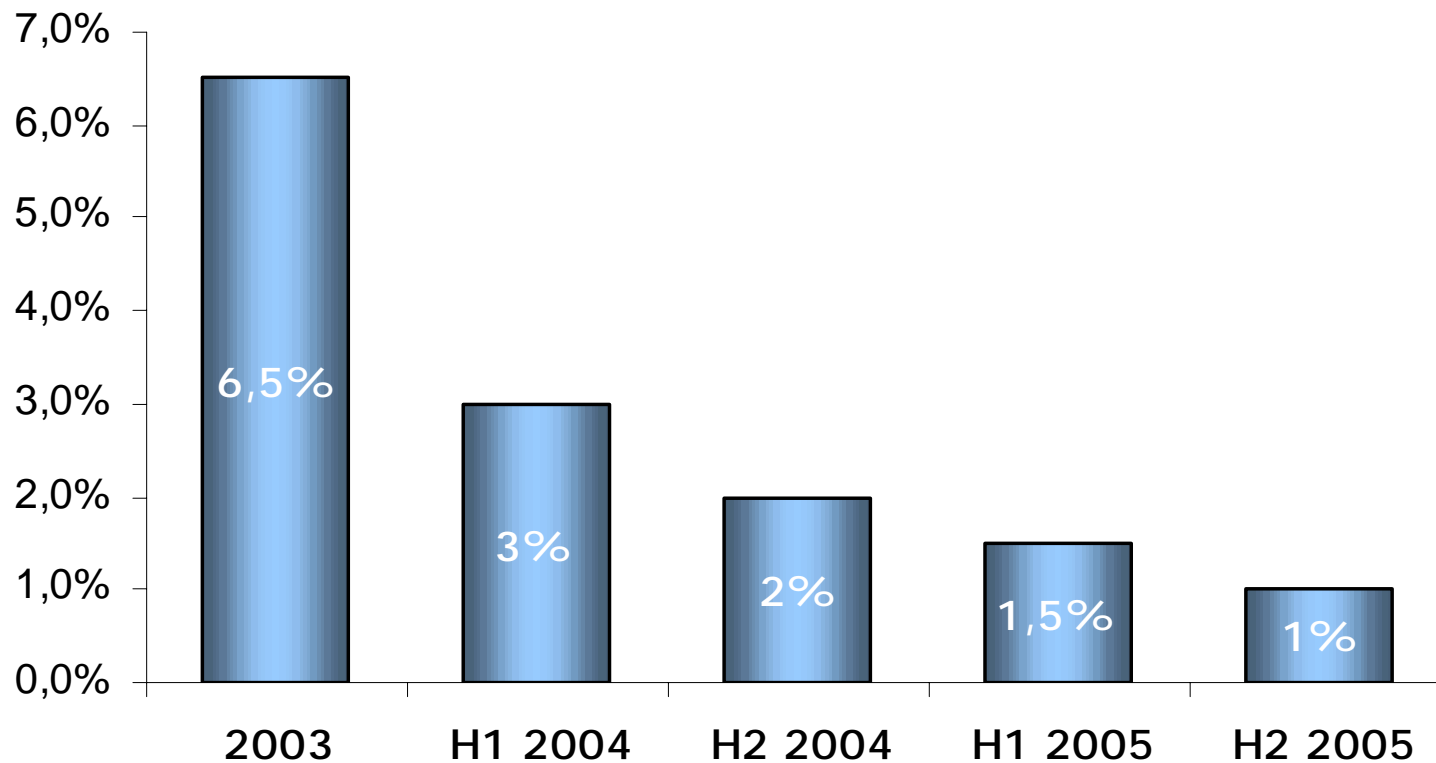
42% of the target already achieved in 2004E

100% in 2005E



Reduction of Basic Travel Agencies' Commissions in Spain

100-110
MM/€



66% of the target already achieved in 2004E

100% in 2005E



Change in the Service Model

40-50
MM/€



The short / medium haul economy product has been transformed: Unbundling the product

Migration to a “pay as you go” model started in March 2004

Non recurrent extraordinary advertising costs included in 2004

37% of the target already achieved in 2004E

100% in 2005E



The Plan On Track as Forecasted

Impact in 2005 MM/ Euro

Director Plan Achieved in 2004E 2005E

Asset utilisation	35-45	17%	100%
Personnel costs	65-75	42%	100%
Commercial costs	100-110	66%	100%
Service on board	40-50	37%	100%
Other costs	110-120	86%	100%
	350-400	60%	100%



Note: Targets of cost reductions over base case 2005

1st Half 2004



Improving Results

1st Half 2004

Revenues	2,296.6	+3.8%
Ebitdar	319.2	+9.9%
Ebitdar Margin	13.9%	+0.8 p.p.
EBIT	48.8	+143.7%
Net Income	77.3	+157.0%

million €



Unit Revenue and Cost Evolution

1st Half 2004

	% 04/03
▶▶ Operating Revenue / ASK	-5.4
▶▶ Operating Cost/ASK	-6.6

Conclusion

We are accomplishing the targets of the Director Plan:

- Strengthening our leadership position in the Europe-Latin America market
- Adapting the business model to the new trends in the market for both our tourist and business class passengers
- Reaching the cost reduction targets to maintain a competitive cost base even with Low Cost Carriers and continue to be one of the most profitable European network airlines

