



Flexibility and cost cutting: Reaching targets

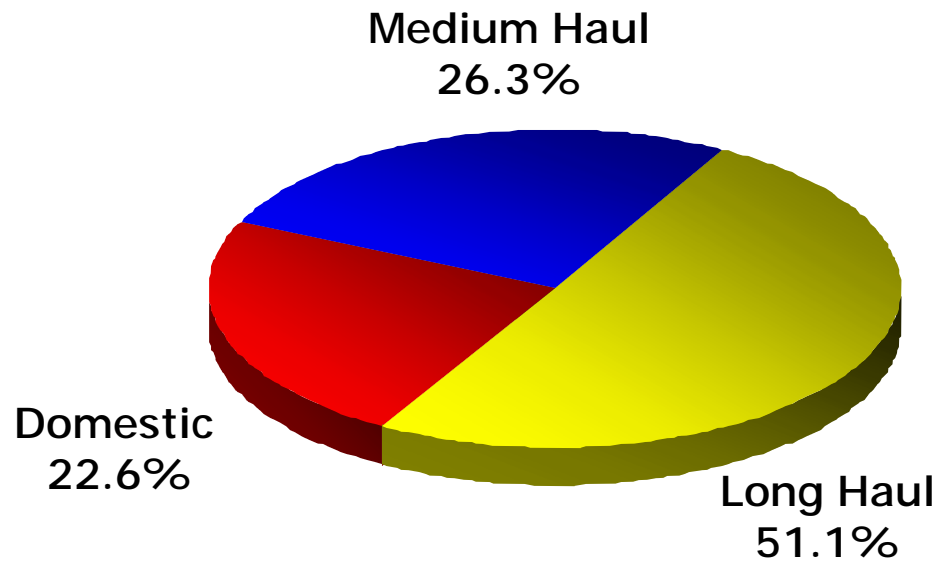
January 2005

Market Presence and Strengths

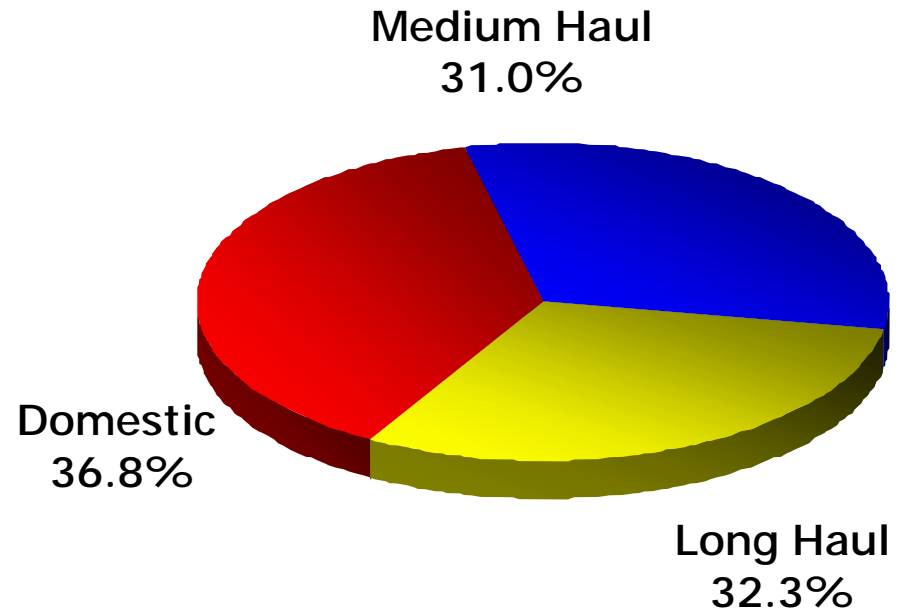


Iberia - A Focus on Passenger Transportation in Three Strategic Markets

Distribution of ASKs

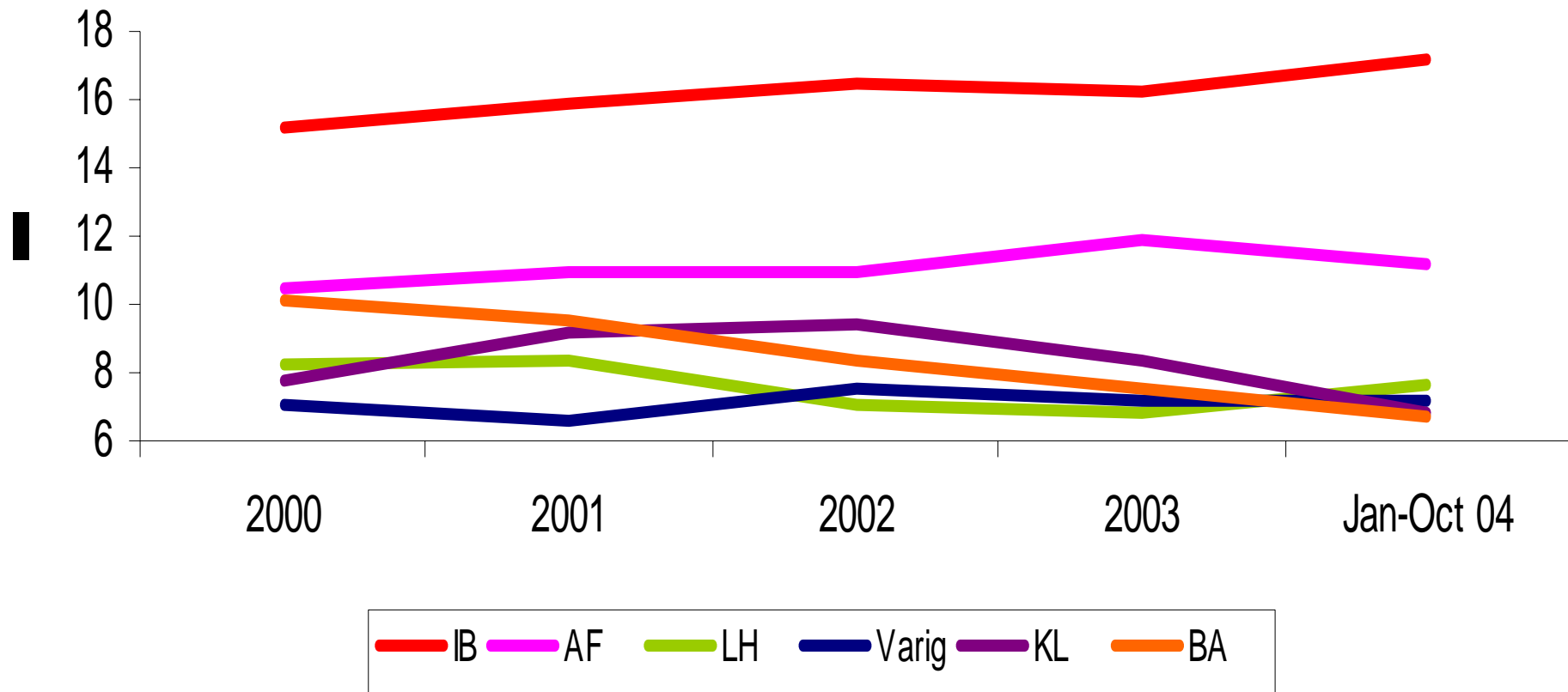


Contribution to Revenues by Region

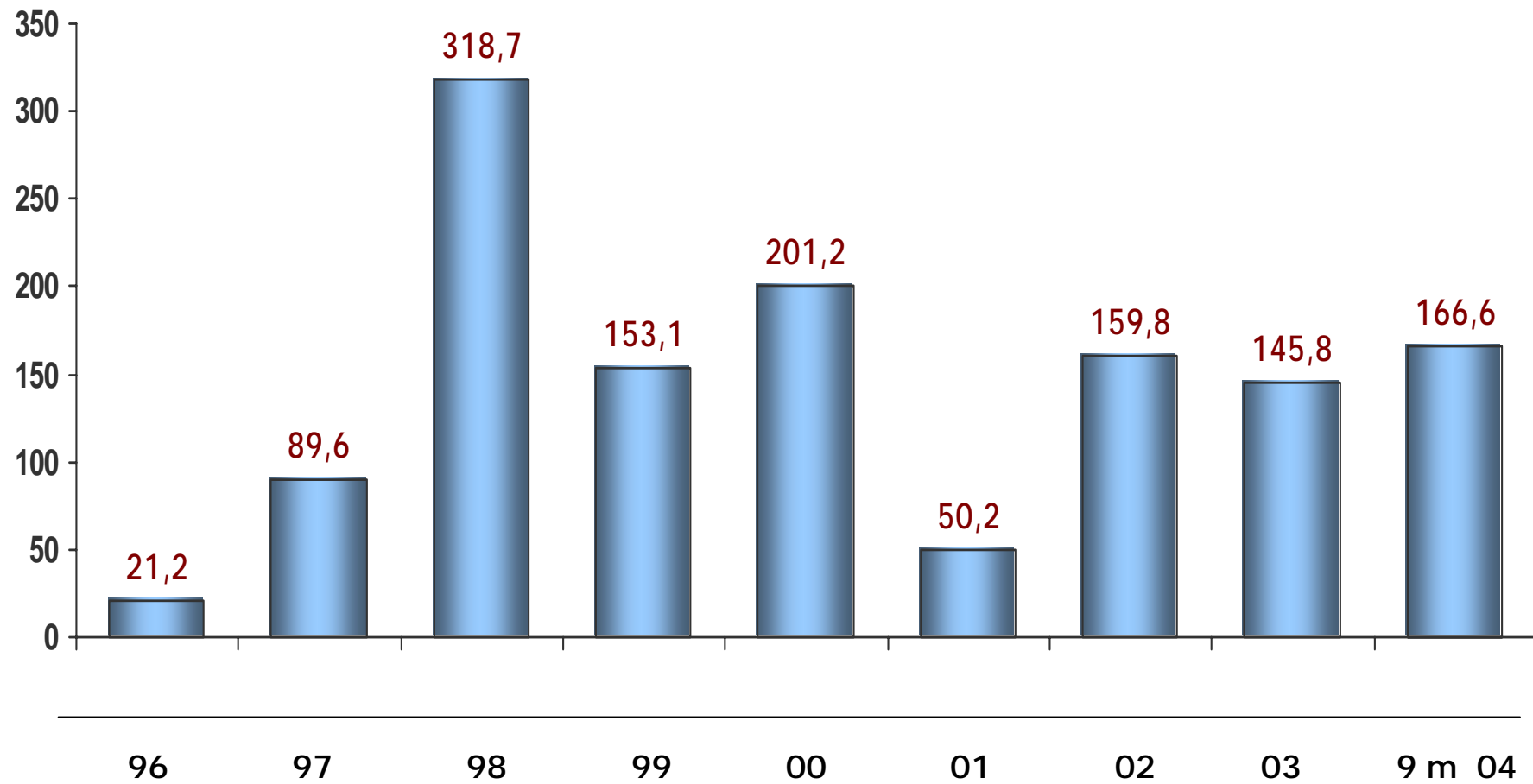


Leadership in the Europe-Latin America Market

Europe - Latin America market share 2000-2004



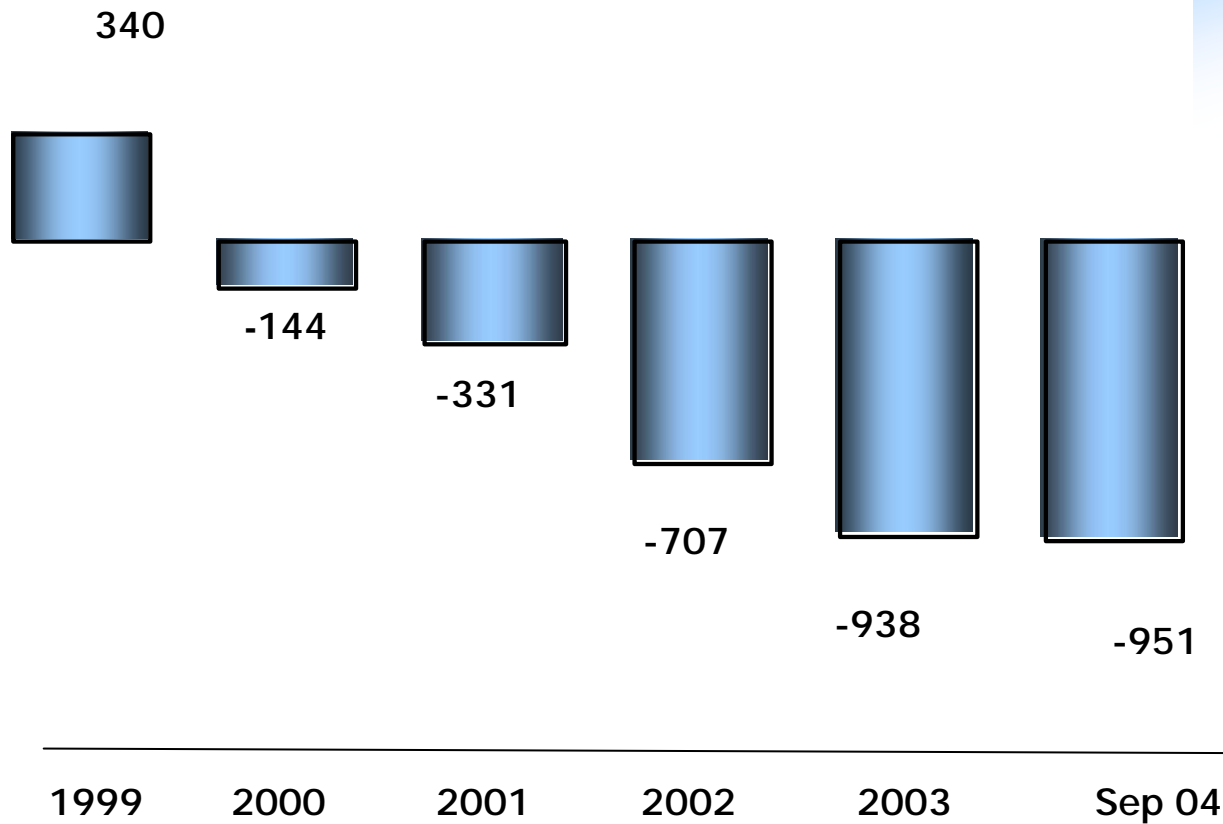
Nine Consecutive Years of Profits



Net Profit (€ M)

Strong Balance Sheet

Net Financial Debt (€ M)



Strong Cash Position
September 2004
1,443 € M



Targets of our Director Plan 2003-2005



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



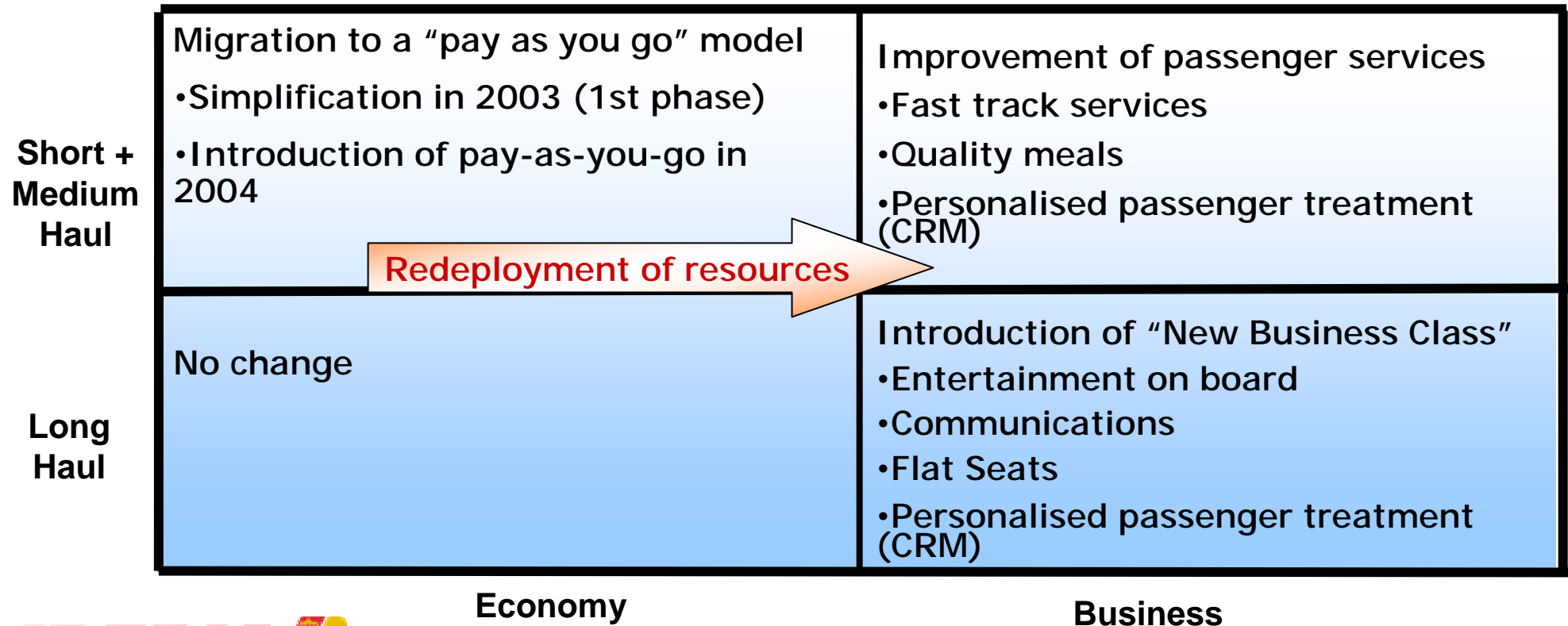
Shareholder Value Creation



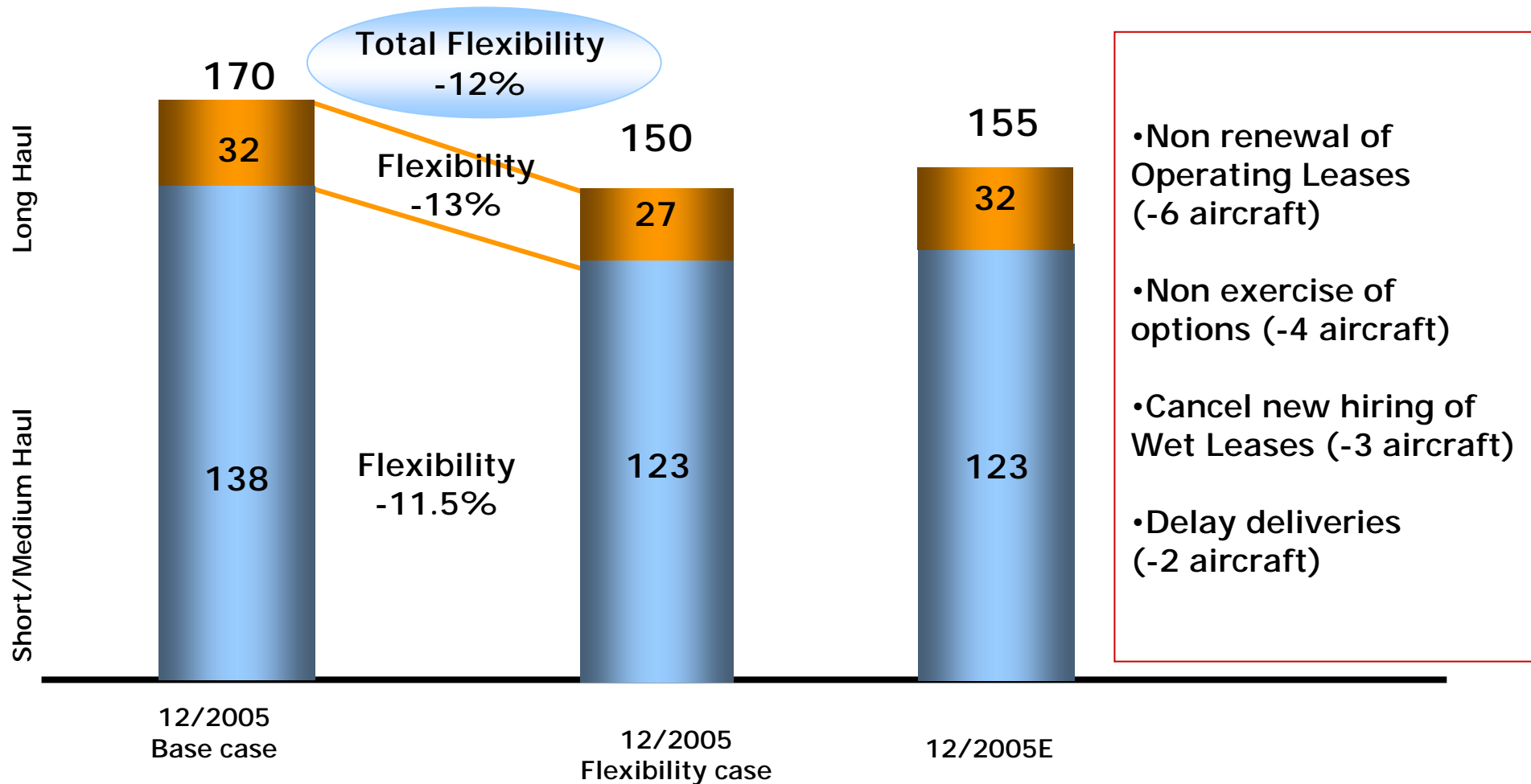
Adapting the Business Model of Iberia. New Products

- 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



2005: Flexibility - Remains a Key Tool



Reducing Costs

Impact in 2005 € M

Director Plan

Asset utilisation 35-45

Personnel costs 65-75

Commercial costs 100-110

On board service 40-50

Other costs 110-120

350-400



Note: Targets of cost reductions over base case 2005

Achievements



Asset Utilisation

35-45
MM/€



- Optimisation of fleet: Increase number of seats per aircraft
- Improvement of 1.2 block hours/ day in medium haul aircraft through optimisation of slots and night aircraft utilisation. Full impact will be achieved in 2H 2005
- Accelerate the phase out of B747-200

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%

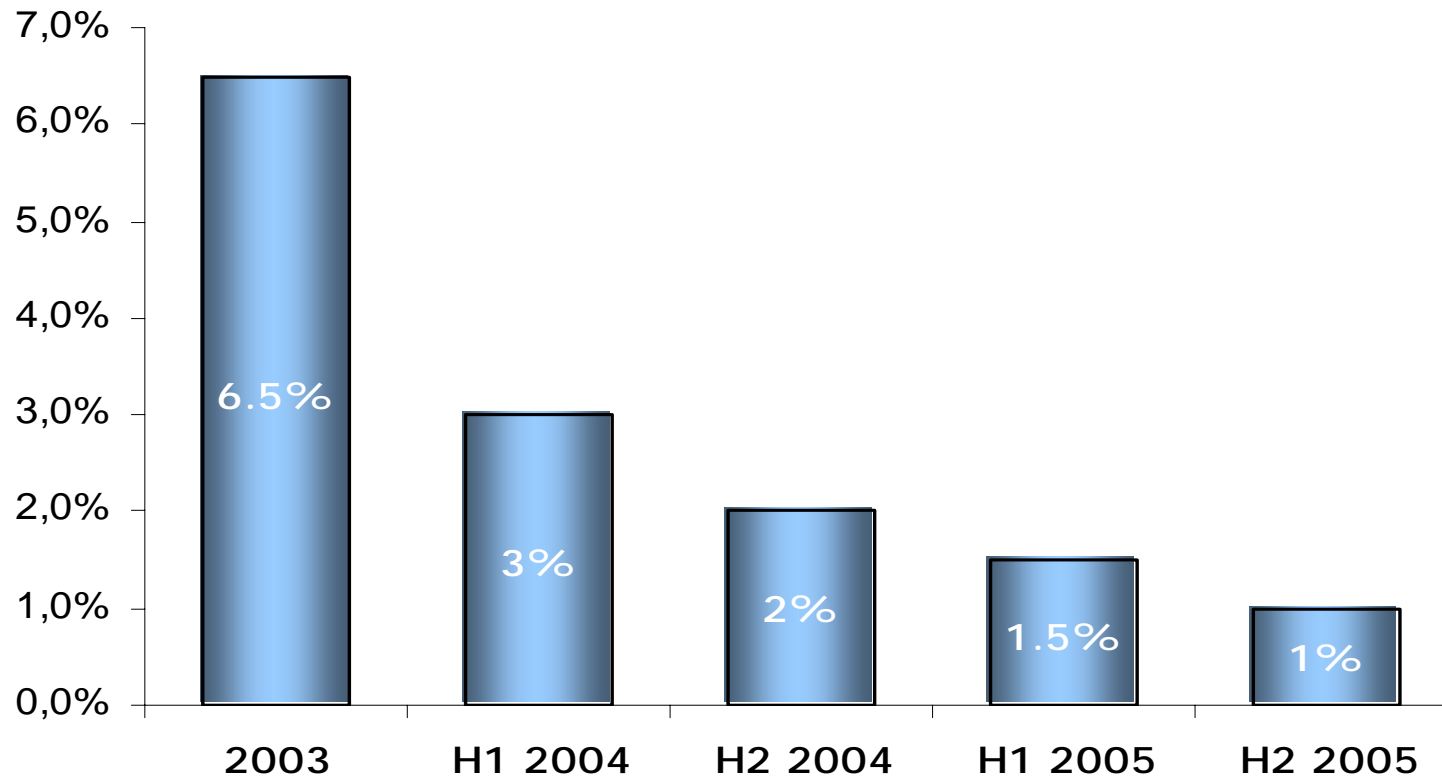
Some measures:

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

42% of the target already achieved in 2004E

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



Other Costs

110-120
MM/€



The main three areas are:

1. Maintenance: 60-65 MM/€
2. Insurance: 30 MM/€
3. General costs: 20-25 MM/€

86% of the target already achieved in 2004E

100% in 2005E

The Plan on Track as Forecasted

Impact in 2005 € M

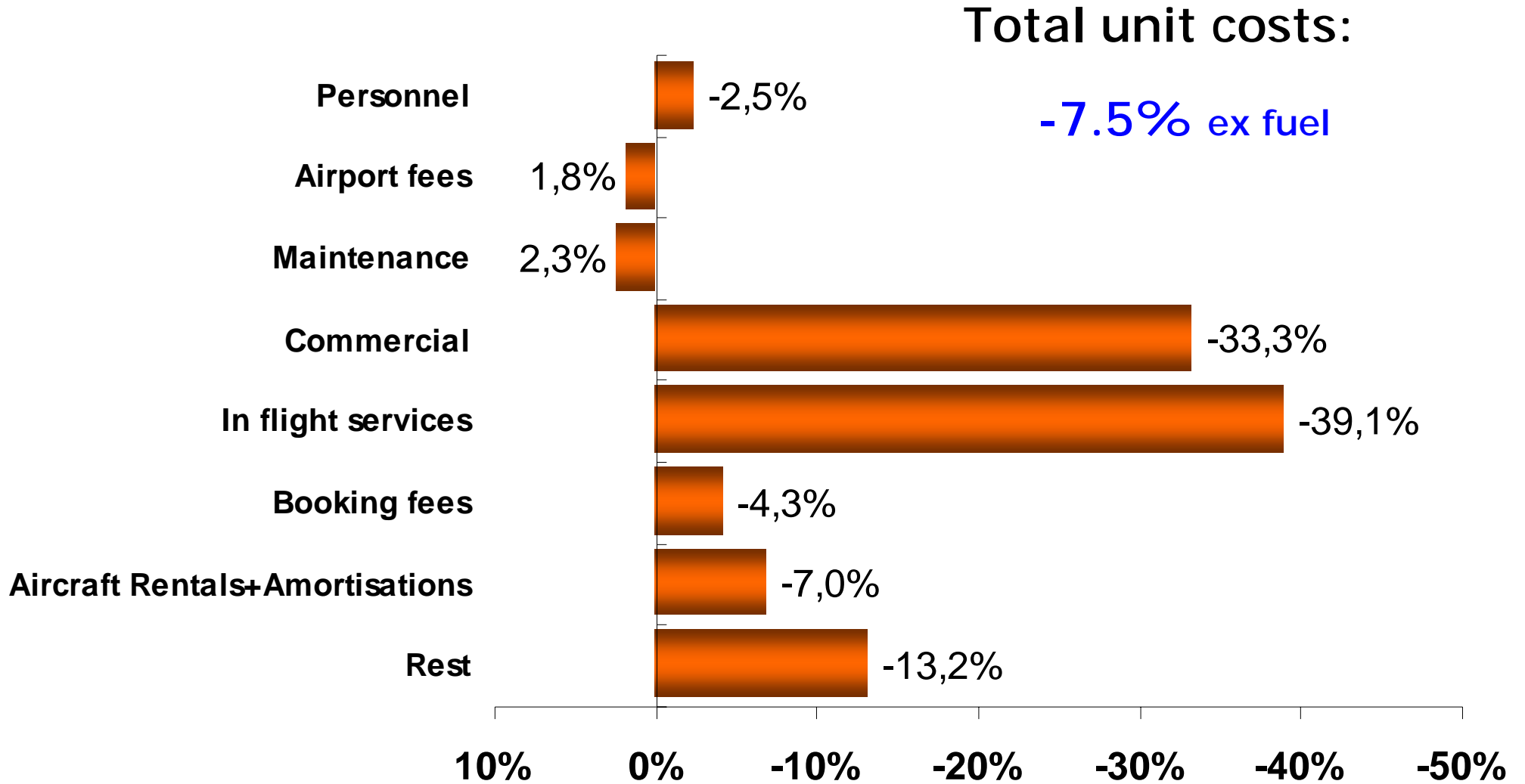
Director Plan Achieved in 2004E 2005E

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%



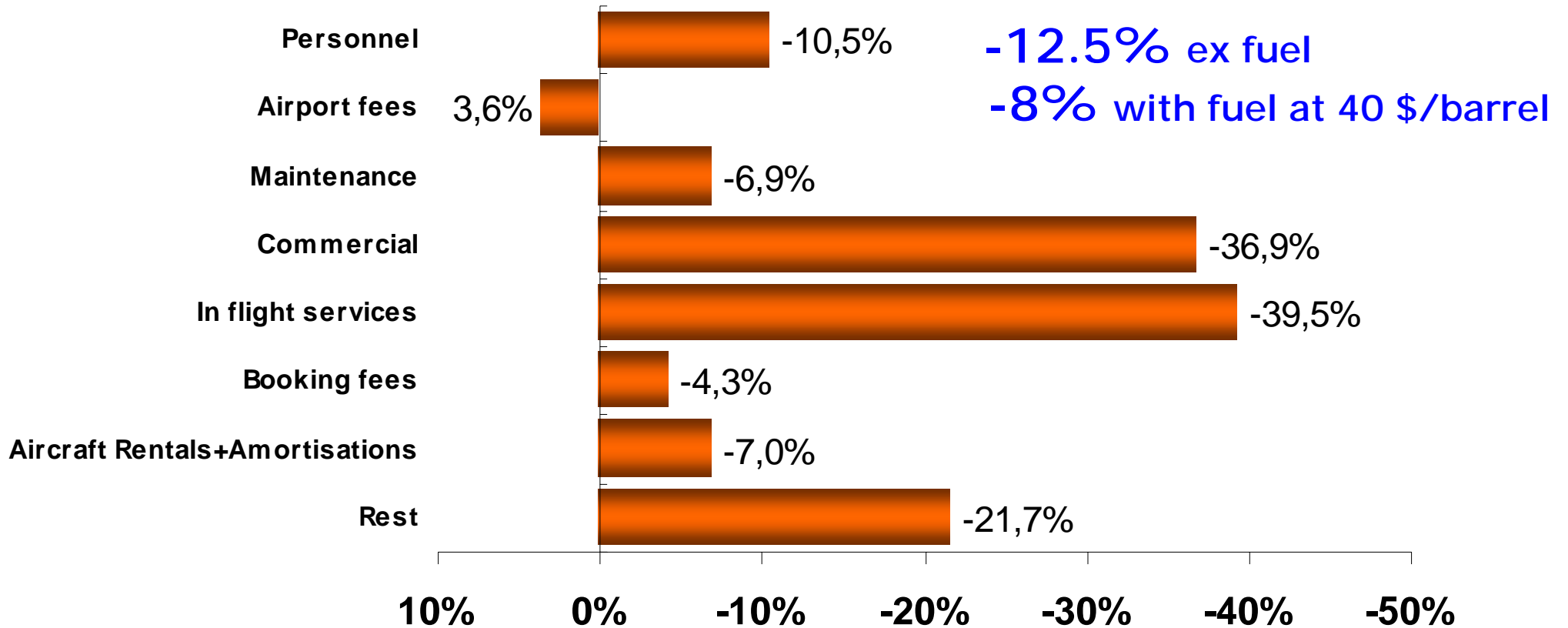
Note: Targets of cost reductions over base case 2005

Unit Cost Evolution 2002/04E

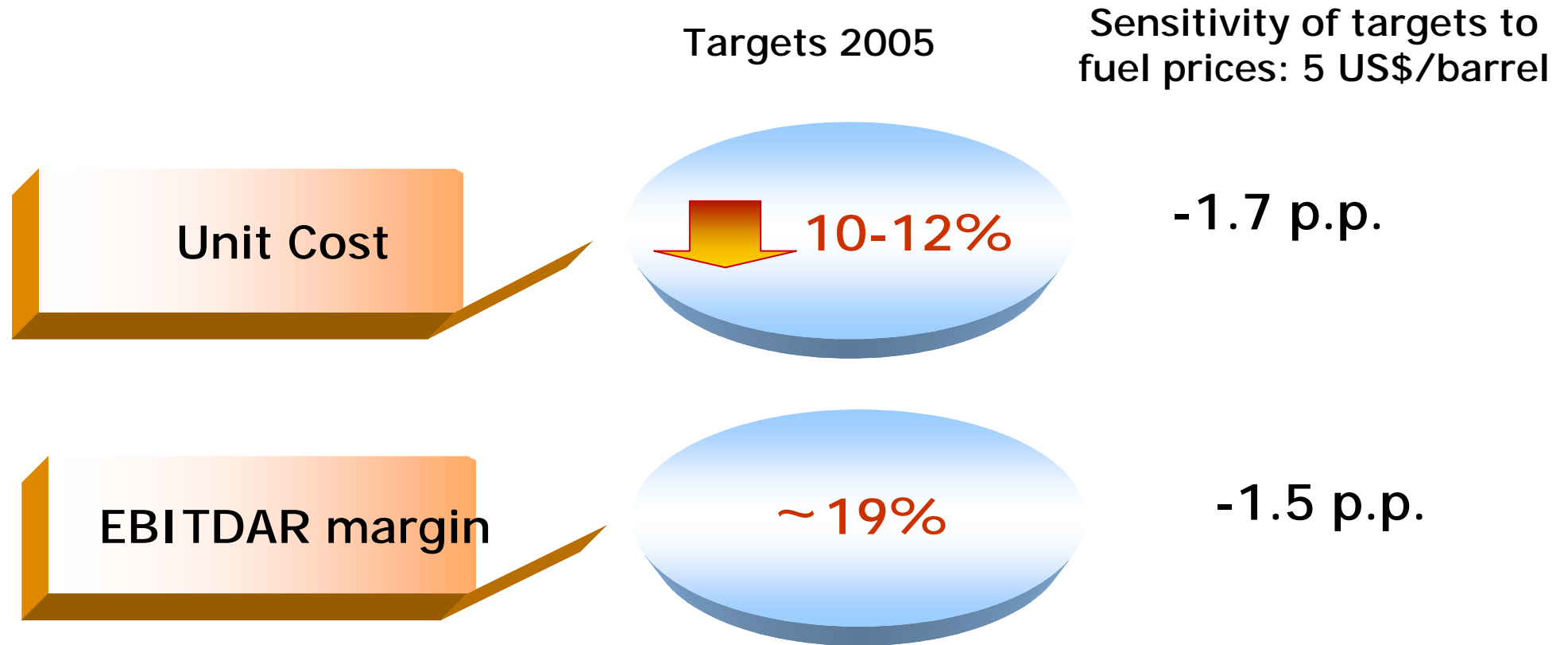


Unit Cost Evolution 2002/05E

Total unit costs:



Sensitivity of the targets



And Still More Improvement Potential...

New areas to be developed:

- New labour agreements: Productivity and flexibility
- Simplifying the short and medium haul product: Review and automatisisation of handling procedures
- Improving turnaround times
- Overheads and structure reduction

Outlook FY 2004

Cash Flow and Balance Sheet position
will improve compared to last year

EBITDAR margin will be around 15.5%

Ordinary results will be above 200 € M

The Key Elements of Our Success

- Flexibility:

- Ability to adapt to different customer needs: differentiation of the products. Best customer proposal in each of our market segments

- Ability to adjust capacity to market conditions

- Cost cutting focus

- Concentration in key strategic markets

Commitment to delivery: Profitable growth

