2004

Annual Report

IBERIA

Index

Dear shareholder,

In a business such as air transport, currently undergoing radical change and unprecedented competition, it gives me enormous satisfaction to be able to present the results for 2004, announcing that we have chalked up a net profit of €220 million, up 50.8% year on year and the second highest profit ever posted by our company; that the balance of liquid cash exceeds the short-term interest-earning debt by €1,187 million, up 27%; that the EBITDAR margin was 16%, 0.8 points up on 2003; and that we are still one of the most profitable companies in the sector.

This has been no easy task. In recent years, Iberia has been guided by its determination to get ahead of inevitable changes, trying to understand what customers want and give it to them, and this also marked our actions in 2004.

A great deal of effort has been made to achieve this, striving to cut costs and control risks, on the one hand, and to improve customer service, on the other.

One of the most important factors affecting the results of the year, not only in Iberia but throughout the sector, was the continued hike in oil prices, which soared at times to an all-time high of over 52 dollars/barrel, with an average price for the year of 36.5 dollars/barrel. In Iberia, thanks to the hedging policies negotiated, we have paid the equivalent of 31.5 dollars on average, saving some €81 million over the year. But despite this and the favourable euro-dollar exchange rate, the fuel expense rose by 17.4% over the previous year.

The hedging of risks, as in the example of fuel prices, is one of the priorities of the current master plan, though not the only one. The lowering of unit operating costs was and still is also essential, this being the underlying reason for some of the most important measures taken during this year, such as the changes in the travel agency remuneration system and the in-flight service on short and medium-haul flights.

The new model of remuneration for travel agencies in Spain came into force on 1 January 2004, contemplating a scaled reduction of commissions from 6.5% in 2003 to 1% as from July 2005. This measure has not only brought savings of over €74 million in 2004, which will be raised to over €100 million in 2005, but also puts us in a position to compete more effectively with the new carriers, which have traditionally much lower distribution expenses than Iberia.

The new model of in-flight service introduced in March 2004 was an important measure designed to bring our costs in line with those of our principal rivals on European routes. Since then, on flights of less than three hours food and drink are not included in the price of the ticket, so customers only pay for what they consume. This combines cost savings and, therefore, a better position to establish competitive prices, with the possibility of offering our customers a more personal, higher quality service.

These are just two examples, but are by no means the only measures taken during 2004 to reduce the cost gap with our rivals and improve customer service. In the first case, we should also mention staff productivity, which rose 7.7% during 2004 and is expected to continue improving in 2005; or aircraft utilisation, which improved by 7.5% on long-haul and 2.5% on short-haul flights. These and other measures explain how the company managed to cut its unit operating costs by 5.1% (which would have been 7% had it not been for the fuel prices), which is greater than the drop in unit income, of 4.3%. Despite the positive trend of these indicators, one of the principal objectives set by the company for forthcoming years is to continue improving the utilisation of its human and material resources. This measure contemplates a process of fleet renewal and reduction of models of aircraft used by Iberia.

2004 was also an important year in our consolidation as leading carrier between Europe and Latin America; the Air France-KLM merger temporarily robbed us of that leadership, although we are now recovering it. The start-up of flights to Montevideo, direct routes to Guatemala, Costa Rica and Panama, with a

considerable improvement on the service previously offered via Miami, and the signing of code sharing agreements with several Latin American companies, including TACA, Mexicana de Aviación or Avianca, for the local distribution of air traffic boosted Iberia's position on that market.

On these routes, Iberia increased its market share in both total traffic and business traffic, to 17.2% and 18.8%, respectively, 0.9 and 0.4 percentage points higher than in 2003, broadening the spread with our rivals. The launching of the new Business Plus class for long-haul routes, to be put on the market in May 2005, has arisen out of a firm commitment to quality and this type of customers, which appreciates Iberia's dense network, the wide array of frequencies and direct flights and the comfort and additional services provided for this new class. The redesigning and refurbishing of the inside of Airbus A340 aircraft to include the new class, in which Iberia will invest €100 million, will be done over the entire year.

The long-haul sector recorded the largest growth in 2004, in both supply and demand, increasing by 10.5% and 12.0%, respectively, in Available Seat Kilometres and Passenger Revenue per Kilometre, compared to 8.8% and 9.1% in the overall network. An average annual occupation of almost 82% was achieved on this long-haul network, unprecedented in Iberia. In total, Iberia carried 27 million passengers, up 4.2%, with 75.2% occupation, 0.2 percentage points more, a record level for the company.

After a satisfactory close to 2004, 2005 promises to be full of new aspects and challenges, both within and outside the company.

The commercial air transport model that has existed up to now is undergoing a thorough transformation, not only in Spain but worldwide. In Iberia, we are convinced that the time is up for static enterprises, which put their model of company before what customers want and choose. And with this idea of competing and being where and how customers prefer, we will, during 2005, design a new Master Plan for the period 2006-2008. We trust that, as has occurred with the present Master Plan, the new Plan will enable us to keep ahead of inevitable changes and endeavour to preserve our leadership of the sector, in both profits and innovation.

At the same time, we will also have to face several important challenges during 2005, such as getting ready for the move to the new terminal area at Barajas Airport, to which Iberia will transfer all its operations, foreseeably in early 2006. This entails redesigning all the work procedures, reviewing flight schedules and the interconnection system and an intense training and information plan for employees, customers, suppliers and shareholders. The huge expense that we will incur in this respect will be offset by the possibility of growing and building a much more efficient network of flights and connections, special services for the best customers, use of new technologies to improve customer service and reduce costs, among other benefits.

In 2005 we will also begin to reap the fruits of the joint operation of routes with British Airways, under the framework agreement approved by the European antitrust authorities, which has, since January, affected the routes between London Heathrow and Madrid and Barcelona. During 2005, we will also, once again, make extensive use of mechanisms to make operations more flexible, such as the wet lease, on short and long-haul routes, and will continue our fleet renewal.

We also anticipate opportunities and challenges in the maintenance and handling businesses. In maintenance, Iberia will further develop its policy of broadening its customer portfolio and maximising utilisation of the capacity of our installations, which it began in earnest in 2004, and in handling it will probably have to bid in the different tenders called for Spanish airports, at which it aspires to renew its current licences.

In short, in 2004, in spite of the fierce competition and difficulties, we have continued to improve our results and we now look ahead to 2005 with the same determination to improve our efficiency and face all the challenges.

Fernando Conte
Chairman of Iberia

Legal Information

Iberia, Líneas Aéreas de España, S.A.

2004 Financial Year

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
Iberia, Líneas Aéreas de España, S.A.:

We have audited the financial statements of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. comprising the balance sheet as of December 31, 2004, and the related statement of income and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

For comparison purposes the directors present, in addition to the 2004 figures for each item in the balance sheet and statements of income and of changes in financial position, the figures for 2003. Our opinion refers only to the 2004 financial statements. Our auditors' report dated April 7, 2004, on the 2003 financial statements contained an unqualified opinion.

Since the Company is the head of a group and meets certain requirements, it is obliged under Spanish corporate law to prepare separate consolidated financial statements, on which we issued our auditors' report on this same date containing an opinion similar to that expressed in the following paragraph. The effect of consolidation, with respect to the individual financial statements, is described in Note 4-c to the financial statements referred to above.

In our opinion, the financial statements for 2004 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Iberia, Líneas Aéreas de España, S.A. as of December 31, 2004, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards which, except for the change of method indicated in Note 4-g to the financial statements referred to above, with which we concur, were applied on a basis consistent with that of the preceding year.

The accompanying management report for 2004 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 2004. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE
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Luis de la Mora

April 1, 2005

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414, Inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso - 28020 Madrid

Company Financial Statements

IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.

Balance sheets as of December 31, 2004 and 2003

Thousands of Euros

ASSETS	2004	2003
FIXED AND OTHER NONCURRENT ASSETS:		
Start-up expenses	**278**	**78**
Intangible assets (Note 5)	**391,993**	**423,428**
Property, plant and equipment (Note 6)	**1,053,833**	**965,489**
Aircraft:		
Cost	1,715,813	1,509,972
Accumulated depreciation and allowances	(1,047,631)	(921,375)
	668,182	588,597
Other tangible fixed assets:		
Cost	1,044,077	1,021,424
Accumulated depreciation and allowances	(658,426)	(644,532)
	385,651	376,892
Long-term investments (Note 7):	**542,481**	**645,644**
Investments in Group and associated companies	134,187	121,696
Loans to Group and associated companies	25,623	25,623
Long-term investment securities	102,655	114,736
Other loans	198,565	168,598
Long-term deposits and guarantees given	298,170	398,082
Allowances	(216,719)	(183,091)
Long-term receivables (Note 18)	**279,750**	**303,689**
Total fixed and other noncurrent assets	**2,268,335**	**2,338,328**
DEFERRED CHARGES (Note 5)	**69,141**	**85,107**
CURRENT ASSETS:		
Treasury stock (Note 8)	**31,961**	**20,066**
Inventories (Note 9)	**86,938**	**75,719**
Receivable from Group companies (Note 17)	**24,664**	**26,511**
Accounts receivable (Note 10)	**560,702**	**529,319**
Short-term investments (Note 11)	**1,509,649**	**1,347,108**
Cash	**15,001**	**14,814**
Accrual accounts	**20,918**	**31,034**
Total current assets	**2,249,833**	**2,044,571**
TOTAL ASSETS	**4,587,309**	**4,468,006**

The accompanying Notes 1 to 23 are an integral part of the balance sheet as of December 31, 2004.

Thousands of Euros

SHAREHOLDERS' EQUITY AND LIABILITIES	2004	2003
SHAREHOLDERS' EQUITY (Note 12):		
Capital stock	**731,225**	**716,833**
Aditional paid-in capital	**106,501**	**98,937**
Revaluation reserve	**38**	**38**
Legal reserve	**86,247**	**75,671**
Voluntary reserves	**272,416**	**216,418**
Reserve for treasury stock	**31,961**	**20,066**
Merger reserve	**165**	**165**
Differences due to the adjustment of capital stock to euros	**1,201**	**1,201**
Income for the year	**185,096**	**105,762**
Total shareholders' equity	**1,414,850**	**1,235,091**
DEFERRED REVENUES	**25,748**	**56,841**
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 13):		
Provisions for pensions	**30,420**	**36,395**
Provisions for obligations to personnel	**516,377**	**487,529**
Provision for major repairs	**76,192**	**104,906**
Provision for third-party liability	**617,755**	**618,661**
Total provisions for contingencies and expenses	**1,240,744**	**1,247,491**
LONG-TERM DEBT:		
Convertible debentures (Note 15)	**18,354**	**27,532**
Payable to credit institutions (Note 14)	**375,112**	**418,518**
Other payables	**3,572**	**3,236**
Total long-term debt	**397,038**	**449,286**
CURRENT LIABILITIES:		
Convertible debentures (Note 15)	**9,178**	**22,573**
Payable to credit institutions (Note 14)	**45,981**	**46,458**
Payable to Group and associated companies (Note 17)	**14,332**	**11,643**
Trade accounts payable:	**1,122,523**	**1,096,306**
Customer advances (Note 4-g)	358,186	413,854
Accounts payable for purchases and services	764,337	682,452
Compensation payable	**159,836**	**148,102**
Other nontrade payables (Note 18)	**156,673**	**153,773**
Accrual accounts	**406**	**442**
Total current liabilities	**1,508,929**	**1,479,297**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**4,587,309**	**4,468,006**

IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.

Statements of Income for 2004 and 2003

Thousands of Euros

DEBIT	2004	2003
EXPENSES:		
Procurements (Note 19)	849,592	737,012
Personnel expenses (Note 19)	1,411,807	1,355,716
Depreciation and amortization expense (Notes 5 and 6)	183,158	173,382
Variation in operating allowances	4,874	592
Other operating expenses (Note 19)	2,103,594	2,144,905
	4,553,025	4,411,607
Operating income	**186,592**	**139,161**
Financial and similar expenses (Notes 13 and 14)	35,644	34,018
Variation in investment valuation allowances (Note 7)	1,053	16,166
Exchange losses	86,841	106,691
	123,538	156,875
Financial income	**31,164**	**7,152**
Income from ordinary activities	**217,756**	**146,313**
Variation in fixed asset allowances (Note 7)	(1,085)	1,576
Losses on fixed assets and control portfolio (Note 6)	9,731	22,653
Extraordinary expenses (Note 19)	169,782	57,331
Prior years' expenses and losses	608	1,173
	179,036	82,733
Extraordinary income	**24,682**	**2,482**
Income before taxes	**242,438**	**148,795**
Corporate income tax (Note 18)	57,342	43,033
Income for the year	**185,096**	**105,762**

The accompanying Notes 1 to 23 are an integral part of the 2004 statement of income.

Thousands of Euros

CREDIT	2004	2003
REVENUES:		
Net sales (Note 19)	4,523,894	4,321,560
Other operating revenues (Note 19)	215,723	229,208
	4,739,617	4,550,768
Revenues from equity investments (Note 7)	11,523	11,381
Other interest and similar revenues (Notes 7 and 11)	40,821	52,632
Exchange gains	102,358	100,014
	154,702	164,027
Gains on disposals of fixed assets and control portfolio (Note 19)	95,272	22,124
Gains on Parent Company share transactions (Note 8)	8,991	8,347
Extraordinary revenues (Note 19)	58,030	35,007
Prior years' revenues and income (Note 19)	41,425	19,737
	203,718	85,215

Notes to Company Financial Statements

1. THE BUSINESS ACTIVITY OF THE COMPANY

Iberia, Líneas Aéreas de España, S.A. is a company principally devoted to air transport of passengers and cargoes and which also carries on complementary activities; particularly important among these latter are handling and aircraft maintenance, and distribution through the financial shareholding in "Amadeus Group", which is the owner of the Amadeus reservations system.

The passenger and cargo transport business boasts an extensive network, and serves three fundamental markets: Spain, Europe, and the Americas.

Iberia, Líneas Aéreas de España, S.A. is a full member of the **one**world "megacarrier", one of the most important airline groups in the world, and this permits the company to globalise its air transport business.

The registered office of Iberia, Líneas Aéreas de España, S.A. is located in Madrid, and the shares of the Company have been quoted on the Stock Exchange since April 2001.

2. BASIS FOR THE PRESENTATION OF THE ANNUAL ACCOUNTS

True and fair view

The Annual Accounts for financial year 2004 have been obtained from the books of account of the Company and are presented in accordance with the Spanish General Accounting Scheme and all other applicable legislation, such that they represent a true and fair view of the equity and the financial situation of the Company as at 31 December 2004, and of the trading results and the sources and application of funds for the year ending on that date. These Annual Accounts, which have been drawn up by the Directors of the Company, are to be submitted for the approval of the Ordinary General Meeting of Shareholders, and it is expected that they will be approved without any modifications whatsoever.

3. PROFIT DISTRIBUTION

The proposal for the distribution of the profit for Financial Year 2004 drawn up by the Directors of the Company to be submitted for the approval of the Ordinary General Meeting of Shareholders comprises passing € 18,510 thousand to the legal reserve, € 0.05 per share to dividends, and the remainder to voluntary reserves.

4. STANDARDS OF VALUATION

The most significant valuation rules applied by the Company in the preparation of the Annual Accounts for Financial Year 2004, in accordance with the provisions of the Spanish General Accounting Scheme, are as follows:

a) Intangible fixed assets

Assets acquired under financial leasing contracts are included in the intangible fixed assets at acquisition cost, with the total liability for the leasing payments together with the sum of the purchase option are shown in the liabilities. The financial expense of such operations are included under the heading of "Expenses to be distributed over various financial years" in the Balance Sheet and are charged to the profit of each financial year following a financial criterion.

Assets acquired under financial leasing contracts are depreciated by applying the same criteria as those used for items of a similar nature in the fixed assets.

Until financial year 2003, the Company Assets applied the provisions of Ministerial Order dated 18 December 2001, under which it corrected the cost of acquisition and accumulated depreciation of the fleet acquired in the financial year in question and the preceding four financial years, both under leasing agreements and outright purchase, for the exchange rate differences occurring by applying the official exchange rates in force at year end to the specific financing for such aircraft denominated in foreign currency.

In 2004, these valuation differences have been charged to the Profit and Loss Account because they caused no significant impact.

The sum of € 6,597 thousand has been written off in the acquisition cost of the fleet under financial leasing agreements appearing in the Balance Sheet as at 31 December 2004, attached, owing to the effect of capitalising the accumulated valuation differences.

Computer applications are valued at cost of acquisition or cost of production and are depreciated as from the moment of entering into service using the straight-line method with a useful life of five years.

Industrial property, in the form of rights to the use of various trademarks, is valued at cost of acquisition or cost of production and is depreciated using the straight-line method over a period of ten years.

b) Tangible fixed assets

Tangible fixed assets are valued at acquisition cost and are revalued in accordance with the various legal regulations including the Royal Decree-Law 7/1996, dated 7 June.

As at 31 December 2004, the cost of acquisition of the fleet of aircraft under ownership included accumulated exchange rate differences to a total value of approximately € 77,377 thousand (see Note 4-a).

The Company depreciates its fixed assets using the straight-line method, distributing the depreciable cost of assets over the years of expected useful life.

The years of expected useful life for the various items in the fixed assets are as follows:

	Years
Fleet of aircraft:	
Cell (a)	22
Components	4-7
Buildings and other construction	20-50
Machinery, fixtures, and tools	10-15
Land transport items	7-10
Furniture and fittings	10
Data processing equipment	4-7
Spare parts - rotating	18
Spare parts - repairable	8-10
Flight simulators	12-14

(a) Other than the MD-87 model, the total cost of which, including cell and components, is depreciated over 20 years, and for aircraft acquired from Aviación y Comercio, S.A. which are depreciated over 12 years (MD-88) and 10 years (MD-87), being second-hand items.

Up until the present financial year, the Company has followed the procedure of establishing a fund based upon an estimate of the total maintenance cost to be incurred for major repairs, and this cost is charged to the profit and loss account by the straight-line method over the period occurring between successive major repairs, regardless of whether or not the aircraft in question are operated under an operating lease agreement (charter of aircraft without crew for a specified period) or are in ownership.

In the case of aircraft under ownership, with the exception of the MD fleet, on 31 December 2004, the Company proceeded to separate the cost of items to be replaced in the next major repair from the cost of the aircraft, in order to homogenise to the greatest extent possible the treatment given to these headings under the Spanish General Accounting Scheme and International Standards. The net book value of such components is determined and the provision for major repairs corresponding to such aircraft under the heading "Provisions" in Tangible or Intangible fixed assets as the case may be is reclassified, (Notes 5, 6, and 13); this has not caused a significant effect on the value of the equity.

The net value of such components is to be depreciated as from 2005 over the years remaining until replacement, with a useful life estimated at between 4 and 7 years.

For assets subject to a temporary administrative assignment for which the years of useful life exceed the term of assignment to the Company, the assets in question are depreciated over the concession period.

The residual value of rotating replacements (those specifically assigned to types or families of aircraft) is estimated to be a percentage of between 10% and 20% of the cost of acquisition, depending on the type of the fleet to which they are assigned. For other fleet spare parts (repairable) the residual value is calculated at 10% of the cost of acquisition. The Company depreciates the entire acquisition cost of all other items in tangible fixed assets.

In order to recognise the capital loss arising from obsolescence of spare parts, the Company has established a provision for the depreciation of such spare parts, the value of which as at 31 December 2004 amounts to the value of € 2,560 thousand.

In addition, the Company establishes reversible provisions in order to match the net book value of the fleet which is for sale with the expected realisable value depending on existing values in the second-hand aircraft market.

Improvement to the aircraft fleet which represent an increase in capacity, or efficiency, or an extension of useful life are included in the cost of acquisition of the aircraft.

Maintenance and repair expenses, both for engines and for other aircraft components are charged to the Profit and Loss Account for the financial year in which they are incurred.

c) Financial fixed assets and temporary investments

Shareholdings in the capital of other companies, whether in the Group, associated companies or other shareholdings, for the most part unquoted shares, are shown in the Balance Sheet at the cost of acquisition or market value if less. Market value is determined as the theoretical book value of the shareholding at the closing date of the financial year, corrected where appropriate for the value of tacit capital gains existing at the moment of the purchase which persist at the moment of the subsequent valuation.

In order to recognise capital losses arising from the difference between the acquisition cost and the estimated realisation value of the shares, appropriate provisions are made.

Notwithstanding the above, the cost of acquisition of the shares in the capital of the Iberbus companies (see Note 7) has not been corrected in relation to its market value because based upon the agreement reached, the other shareholder in these companies, Airbus Industrie Financial Services, guarantees Iberia, Líneas Aéreas de España, S.A. recovery of the entire investment made.

The effect of the application of the consolidation criteria on the annual accounts of the Company over financial year 2004 would mean an increase in assets, profit, and reserves of € 266,288 thousand € 33,306 thousand, and € 197,609 thousand, respectively.

Facilities to Group and Associated companies, and other loans and facilities granted, appear in the books as the sums issued still pending reimbursement. The company has established provisions which are calculated in virtue of the probability of recovery of the debt, depending on its age and the solvency of the debtor, in order to meet the risks of non-recovery.

Deposits and bonds established are recorded at the value of the sum paid. These deposits include the sums issued in accordance with the provisions of the contracts for the acquisition of new aircraft, which are susceptible of reimbursement at the moment when the aircraft is delivered (see Note 7).

As a general rule, the Company places its temporary surplus cash in short-term financial investments which appear in the books at the value of the sum in fact disbursed. Interest associated with such operations is recorded in the books as revenue as it is accrued, and those pending expiry at the moment of the year end are shown in the balance sheet, so as to increase the balance under the heading of "Temporary Financial Investments".

d) Own shares

Own shares are valued at acquisition cost, which is lower than the mean quotation for the last quarter of the financial year, and that at year end.

e) Operations and balances and balances in foreign currency

Operations in foreign currencies and the resulting credit and debit entries from the same are recorded at their equivalent value in € at the date upon which the operation was carried out.

At 31 December each year, the balances of the accounts payable or receivable in foreign currency are valued at the exchange rate in force on that date, except for the balance corresponding to liabilities arising from transport documents pending use which in accordance with normal practice among airline companies are shown in the Balance Sheet at the exchange rate for the month of the sale a established by the International Airline Transport Association (IATA). The IATA exchange rate for each month corresponds to the mean exchange rate over the last five working days preceding the 20th of the preceding month.

The differences in valuation arising from the comparison between the official exchange rate at year end and the exchange rate appearing in the accounts payable or accounts receivable in foreign currency are charged to the Profit and Loss account if they are to the debit of the Company, under the heading "Negative Exchange Rate Differences", or if they are in favour of the Company, they are deferred until the expiry of the corresponding credit or debit, and are charged to the heading "Income to be distributed over various financial years" in the Balance Sheet, except where negative exchange rate differences arising in the same currency have been charged to at least the same value in the prior financial year or years.

Exchange rate differences which occur at the moment of collection or payment of credits or debits in foreign currency are charged to the Profit and Loss Account under the headings "Positive Exchange Rate Differences" or "Negative Exchange Rate Differences" depending on whether they are to the credit or debit of the Company, respectively.

f) Stocks

Stocks, which are principally aeronautical materials and fuel, are valued at mean acquisition price, and the corresponding provisions for depreciation are booked.

In order to recognise the capital loss arising from obsolescence and slow rotation of certain stocked materials, the Company has established the corresponding provisions.

g) Income and expenses

Revenues and expenses are recorded in the books in accordance with the accruals principle, that is to say, when the real flow of goods and services which they represent takes place, independently of the moment in which the monetary or financial flow deriving from them occurs.

Sales of tickets and of transport documents for cargoes and others services are initially recorded to the credit of the heading "Client Advances" in the Balance Sheet. The balance of this heading represents the estimate of the liability relating to tickets and transport documents sold prior to 31 December 2004 and pending use as at that date. The revenues corresponding to these items are recognised at the moment when the transport or service is provided.

On occasions the Company carries out the sale of aircraft in order to continue to operate them under operational leasing agreements. Up until the present financial year, capital gains obtained from such operations were credited to the Profit and Loss Account on a straight-line basis during the period over which the lease contract was established, and profits from such operations pending credit to profits were entered under the heading "Income to be distributed over various years" in the Balance Sheet.

In view of the forthcoming adoption of International Accounting Standards and in order to match accounting criteria between the individual and consolidated annual accounts to the greatest extent possible, the Directors of the Company have opted to credit profits obtained from aircraft lease-back operations over previous years to the Profit and Loss Account for financial year 2004; until financial year 2003 they had been deferred and were progressively recognised as such during the period of operation of the lease-back contract agreement so as to match them with the expenses deriving from the lease payments. Consequently, as from 2004, the Company enters these profits in the financial year in which they arise and does not defer them.

As a consequence, the Company has recorded € 24,575 thousand under the heading "Extraordinary Income" in the Profit and Loss Account for the financial year 2004, attached, in order to charge the profits which had been deferred under the heading "Income to be distributed over various financial years" to the results (see Note 19-d).

The Company maintains the "Iberia Plus" card in force, the purpose of which is a permanent promotional exercise based on the cardholder obtaining points every time they make certain specific flights, use particular hotel and car hire services, or effect purchases using a credit card belonging to the scheme. The points may be exchanged for free tickets or other services provided by the companies belonging to the scheme. The Balance Sheet as at 31 December 2004, attached, includes a provision of € 61,030 thousand for this item under the heading "Creditors for purchase or provision of services" in accordance with the estimated valuation at the established redemption price of the accumulated points pending realisation at that date.

h) Commitments to staff

In accordance with the collective agreements in force, at the moment at which flight personnel reach 60 years of age, they cease to be active and go into the reserve while maintaining their working relationship with the company until the legal retirement age. The Company continues the practise of recognising personnel expenses for staff in the special reserve situation throughout the active life of the worker in accordance with the relevant actuarial studies.

The heading "Provisions for contingencies and expenses-Provisions for commitments to staff" in the Balance Sheet as at 31 December 2004, includes the following liabilities accrued under this item.

Further, the collective agreements in force provide for the possibility for flight staff who meet particular criteria to go into early retirement (special leave of absence) while the Company remains committed to payment of specific sums to such staff until the legal retirement age. The Company makes a provision of the required sum charged to the Profit and Loss Account for the financial year in which this situation arises, calculated according to actuarial principles, to add to the fund already established as a special reserve in order to meet these future payment commitments to the relevant staff.. Currently, there are 201 workers who have exercised this right.

The heading "Provisions for contingencies and expenses-Provisions for commitments to staff" includes the liabilities accruing under this item.

The actuarial studies employed in calculating the items indicated above have been performed by independent experts following the Projected Credit Unit Method using a technical interest rate of 3.5% and PERM/F-2000 P survival rates, assuming an increase in the RPI of 2% per year.

i) Montepío de Previsión Social Loreto

The Montepío de Previsión Social Loreto has the fundamental object of the payment of retirement pensions to its members (among which the employees of the company are included) together with other welfare services under particular circumstances (decease or permanent incapacity for employment).

Under the terms of the collective agreements in force, the Company contributes the regulatory payments established in such agreements together with their employees (defined contributions). In accordance with the Statutes of the Montepío, the financial liability of the Company is limited to the payment of such contributions as may be established under the regulations of the association.

The contributions made by the Company in Financial Year 2004 amounted to € 22,075 thousand, and they are included in the heading "Staff expenses" in the Profit and Loss Account for Financial Year 2004.

j) Provision for contingencies

The Company enters the estimated sum to meet probable or certain liabilities arising from legal proceedings and actions in progress, for indemnities or commitments outstanding but with an uncertain

value, and for similar guarantees offered by the Company under the heading "Provisions for contingencies" Such provisions are made at the moment at which the liability originates or becomes known to the Company. This heading also includes provisions for estimated costs calculated according to actuarial studies carried out by independent experts under the same hypotheses as indicated in Note 4-h, arising from the redundancy scheme put into effect in March 1999, and carried on in 2000 and 2001, and the Redundancy Plan authorised by the Ministry of Labour and Social Affairs on 26 December 2001 and put into effect as from financial year 2002. This Redundancy Plan, which was initially to terminate on 31 December 2002, was extended with the authorisation of the Ministry of Labour and Social Affairs, initially until 31 December 2004, and later, on 16 December 2004, until 31 December 2007 for ground staff, passenger cabin crew, and on board technical staff up to the limit of the target structural workforce for each group.

k) Corporation Tax

The Corporation Tax expense for the financial year is calculated in terms of the book results before taxes, plus or less, as appropriate, the permanent differences with the tax assessment basis, this latter being considered to be the taxable income in terms of such tax, reduced by credits and deductions to the tax quota, excluding tax withheld and payments on account.

l) Futures and other similar instruments

The Company employs these instruments in hedging operations for its equity positions and also for its flows of future collections and payments. Only "non-genuine" operations are used, that is to say operations contracted between two parties who determine the contractual terms of the operations agreed between them in each case (see Note 16).

The differences in the quotation for futures and similar instruments which become known over the life of these futures and instruments are booked a follows:

1. In hedging operations to cover exchange rates relating to equity positions, they are updated at the close of each financial year and the profit or loss generated is realised, and is recorded under the headings "Positive Exchange Rate Differences" or "Negative Exchange Rate Differences" in the Profit and Loss Account.
2. In the remainder of exchange rate operations and those covering interest rates and fuel prices, differences in quotations are booked in the Profit and Loss Account when the cancellation or final settlement of the futures operations or those of similar instruments occurs.

m) Activities with environmental impact

In general terms, environmental activities are considered to be those the purpose of which is to prevent, reduce, or repair damage to the environment.

In this respect, investments arising from environmental activities are valued at acquisition cost and are capitalised as a greater cost of fixed assets in the financial year in which they occur, following the criteria described in section b) of this Note.

Expenses arising from the protection and improvement of the environment are charged to the results of the financial year in which they are incurred regardless of the moment in which the monetary or financial flow deriving from them occurs.

Provisions relating to probable or certain liabilities, to legal proceedings in progress, and indemnities or commitments outstanding but with an uncertain value, of an environmental nature, or those which are not covered by the insurance policies put in place are established at the moment at which either the liability or the commitment causing the indemnity or settlement arises.

n) Classification of creditors

In the Balance Sheet, creditors are classified as short-term creditors if they have a term of less than twelve months, and as long-term creditors if they have a term beyond such period.

5. INTANGIBLE FIXED ASSETS

Movements relating to the intangible fixed assets accounts and the associated accumulated depreciation during Financial Year 2004 were as follows:

Thousands of Euros

Intangible Fixed Assets	31-12-03	Acquisitions and Provisions	Disposals	Transfers to Fixed Assets Tangible Material	Transfer of provision for major overhauls (Notes 4-b and 13)	31-12-04
Cost:						
Rights over assets under financial leasing arrangements	442,276	2,150	(985)	(2,218)	-	441,223
Computer applications	87,114	14,501	(738)	-	-	100,877
Industrial property	551	-	-	-	-	551
Rights of assignment and others	394	-	-	-	-	394
	530,335	**16,651**	**(1,723)**	**(2,218)**	**-**	**543,045**
Depreciation:						
Rights over assets under financial leasing arrangements	(64,556)	(21,695)	-	1,081	-	(85,170)
Computer applications	(41,821)	(16,221)	685	-	-	(57,357)
Industrial property	(136)	(56)	-	-	-	(192)
Rights of assignment and others	(394)	-	-	-	-	(394)
	(106,907)	**(37,972)**	**685**	**1,081**	**-**	**(143,113)**
Provisions:	**-**	**-**	**-**	**-**	**(7,939)**	**(7,939)**
Net book value	**423,428**	**(21,321)**	**(1,038)**	**(1,137)**	**(7,939)**	**391,993**

As at 31 December 2004, the cost of totally depreciated assets held by the Company in intangible fixed assets amounts to € 18,183 thousand, as shown in the following detailed table:

	Thousands of Euros
Rights of assignment	394
Computer applications	17.789
Total	**18.183**

Additions to the heading "Computer Applications" for the financial year related basically to investments in systems integration projects and new development.

During the year 2004, the Company proceeded to effect the sale of the "Viva Tours" brand names under their ownership. The profit generated by this operation amount to € 15 million, and are recorded under the heading "Profit on disposal of assets and control portfolio" in the Profit and Loss Account for 2004 (see Note 19-c).

Furthermore, in financial year 2004, purchase options on certain items of equipment, principally for information processing, were exercised, and therefore the values for acquisition cost and depreciations corresponding to these items were reclassified to tangible fixed assets.

The general characteristics of the financial leasing contracts, principally for aircraft, in force as at 31 December 2004, the financial costs of which are in some cases referenced to variable interest rates, and the payments expressed in foreign currency are as follows:

	Thousands of Euros
Cash price of asset acquired	449,733
Amount of payments made:	
In previous years	122,677
In the financial year	42,770
Amount of payments pending as at 31 December (Note 14)	161,643 (a)
Amount of purchase options (Note 14)	235,276 (a)

(a) These sums include € 56,903 thousand corresponding to interest pending accrual the contra for which is included in the section "Expenses for distribution over various financial years" in the Balance Sheet as at 31 December 2004, attached.

The schedule of the due dates for payments for financial leasing contracts pending payment as at 31 December 2004, including the value of the purchase options, is as follows:

	Thousands of Euros
Payments Due on:	
2005	40,023
2006	33,447
2007	156,762
2008	33,327
2009-2013	133,360
	396,919

6. TANGIBLE FIXED ASSETS

Movements in the various tangible fixed assets accounts and the associated accumulated depreciation and provisions during Financial Year 2004 were as follows:

Thousands of Euros

Cost	31-12-03	Acquisitions	Disposals	Others Transfers	Exchange rate differences	31-12-04
Fleet of aircraft	**1,509,972**	**208,768**	**(124,299)**	**121,372**	**-**	**1,715,813**
Other tangible fixed Assets						
Property	2,520	-	(2)	-	-	2,518
Buildings and other construction	158,910	55	(3,983)	1,664	-	156,646
Machinery, fixtures, and tools	394,077	21,682	(4,813)	3,502	-	414,448
Land transport items	25,765	3,254	(165)	-	-	28,854
Furniture and fittings	19,391	561	(1,401)	1	-	18,552
Data processing equipment	87,569	11,189	(1,996)	2,074	-	98,836
Spare parts for assets	258,531	101,191	(67,307)	-	-	292,415
Flight simulators	64,816	7,168	(61,941)	1,058	-	11,101
Assets in progress	9,845	36,432	(13,435)	(9,992)	(2,143)	20,707
	1,021,424	**181,532**	**(155,043)**	**(1,693)**	**(2,143)**	**1,044,077**

Thousands of Euros

Depreciation and Provisions	31-12-03	Provisions	Disposals	Transfer of provision for major overhauls (Notes 4-b and 13)	Other transfers	31-12-04
Depreciation:						
Fleet of aircraft	**871,808**	**85,898**	**(1,544)**	**-**	**-**	**956,162**
Other tangible fixed assets:						
Buildings and other construction	107,383	3,673	(893)	-	-	110,163
Machinery, fixtures, and tools	284,622	19,761	(4,574)	-	78	299,887
Land transport items	16,044	2,990	(162)	-	-	18,872
Furniture and fittings	13,454	993	(1,294)	-	1	13,154
Data processing equipment	54,386	12,109	(1,967)	-	1,002	65,530
Spare parts for assets	123,565	18,480	(2,591)	-	-	139,454
Flight simulators	42,461	1,243	(34,948)	-	-	8,756
	641,915	**59,249**	**(46,429)**	**-**	**1,081**	**655,816**
Provisions:						
Fleet of aircraft	**49,567**	**16,099**	**-**	**25,803 (a)**	**-**	**91,469**
Other tangible fixed assets	**2,617**	**-**	**(7)**	**-**	**-**	**2,610**

(a) Includes € 18,206 thousand assigned to the B-747 fleet which are in the process of retirement or disposal (see paragraph on "Provisions" in this note) and € 7,597 for items and components in operational fleets which are to be replaced in the next major overhaul (see Note 4-b).

The columns of "Other transfers" shown in the movements above included principally, on the one hand, those arising from intangible fixed assets (see Note 5) and, on the other hand, sums arising from financial fixed assets corresponding to advances paid on account which were finally applied to the payment for aircraft acquired under ownership during the financial year (see note 7).

Fleet of aircraft

Acquisitions during the period

The principal acquisitions during the period are summarised below:

	Thousands of Euros
Acquisitions to the fleet	170,402
Acquisitions of engines	7,002
Remodelling	31,364
	208,768

During Financial Year 2004, the Company acquired one A-320 airplane and one A-340/600 airplane at a value of € 123,773 thousand. The company later proceeded to sell these for the sum of € 119,365 thousand for operating leaseback. The net book value of these aircraft at the moment of disposal amounted to € 122,376 thousand.

Further, the Company acquired one A-320 airplane and one A-340/600 airplane at a value of € 126,084 thousand. In February 2005, the A-340/600 airplane was sold for operating leaseback, and it is expected to sell the A-320 airplane for operating leaseback at the end of March 2005.

The purchase contracts for these four aircraft involved the payment of advances to the value of € 80,470 thousand.

Transfers during the period

The principal transfers during the period are summarised below:

	Thousands of Euros
Deposits for fleet of aircraft	114,929
Deposits for engines	4,924
For assets in progress	1,519
	121,372

In virtue of the agreement signed with Airbus in preceding financial years, Iberia, Líneas Aéreas de España, S.A. took delivery of an A-320 airplane in replacement of a similar aircraft. As a result of this operation, the Company has proceeded to transfer the sum of € 34,459 thousand from the heading "Long-Term Deposits and Bonds" to the heading "Fixed Assets-Aircraft Fleet". In January 2005, this aircraft was sold and subsequently leased on operating leaseback.

Provisions

So as to be able to recognise possible capital losses deriving from disposals of aircraft expected to take place in the near future, the Company has made the appropriate provisions for depreciation in order to match the net book value of these aircraft with their estimated realisation value. The provisions recorded and applications made during financial year 2004 were as follows:

Thousands of Euros

Provisions	Balance at 31-12-03	Provisions (Note 19-i)	Transfers (Note 13)	Balance at 31-12-04
Fleet:				
B-747	47,100	6,000	18,206	71,306
B-757	-	8,000	-	8,000
Other non-operational fleets	2,467	2,099	-	4,566
	49,567	**16,099**	**18,206**	**83,872**

As at 31 December 2004, the Company proceeded to transfer the provision for major overhauls in the books at that date for the B-747 fleet to the heading "Provisions" because that fleet is in the process of retirement or disposal. The net book value of these fleets after provisions amounts to € 18,768 thousand.

Commitments and other guarantees on the fleet

The Company has been using 3 aircraft under financial leasing arrangements (one A-320 and two A-321) and fifteen aircraft under operating leasing arrangements (seven A-320 and eight B-757); the return on these aircraft and the value of the aircraft themselves cover the repayment of an issue of bonds on the European market which was made by the lessor during financial year 2000 to the value of € 496,473 thousand.

The Company is in the middle of a fleet renovation plan, based upon two contracts formalised with Airbus Industrie (Airbus) in 1998 and 2002, with subsequent modifications, for the A-320 and A-340 families respectively, and also under a contract formalised with International Lease Finance Corporation in 2003.

The aircraft pending delivery as at 31 December 2004, with the year they are expected to join the fleet according to the agreements made are as follows:

Firm aircraft

Type of Aircraft	2005	2006	Total
A-319	1 (b)	-	1
A-320	5	2	7
A-321	6 (a)	-	6
A-340/600	4 (b)	3	7
	16	**5**	**21**

(a) One A-321 aircraft has been operating under an Interim Charter arrangement since February 2005.
(b) One A-340/600 and the A-319 aircraft entered operating leasing arrangements in January and February 2005, respectively.

Aircraft under option

Type of Aircraft	2006	2007	Total
A-319	5	-	5
A-320	2	-	2
A-321	6	-	6
A-340/600	-	2	2
	13	**2**	**15**

In accordance with the base prices established in the contracts, the total cost of the aircraft under firm commitment pending delivery as at 31 December 2004 amounts to € 1,460 million, of which € 936 million correspond to the A-340 fleet and € 524 million correspond to the A-320 fleet.

Operating fleet

The operating fleet of the Company as at 31 December 2004 is listed below:

Type of Aircraft	Under Ownership	Under Financial Lease	Under Operating Lease	Under Wet Lease (b)	Under Interim Charter (c)	Total
B-747	1 (a)	-	2	2	-	5
B-757	1	-	12	-	-	13
A-319	-	-	6	-	-	6
A-320	12	10	35	-	1	58
A-321	-	2	7	-	1	10
A-340/300	-	-	18	-	-	18
A-340/600	1	-	5	-	-	6
MD-87	19	-	5	-	-	24
MD-88	13	-	1	-	-	14
	47	**12**	**91**	**2**	**2**	**154**

(a) Four aircraft which are out of service as at 31 December 2004 pending sale or scrap are not included. The net book value of these aircraft after provisions is nil.
(b) Leasing system including fleet, crew, maintenance and insurance.
(c) Aircraft which are the property of the manufacturer but which the Company operates, and which will be acquired under ownership or under operating lease in the short-term.

On 24 December 2004, an issue of bonds was made on the European market with a volume of Dollars 148,490 thousand and € 120,300 thousand, which were covered by twenty aircraft for which the Company guarantees usage under operating lease or financial lease. As at 31 December 2004, the Company had formalised contracts for operating leases for the use of one A-320 aircraft, one A-321 aircraft, and two A-319 aircraft in connection with this issue.

Fleet under operating lease, wet lease, or interim charter

During financial year 2004, two A-319 aircraft, one A-320 aircraft, two A-321 aircraft, and two A-340/600 aircraft joined the fleet under operating lease arrangements. In addition, two A-320 and four B-757 aircraft, the lease agreements for which expired in 2004, were returned.

Further, the Company operates two B-747 airplane under a wet lease arrangement, and one A-320 and one A-321 aircraft are provisionally under an interim charter agreement. In respect of these latter two aircraft, the Company proceeded to acquire them, and then sell them on an operating lease back, in January 2005.

Boeing Fleet

• B-757

As at 31 December 2004, the Company had twelve B-757 aircraft leased from different companies (one per aircraft). The lease contracts expired during financial year 2005. At the end of the lease period, the aircraft will be returned to the lessors. In November 2004, IBERIA reached an agreement with International Lease Finance Corporation to extend the lease on four of these aircraft until 2006, with the possibility of further extension of the lease period for one additional year.

The lease agreements make it necessary to carry out a series of overhauls on the engines and other elements in these aircraft prior to their return. In order to cover the cost of said overhauls, the Company has made a provision to the value of € 37,756 thousand under the heading "Provisions for Liabilities", of which € 31,000 thousand relate to assignment to provisions for the year. This provision also includes the expenses relating to five MD-87 aircraft which are expected to be returned at the end of their agreement periods in 2005.

• B-747

As at 31 December 2004, the Company has operating lease agreements in force with Air Atlanta, S.A. on two B-747 aircraft. The expiry of these agreements is established in 2005 (with an option to extend the lease for a further 9 months) and the Company has extended a guarantee for the successful conclusion of the operation in the form of a bond to the value of € 881,000 (see Note 7).

Furthermore, the Company has leased two aircraft under a wet lease agreement (hire of aircraft with crew, maintenance, and insurance). The lease agreements expire in 2006, and include the option for early termination as from the 19th month of the lease and an extension of the term for 12 or 24 months.

Airbus fleet

• A-340/600

As at 31 December 2004, the Company is operating five A-340/600 aircraft under operating lease arrangements concluded with various companies, the contracts for which expire between financial years 2015 and 2016. During financial years between 2013 and 2016, the contracts include a purchase option on the aircraft, or the return.

• A-340/300

As at 31 December 2004, the Company is operating eighteen A-340/300 aircraft under operating lease arrangements. Of these, four aircraft are leased for periods of nine years, with expiry of these contracts falling between 2009 and 2010. After these periods, the Company may opt to acquire the aircraft for pre-established amounts, or return them to lessor. The contracts for a further three aircraft expire in financial years 2014 (two aircraft) and 2015 (one aircraft). At the end of the lease period, the Company may take up an option to acquire the aircraft for pre-established amounts, or return them to the lessor; in the case of the contract expiring in 2015, the purchase option may be exercised either at the end of the term or two years prior to expiry.

The eleven remaining aircraft are leased each from a different company denominated "Iberbus" (see Note 7) in which the Company is a shareholder together with Airbus Industrie Financial Services. The basic conditions of the lease contracts relating to these aircraft are summarised below:

Iberbus company involved (a)	Original Expiry	First extension
Concha, Ltd. (b)	2003	2008
Rosalía, Ltd.	2003	2008
Chacel, Ltd.	2003	2008
Arenal, Ltd.	2003	2008
Teresa, Ltd.	2004	2009
Emilia, Ltd.	2004	2009
Agustina, Ltd.	2005	2010
Beatriz, Ltd. (d)	2005	2010
Juana Inés, Ltd. (c)	2006	-
María de Molina, Ltd. (c)	2007	-
María Pita, Ltd. (c)	2007	-

(a) At the end of the leases, the Company may opt to return the aircraft or acquire them.
(b) On the delivery of one A-340/600 aircraft in 2006, the Company may extend the lease for 3 further years in addition to the first extension in exchange for a credit agreed with Airbus.
(c) On the delivery of three A-340/600 aircraft (one in 2005 and two in 2006), the Company may extend the lease for a further 5 years in exchange for a credit agreed with Airbus.
(d) Extension to 2010 under negotiation.

• A-319, A-320, and A-321

As at 31 December, the Company was operating seven A-321 aircraft, thirty-five A-320 aircraft, and six A-319 aircraft, under operating lease arrangements, the principal characteristics of such agreements are as follows:

1. There are twelve A-320 and four A-319 aircraft which are being leased under the terms of the contract formalised with International Lease Finance Corporation.
   The lease contracts for the A-320 aircraft expire in 2005 (one aircraft) and 2006 (eleven aircraft). At

the end of the lease period, the Company may take up an option for two additional extensions of one or five years, such that the total may not exceed six additional years of the lease or, alternatively, proceed to return the aircraft.
The lease contracts for the A-319 aircraft expire in 2008 (two aircraft) and 2009 (two aircraft), and on these dates the Company will proceed to return the aircraft.
As a consequence of the formalisation of this contract, the Company has made a deposit to guarantee the successful outcome of the operation, to the value of € 9,911 thousand which have been put in the books under the heading "Deposits and Bonds established for the Long Term" in the Balance Sheet as at 31 December 2004, attached (see Note 7).

2. There are nine A-320 Aircraft leased under contracts with expiry dates ranging from 2012 to 2014, at the end of which the Company will return the aircraft to the lessor. Nevertheless, the Company may choose to exercise a purchase option on the aircraft for a value pre-established in the contracts on stipulated dates. 30 September 2007 (one aircraft), 30 March 2008 (two aircraft), 30 September 2009 (four aircraft), and 15 September 2011 (two aircraft).
3. The contracts corresponding to six A-320 expire in 2006 (three aircraft) and 2007 (three aircraft). On expiry, the Company may extend the contracts for five further years, with twelve months' notice prior to the termination of the original lease period or, alternatively, proceed to return the aircraft.
4. There are six A-320 Aircraft leased under contracts with the following expiry dates: one aircraft in 2006, three aircraft in 2007, and two aircraft in 2008. At the end of the lease period the Company may only take the option of returning the aircraft to the lessor.
5. There are three A-321 Aircraft leased under contracts with expiry dates ranging from 2013 to 2018. These contracts lay down the possibility of exercising the purchase option prior to the definitive expiry date (in 2012 for two of the aircraft, and 2013 for the remainder); in the event that they do not exercise the option upon the stipulated dates, the Company shall proceed to return the aircraft..
6. There is one A-320 aircraft leased from Cygnus Aviation, for which the contract expires in 2015. The lease contract stipulates a purchase option on the aircraft in 2014.
7. There are two A-321 aircraft, the lease agreements for which expire in 2016 and each of which establishes particular purchase options in financial years 2012 and 2013.
8. There are two A-319, one A-320, and one A-321 aircraft, the lease agreements for which expire in 2019, with an option to purchase the aircraft in 2014 and an early termination option in 2015.
9. There is one A-321 aircraft, for which the contract expires in 2017, although there is a purchase option in 2014.

• MD-87

As at 31 December 2004, the Company is operating five MD-87 aircraft under operating lease arrangements. The contracts formalised have a duration of 96 months (with expiry in 2005) at the end of which the Company may exercise the purchase option indicated in the agreement, or return the aircraft.

• MD-88

As at 31 December 2004, the Company is operating one aircraft under an operating lease arrangement. This arrangement expires on 31 March 2005, on which date the Company will proceed to return the aircraft.

Lease costs

The revenues accrued in Financial Year 2004 through the operating lease contracts on aircraft amounted to € 319,926 thousand, and they are included in the heading "Other operating expenses" in the Profit and Loss Account (see Note 19-h). The approximate total amount to be disbursed on future payments deriving from the operating lease contracts for these aircraft are listed below, classified by year of expiry:

Financial Year	Thousands of Euros
2005	331
2006	247
2007	195
2008	166
2009 a 2019	773
	1,712 (*)

(*) Equivalent to Dollars 2,334 million at the exchange rate at year end. Fluctuation in the exchange rates on these yields is partially hedged using derivative products (see Note 16).

It was not the intention of the Administrators of the Company at the moment these annual accounts were prepared to exercise the purchase options existing on the elements in the fleet which were being operated under operating lease arrangements as at 31 December 2004.

Later agreements concerning the fleet

At the end of February, the Company signed an agreement with Airbus Industrie to acquire up to 79 aircraft in the A-320 family, with 30 aircraft firm and 49 aircraft under option, for the renovation of part of the Company's short and medium haul fleet. These aircraft will enter service between 2006 and 2011.

Other tangible fixed assets

The buildings and installations constructed on land belonging to the Government, mostly on national airports, show a net book value of € 22,876 thousand as at 31 December 2004. The concessions relating to these assets expire between financial years 2005 and 2009.

On 26 February 2004, the Company sold one building located in Barcelona for a sum of € 30,800 thousand. The capital gains generated, amounting to € 28,599 thousand, are recorded under the heading "Profit on disposal of intangible, tangible fixed assets and control portfolio" in the Profit and Loss Account for financial year 2004, attached (see Note 19-c).

The addition of replacement spare parts for the aircraft fleet during 2004 gave rise to disposals from this part of the fixed assets to a net book value of € 58,255 thousand, which are charged to in the Profit and Loss Account, under the heading "Supplies" (see Note 19-f).

The movement in the "Fixed assets in progress" in the preceding item includes retired parts to the value of € 9.475 thousand and relates to the outfitting of the interiors of aircraft operated under operating lease arrangements which have been recovered from the lessor.

Law on asset revaluation, Royal Decree-Law 7/1996, dated 7 June

On 31 December 1996, the Company revalued its tangible fixed assets under the terms of Royal Decree-Law 7/1996, dated 7 June, with the payment of a single charge of 3%. Previously the Company had availed itself of other revaluation laws. The updated elements present a net book value of € 13,444 thousand as at 31 December, and the effects on depreciation were not significant.

The capital gain resulting from the reappraisal, net of the single charge of 3%, was credited to the "Revaluation Reserve" account. As counterpart to the capital gain, the accounts relating to the revalued capital items were used, without modifying the value of the accumulated depreciation in the books. On 22 January 1998, the Tax Authorities checked and approved the balance of the revaluation reserve, and therefore, in accordance with existing legislation, it was agreed to apply this reserve to compensate losses in previous financial years.

Totally depreciated items

As at 31 December 2004, the cost of totally depreciated assets held by the Company in tangible fixed assets amounted to € 317,765 thousand, as shown in the following table:

	Thousands of Euros
Buildings	59,076
Machinery, fixtures, and tools	174,545
Furniture and fittings	8,985
Data processing equipment	38,045
Flight simulators	8,549
Land transport items	5,659
Fleet of aircraft	22,906
Total	**317,765**

Insurance Cover

The Company keeps a number of different insurance policies on the items of tangible and intangible fixed assets, which offer sufficient cover for the net book value of these assets as at 31 December 2004. Furthermore, the Company keeps a number of different insurance policies on the aircraft fleet leased from third parties, under the terms and conditions established under each lease contract.

7. FINANCIAL FIXED ASSETS

Shareholdings in Group and Associated companies

Movements in the heading "Shareholding in Group and associated companies" during financial year 2004, together with the corresponding provisions, were as follows:

	Thousands of Euros	
Group and Associated companies	**Cost**	**Provision**
Balance at 31-12-03	121.696	(96.048)
Acquisitions or Provisions	805	(39)
Disposals	(7.560)	4.274
Transfers	19.246	(19.246)
Balance at 31-12-04	**134.187**	**(111.059)**

During financial year 2004, the Company sold its shareholding in Iber-Swiss Catering, S.A., and Touroperador Viva Tours, S.A. for € 23,359 thousand and € 1,864 thousand. The profit generated by these operations amount to € 18,900 thousand and € 1,042 thousand respectively, and are recorded under the heading "Profit on disposal of assets and control portfolio" in the Profit and Loss Account for financial year 2004, attached (see Note 19-c).

Further, Iberia, Líneas Aéreas de España, S.A. formalised a shareholding of 60% in the establishment of Serpista, S.A. in March 2004, with a value of € 42 thousand. Later, the Company proceeded to sell 21% of the capital of this company, and obtained a profit of € 1,774 thousand. Lastly, in October, the Company formalised the capital increase carried out by Serpista, S.A. with a total value of € 42 thousand, to the proportion corresponding to their shareholding at that time (39%).

As a consequence of the acquisition of a holding in Opodo, Ltd. by Amadeus Global Travel Distribution, S.A., Opodo became an associated company, and the cost and provision corresponding to this shareholding was transferred from the heading "Long-term holdings in shares" to "Holdings in Group and Associated companies".

Information relating to the most important Group and Associated companies as at 31 December 2004, obtained from their audited annual accounts, pending approval by the General Shareholders Meetings of each of the companies, or from the provisional financial statements in the cases of Amadeus Group, Sistemas Automatizados Agencias de Viaje, S.A., and Opodo, Ltd., are presented below:

Thousands of Euros

Company name: Address Company Purpose	Direct and Indirect Holding	Cost	Provision	Capital	Reserves	Profit /Loss Totals	Profit /Loss Extraord.	Dividends received
Compañía Auxiliar al Cargo Exprés, S.A. Air Cargo Centre, Plot 2 p.5 Building 6; Madrid Cargo transport	75.00	670	-	192	2,557	821	(17)	265
Cargosur, S.A. (a) Velázquez, 130; Madrid Air cargo transport	100.00	8,685	(3,607)	6,058	(1,047)	74	100	-
Amadeus Global Travel Distribution, S.A. Salvador de Madariaga, 1; Madrid Management and operation of an automated reservation system	33.80 (b)	9,902	-	23,044	824,518	216,367	36,210	6,603
Sistemas Automatizados Agencias de Viaje, S.A. (SAVIA) Velázquez, 130; Madrid Information systems applicable to the travel and tourism sector	77.49 (b)	198	-	301	10,608	4,955	(798)	3,314
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (IBERIA-CARDS) Velázquez, 94; Madrid Issue and management of payment systems	40.00	4,038	-	6,000	2,409	2,727	-	-
Opodo, Ltd. Five Chancey Lane Cliffords INN Londres Direct and collective payment system between airline companies	22.79 (c)	19,246	(18,867)	272,444	(225,967)	(37,205)	-	-

(a) The financial information listed refers to the companies' individual annual accounts, given that this company, which as at 31 December 2004 was a shareholder in Campos Velázquez, S.A. and Viva, Vuelos Internacionales de Vacaciones, S.A., does not present consolidated annual accounts since it has dispensation because the three companies are consolidated within the IBERIA Group.

(b) The financial rights corresponding to the "Amadeus Group" and Sistemas Automatizados Agencias de Viaje, S.A. amount to 18.28% and 72.22% respectively.

(c) Includes a direct holding of 4.08% and an indirect holding through Amadeus Global Travel Distribution, S.A. of 18.71%.

Venezolana Internacional de Aviación, S.A. is in the process of liquidation and the Company does not have recent financial statements from this company. The risks related to Venezolana Internacional de Aviación, S.A., which comprise the cost of the holding to the value of € 88,446,000 and credits to the value of € 25,623 thousand which have been put in the books under the heading "Credits to Group and Associated Companies" in the Balance Sheet attached were provisioned as at December 31 2004.

At the close of financial year 2004, Iberia, Líneas Aéreas de España, S.A. had reached a preliminary sale agreement for their holding in Sistemas Automatizados de Viaje, S.A. and of the "SAVIA" trademarks in their ownership. The formalisation of this agreement in an appropriate sale contract was pending the results of a number of tasks in order to establish the final conditions of the operation. The final sale contract was formalised in March 2005.

Long term share portfolio

The detailed movements recorded under this heading in the Balance Sheet as at 31 December 2004, attached, together with the corresponding provisions, are listed below:

Thousands of Euros

	Holding at 31-12-04	Balance at 31-12-03	Acquisitions	Disposals	Transfers	Balance at 31-12-04
Fixed income securities:						
Iberbond PLC 1999	-	33,150	-	-	(1,170)	31,980
Public Debt	-	757	-	(513)	-	244
Equities:						
Interinvest, S.A.	0.1438	30,244	-	-	-	30,244
Iberbus Companies	(a)	24,930	-	-	-	24,930
Opodo, Ltd.	-	19,246	1,524	(1,524)	(19,246)	-
Adquira España, S.A. (c)	10.00	3,583	-	-	-	3,583
Cordiem	(b)	2,352	-	-	-	2,352
Servicios de Instrucción de Vuelo, S.L.	19.9	-	8,853	-	-	8,853
Other	-	474	-	(5)	-	469
Total cost		**114,736**	**10,377**	**(2,042)**	**(20,416)**	**102,655**
Provisions		**(53,662)**	**(1,053)**	**-**	**19,246**	**(35,469)**

(a) The percentage holdings in these companies vary between 40% and 45.45%.
(b) 1.86% of the capital of Cordiem LLC, and 2.07% of the capital of Cordiem, Inc. This investment is totally provisioned as at 31 December 2004.
(c) Investments provisioned to the value of € 2,769 thousand.

Fixed income securities

The bonds issued by Iberbond PLC and underwritten by the Company partially finance the acquisition by third parties of six A-320 aircraft which are being operated under a financial leasing arrangement by Iberia, Líneas Aéreas de España, S.A. and accrue an interest rate of 5.90% per year, settled half-yearly. The capital sum is amortised annually, with a grace period of three years, at a rate of 3% of the capital sum, until maturity, on 1 September 2007, when the remaining 85% will be amortised.

Interest accrued during financial year 2004 amounted to € 1,924 thousand and is recorded under the heading of "Other interest and similar revenues" in the Profit and Loss Account, attached.

Equities

The Company's holding in the capital of Interinvest, S.A. (majority shareholder in Aerolíneas Argentinas, S.A.) has been fully provisioned.

Information relating to the Iberbus companies, companies which are the owners of the greater number of the A-340/300 aircraft operated by the Company (see Note 6) as at 31 December 2004, obtained from their provisional financial statements, is as follows:

Thousands of Euros

Group companies Associated	Address	Direct Holding	Cost	Capital	Reserves	Ordinary Profit (Loss)
Iberbus Concha, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,029	5,033	(1,822)	(347)
Iberbus Rosalía, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,056	4,995	(3,275)	(334)
Iberbus Chacel, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,283	5,533	(5,094)	52
Iberbus Arenal, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,362	5,660	(7,627)	(588)
Iberbus Teresa, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,504	5,118	(1,765)	64
Iberbus Emilia, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,497	5,140	(1,877)	113
Iberbus Agustina, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,587	5,143	(359)	(58)
Iberbus Beatriz, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,556	5,159	(252)	(105)
Iberbus Juana Inés, Ltd.	George's Dock House, IFSC; Dublin	45.45	1,896	3,077	(4,247)	(634)
Iberbus María de Molina, Ltd.	George's Dock House, IFSC; Dublin	45.45	1,983	3,236	(4,744)	(626)
Iberbus María Pita, Ltd	George's Dock House, IFSC; Dublin	45.45	2,177	3,406	(4,647)	(638)
			24.930			

The majority shareholder in these companies, Airbus Industrie Financial Services, guarantees Iberia, Líneas Aéreas de España, S.A. recovery of the entire financial and credit investment made in the Iberbus companies, and it is for this reason that no provisions are made in respect of the holdings in these companies.

Other credits

The movement under this heading of the Balance Sheet is as follows:

Thousands of Euros

	Balance at 31-12-03	Registra-tions	Exchange rate Differences (*)	Disposals/ Transfers	Balance at 31-12-04
Loans to Iberbus companies	156,810	-	(11,410)	-	145,400
Loans to Aerolíneas Argentinas, S.A.	3,789	35,949	-	(2,928)	36,810
Other credits	7,999	8,509	-	(153)	16,355
Total cost	**168,598**	**44,458**	**(11,410)**	**(3,081)**	**198,565**
Provisions	**(7,758)**	**-**	**-**	**(36,810)**	**(44,568)**

(*) Recorded under the heading "Negative Exchange rate differences" in the Profit and Loss Account and compensated by hedging operations.

During the year 2004, the Company cancelled 60% of the balances in their favour corresponding to the write-off agreed in the creditors settlement of Aerolíneas Argentinas, S.A. against the provisions established. As at 31 December 2004, the remaining balances with Aerolíneas Argentinas, S.A. amounted to € 42,198 thousand, of which € 1,243 thousand correspond to loans, € 5,006 thousand to the net amount of the balances deriving from commercial operations and € 35,949 thousand to the subrogation of a mortgage-backed loan on two B-747 aircraft given by Banesto, S.A. to the value of US Dollars 43 million, the repayment of which was guaranteed by the Company.

In addition, the Company has backed a guarantee in US Dollars in relation to Aerolíneas Argentinas, S.A. amounting to US Dollars 6 million.

In order to provide for potential insolvencies and liabilities which may derive from the operations described above, the Company has established provisions to the value of € 45,502 thousand.

The Company has issued a loan to each of the Iberbus companies in which it is a shareholder. The capital sum varies, depending on the particular case, between US Dollars 11,049 thousand and 22,101 thousand. These loans were made for a term equal to the duration of the operating lease agreement of each of the A-340/300 aircraft involved, at interest rates varying between 4% and 6% per year, with one single amortisation at maturity, which, depending on the particular case, will occur between 2006 and 2010.

The amount pending repayment under this heading, classified by the maturity years, is given below:

Thousands of Euros

Maturity in	
2006	8,112
2007	17,511
2008	60,837
2009	29,407
2010	29,533
Total	**145,400**

Long-term deposits and bonds

During financial year 2004, the movements of the items forming this heading of the Balance Sheet were as follows:

Thousands of Euros

Item	Balance at 31-12-03	Acquisitions	Disposals	Transfers	Exchange Rate Differences	Balance at 31-12-04
Aerolíneas Argentinas, S.A. Deposit	48,030	-	(35,852)	-	(12,178)	-
Fleet acquisition deposit (Note 6)	307,367	143,988	(63,096)	(134,386)	(17,944)	235,929
Convertible Bond deposit (Note 15)	27,532	-	-	(9,178)	-	18,354
Exchange rate differences through hedging operations	-	-	-	17,653	-	17,653
Deposits and bonds for dry and wet lease aircraft aperations (Note 6)	1,462	12,105	-	-	(1,192)	12,375
Deposits and bonds for ILFC aircraft operations (Note 6)	9,897	798	-	-	(784)	9,911
Other	3,794	780	(477)	-	(149)	3,948
	398,082	**157,671**	**(99,425)**	**(125,911)**	**(32,247)**	**298,170**

The sums included in "Deposits for fleet acquisitions" correspond to the sums paid on account for the acquisition of aircraft and are reimbursable.

The balance of the "Deposits for fleet acquisitions" account as at 31 December 2004 includes the following sums:

Thousands of Euros

Type of Aircraft	Firm aircraft	Aircraft under option/rights
A-319	5,935	991
A-320	52,505	1,542
A-321	52,352	1,652
A-340	109,620	2,570
	220,412	**6,755**

This account also includes advances on account for the acquisition of engines to the value of € 8,762 thousand.

The Transfers column includes the following items:

Thousands of Euros

Transfers to tangible fixed assets (Note 6)	(119,853)
Transfers of assets in progress (Note 6)	2,392
Transfers to Temporary Financial Investments (a)	(16,925)
Total	**(134,386)**

(a) Corresponds to deposits for aircraft which, as at 31 December 2004, are operating under an "Interim Charter" agreement (Note 11)

Exchange rate differences for hedging operation correspond to the net balance arising from the valuation as at 31 December 2004 of the hedging operations on long-term equity positions (see Note 16).

8. OWN SHARES

The movement for the financial year under the heading "Own shares" in the Balance Sheet as at 31 December 2004, attached, was as follows:

	Thousands of Euros
Balance at 31 December 2003	20,066
Registrations	25,263
Disposals	(13,368)
Balance at 31 December 2004	**31,961**

Own shares held by the Company as at 31 December 2004 represent 1.78% of the shareholders' capital and amount to 16,669,560 shares, of € 13,002 thousand overall nominal value, and a mean acquisition price of € 1.92 per share. The balance in the "Non-distributable reserves" account as at 31 December 2004 covers the entire net book value of the shares, to a total value of € 31,961 thousand.

The sale of own shares during 2004, the only item included in the section on disposals in the table above, gave rise to a profit to the value of € 8.991 thousand, which is recorded under the heading "Profit on operations with own shares" in the Profit and Loss Account.

9. STOCKS

The details of this heading of the Balance Sheet as at 31 December 2004 is as follows:

	Thousands of Euros
Raw Materials and other supplies	97,086
Commercial stocks	671
Product in progress and half-finished	6,139
Advances to suppliers	2,982
Provisions	(19,940)
Total	**86,938**

10. DEBTORS

The composition of the "Debtors" heading of the Balance Sheet as at 31 December 2004, attached, is as follows:

	Thousands of Euros
Passenger and cargo agencies	196,723
Other clients for sales and provision of services	105,639
Tax Authority, receivable (Note 18)	75,613
Government bodies	60,853
Miscellaneous debtors	60,728
Airline companies	29,532
Clients in regional sales offices	23,488
Credit Cards	15,096
Doubtful debtors	23,739
Provisions	(30,709)
	560,702

11. TEMPORARY FINANCIAL INVESTMENTS

The details of this heading of the Balance Sheet as at 31 December 2004, attached, is as follows:

	Thousands of Euros
Financial assets, short-term	1,411,249
Deposits for aircraft under Interim Charter	65,862
Interest receivable not due	11,244
Convertible Bond deposits (Note 15)	9,178
Exchange rate differences through hedging operations	1,208
Iberbond Bonds (Note 7)	1,170
Credits to Aerolíneas Argentinas, S.A. (Note 7)	382
Other short-term deposits and bonds	6,805
Other temporary financial investments	2,551
	1,509,649

The mean yield on the sums placed in short-term financial assets, principally Euro-deposits, Euro-bonds, and fixed term deposits, was at 2.23% for financial year 2004.

Deposits for aircraft in "Interim Charter " correspond to the sums outlaid to the manufacturer of the aircraft for airplanes which are operating provisionally under an interim charter agreement (these aircraft were the property of the manufacturer as at 31 December 2004) and over the next few months will be operated under ownership or operating lease, and at that moment the Company will recover the sums disbursed.

Exchange rate differences for hedging operations correspond to the net balance arising from the valuation of the hedging operations on short-term equity positions as at 31 December 2004 (see Note 16).

12. SHAREHOLDERS' FUNDS

Movements in the shareholders' funds of the Company during Financial Year 2004 were as follows:

Thousands of Euros

Item	Capital Subscribed	Share Premium	Revaluation Reserve	Legal Reserve	Voluntary Reserves	Non-Distributable reserves (Own Shares)	Merger Reserves	Capital Adjustments for Conversion to Euros	Profit for the Financial Year	Dividends
Balance at 31 December 2003	716,833	98,937	38	75,671	216,418	20,066	165	1,201	105,762	-
Profit Distribution for 2003	-	-	-	10,576	67,893	-	-	-	(105,762)	27,293
Capital increases	14,392	7,564	-	-	-	-	-	-	-	-
Non-distributable reserves	-	-	-	-	(11,895)	11,895	-	-	-	-
Earnings for the year 2004	-	-	-	-	-	-	-	-	185,096	-
Balance at 31 December 2004	**731,225**	**106,501**	**38**	**86,247**	**272,416**	**31,961**	**165**	**1,201**	**185,096**	**-**

In any valuation of the equity of the Company as at 31 December 2004, the values of the own shares should be discounted from the figure for shareholders' funds as shown in the Balance Sheet, attached.

Capital

The Company started a share option plan for its employees during the year 2001. Under the conditions that were agreed, after the lapse of a waiver period, the number of options finally accepted stood at 25,291,842, for which the employees disbursed the sum of € 0.3 per share as payment on account. The exercise price for the option was set at € 1.19, and employees could swap 25% of the options taken, in the proportion of one for one, during financial year 2003, and the remaining 75% in equal parts on each of the following dates: 3 February 2004, 3 June 2004, and 3 October 2004. Upon reaching each of the exercise dates, the employees could opt to postpone and accumulate the exercise of their rights provided that the quoted value of the shares on that date was lower than the exercise price, otherwise they were lost.

In order to meet the commitments acquired with their employees in respect of the share option plan described, the Company proceeded to issue convertible bonds during financial year 2002.

In accordance with the determined exercise dates, the holders of the convertible bonds applied for conversion of 18,450,574 convertible bonds into 18,450,574 ordinary shares in the Company in the year 2004. Consequently, the Company proceeded to increase the capital by the sum of € 14,392 thousand by issuing and distributing 18,450,574 ordinary shares with a nominal value of 0.78 and a premium of € 0.41 per share.

Further, IBERIA, the holders of 518,308 convertible bonds did not proceed to apply for conversion, and consequently the bonds issued were amortised early at the issue price (€ 1.19).

The share capital of the Company as at 31 December 2004 was made up of 937,467,468 shares at € 0.78 nominal value each, fully issued and paid up represented by entries in account.

At 31 December 2004, the shareholders of the Company were as follows:

	Number of shares	%
BA & AA Holdings, B.V.	91,296,204	9.74
Caja de Ahorros y Monte de Piedad de Madrid	91,294,482	9.74
Banco Bilbao Vizcaya Argentaria, S.A.	69,209,157	7.38
Compañía de Distribución Integral Logista, S.A.	61,164,780	6.52
Sociedad Estatal de Participaciones Industriales	49,212,526	5.25
Corporación Financiera de Galicia, S.A.	32,404,254	3.46
El Corte Inglés, S.A.	27,387,215	2.92
Other, including staff	515,498,850	54.99
Total	**937,467,468**	**100.00**

On 6 June 2002, the General Shareholders' Meeting approved a new Share Option Plan for the Executive Administrators of the company, certain Managers, and other structural employees to be realised in an issue of bonds convertible into shares in Iberia, Líneas Aéreas de España, S.A. In order to meet the commitments acquired in this new share option plan, the Company proceeded to issue convertible bonds during financial year 2003; the exercise price for the options was set at € 1.62, in agreement with the conditions established by the General Shareholder's Meeting (Note 15). The 16.995.400 options issued could be exchanged on a number of dates lying between 26 April 2005 and 25 April 2008. In addition, the Company has approved a Plan for a one million share plan for the Chairman of the Board.

Share premium

The Consolidated Text of the Law on Limited Companies expressly permits the use of the balance of the Share Premium account to increase the share capital and does not lay down any specific restriction with respect to the availability of such balance.

Legal Reserve

In compliance with the Consolidated Text of the Law on Limited Companies, it is required to devote a figure equal to 10% of the profit for the year to the legal reserve, until this reserve reaches a value of at least 20% of the paid-up share capital.

The legal reserve may be used to increase the share capital in that part of the balance which exceeds 10% of the share capital after increase. Other than for the purpose indicated above, and while the reserve does not exceed 20% of the share capital, it may only be used to compensate losses provided that there are no other reserves available which are sufficient for this end.

Difference arising through conversion of capital to Euros

As a consequence of the re-denomination of the company's capital into Euros, approved by the Board of Directors in 1999, a difference arose due to rounding which made it necessary to reduce the share capital and to generate a non-distributable reserve in accordance with existing legislation.

13. PROVISIONS FOR CONTINGENCIES AND EXPENSES

During financial year 2004, the movements of the items forming this heading of the Balance Sheet, attached, were as follows:

Thousands of Euros

	Balance at 31-12-03	Acquisitions or Provisions	Applications	Transfers	Recoveries	Balance at 31-12-04
Provisions for Pensions (Note 4-h)	36,395	3,220	(10,196)	1,001	-	30,420
Provisions for commitments to staff (Note 4-h)	487,529	67,731	(13,172)	(25,711)	-	516,377
Provision for major overhauls (Note 4-b)	104,906	24,582	(13,054)	(33,742)	(6,500)	76,192
Provision for liabilities (Note 4-j)	618,661	151,997	(129,872)	(12,100)	(10,931)	617,755
	1,247,491	**247,530**	**(166,294)**	**(70,552)**	**(17,431)**	**1,240,744**

The additions to the headings "Provisions for pensions" and "Provisions for commitments to staff" correspond to the 2004 accruals of the staff expenses and financial yields of the funds (see Note 4-h) and are recorded under the headings "Staff expenses" at values of € 1,946 thousand and € 50,667 thousand respectively, and "Financial expenses and similar" at values of € 1,274 thousand and € 17,064 thousand respectively.

The transfers in the "Provision for major overhauls" break down as follows:

	Thousands of Euros
Transfers to:	
Intangible fixed assets (Note 5)	7,939
Tangible fixed assets (Note 6)	25,803
Total	**33,742**

This balance of the heading "Provision for Liabilities" as at 31 December 2004 includes the sum of € 393,883 thousand corresponding to the estimated value, calculated according to actuarial studies carried out by independent experts, of future payments to meet the commitments acquired with early-retired staff under the conditions provided for in the staff rejuvenation plan put into practice in 2000 (788 persons as at 31 December 2004) and the voluntary redundancy plan approved in 2001 (3,919 staff).

The provisions made to cover the liabilities deriving from the extension of and updating of the Redundancy Plan during financial year 2004 amounted to € 105,752 thousand (see Note 19-i). 831 staff availed themselves of the Redundancy Plan during financial year 2004.

The remaining amount of contributions to provisions for liabilities during financial year 2004, which were also recorded as a debit to the heading "Extraordinary expenses" in the Profit and Loss Account, attached, (see Note 19-i), correspond to the sum forecast to meet unexpected overhauls of aircraft engines under operating lease arrangements (see Note 6), and other probable liabilities of various kinds.

Applications relate principally, among other items, to payments made during financial year 2004 deriving from the redundancy plan described above and other payments; recoveries derive principally from a number of actions in Court which were finally resolved in favour of the Company.

14. DEBTS WITH CREDIT INSTITUTIONS

The composition of the debts with credit institutions held by the Company as at 31 December 2004, relating to loans and financial leasing operations (see Note 5), listed according to maturity, is as follows:

Thousands of Euros

Debt	Currency	Debts with Maturity in					Following Years
		2005	2006	2007	2008	2009	
In Euros:							
Principal		29,169	23,692	148,263	32,930	40,778	55,152
Interest		16,767	13,719	12,722	4,620	2,665	4,053
In foreign currency:							
Principal	US Dollar	-	-	-	-	-	27,079
Interest	US Dollar	45	53	53	53	53	9,227
		45,981	**37,464**	**161,038**	**37,603**	**43,496**	**95,511**

The Company has contracted credit lines with a limit amounting to € 260 million. The balance available as at 31 December 2004 amounted to € 259,650 thousand.

During financial year 2004, the mean weighted annual interest rates of the indicated loans indicated above were 4.45% for Euro denominated loans, and 3.88% for foreign currency denominated loans, and a number of them are tied to Euribor or Libor respectively.

15. ISSUE OF CONVERTIBLE BONDS

As was described in Note 12, in financial year 2003 the Company proceeded to issue convertible bonds in the proportion of one for one, with a nominal value of € 1.62, to a total value of € 27,532 thousand, which were recorded under headings "Long-term Creditors-Issue of convertible bonds" and Short-term Creditors-issue of convertible bonds" depending on the exercise dates.

The principal characteristics of this bond issue are as follows:

1. Interest rate: 3-month Euribor plus a differential.
2. Exercise dates: 26 April 2005, 10 September 2005, 10 March 2006, 10 September 2006, 10 March 2007, 10 September 2007, 25 April 2008.
3. Guarantees: The Company has made a non-distributable deposit for a sum equal to the issue (see Notes 7 and 11)

16. MANAGEMENT OF FINANCIAL CONTINGENCIES

In order to control and reduce the potential negative impact on results of fluctuations in exchange rates, interest rates, and fuel prices, IBERIA operates a programme of medium-term risk management, in line with the directives established and with the time horizon stipulated in the Master Plan.

Exchange Rate Risk

Hedging of balance sheet positions as at 31 December 2004:

Underlying risk	Currency	Amount in '000,000 of Currency	Type of Hedge	Nominal in '000,000 of Currency
Loan to IBERBUS companies	USD	198	Cross Currency Swap	198
Advances on Engines and Fleet	USD	315	Cross Currency Swap	231
			Forward Fx	84
Bonds	USD	30	Cross Currency Swap	30
Interim Charter/Aircraft	USD	239	Forward Fx	239
Total	**USD**	**782**		**782**

Hedging of cash flows as at 31 December 2004:

Underlying risk	Currency	Amount in '000,000 of Currency	Type of Hedge	Nominal (in '000,000 of Currency) 2005	2006	2007	2008	2009
Foreign currency expenses	USD	(920)	Cross Currency Swaps	177	177	158	105	79
			Options:					
			USD Calls sold	(15)	-	-	-	-
			USD Calls purchased	40	-	-	-	-
			USD Puts sold	43	-	-	-	-
			Forward Fx	568	-	-	-	-
Income in foreign currency	GBP	95	Options:					
			GBP Calls sold	(23)	-	-	-	-
			GBP Puts purchased	(18)	-	-	-	-
			GBP Puts sold	4	-	-	-	-
			Forward Fx	(19)	-	-	-	-
	CHF	104	Cross Currency Swaps	(12)	-	-	-	-
			Forward Fx	(34)	-	-	-	-
Fleet entry into service	USD	(352)	Options:					
			USD Calls sold	(40)	-	-	-	-
			USD Calls purchased	257	109	-	-	-
			USD Puts sold	277	109	-	-	-
			Forward Fx	75	-	-	-	-

The mean prices of the flexible options structures are as follows: USD Puts sold 1.2518 USD/EUR, USD Calls purchased 1.1719 USD/EUR, and USD Calls sold 1.1690 USD/EUR. The mean price of the GBP Call options sold are 0.6596 GBP/EUR, of the GBP Puts purchased is 0.6885 GBP/EUR, and of the GBP Puts sold is 0.7165 GBP/EUR. The Forward Fx for purchase of USD are contracted at a mean exchange rate of 1.3045 USD/EUR, for sale of GBP at a mean rate of 0.6983 GBP/EUR, and for sale of CHF at a mean rate of 1.5106 CHF/EUR.

Interest Rate Risk

Hedging of balance sheet positions as at 31 December 2004

Amount (in '000 Currency) Instrument	IBERIA	IBERIA	Nominal at 31-12-04*	Nominal at 31-12-05*	Nominal at 31-12-06*	Nominal at 31-12-07*	Nominal at 31-12-08*
Cross Currency Swaps							
Floating to floating	Receive EUR	Pay USD	459,264	157,824	146,774	122,922	40,056

(*) The amounts are shown in the currency in which the Company pays.

Amount (in '000 Currency) Instrument	Currency	Nominal at 31-12-04	Nominal at 31-12-05	Nominal at 31-12-06
Interest Rate Swaps				
Fixed to floating (1)	EUR	56,282	51,261	49,141

(1) IBERIA pays floating i and receives fixed i.

Hedging of cash flows as at 31 December 2004

Amount (in '000 Currency) Instrument	IBERIA	IBERIA	Nominal at 31-12-04*	Nominal at 31-12-05*	Nominal at 31-12-06*	Nominal at 31-12-07*	Nominal at 31-12-08*
Cross Currency Swaps:							
Fixed to floating	Receives USD	Pays EUR	57,636	-	-	-	-
Floating to fixed	Receives USD	Pays EUR	674,952	582,277	538,130	317,658	201,244
	Receives EUR	Pays CHF	90,621	-	-	-	-
Floating to floating	Receives USD	Pays EUR	856,024	597,368	473,641	332,747	162,636
	Receives USD	Pays CHF	113,043	-	-	-	-
	Receives EUR	Pays CHF	75,522	-	-	-	-
Fixed to fixed	Receives USD	Pays EUR	185,068	175,640	164,374	33,601	30,140

(*) The amounts are shown in the currency in which the Company pays.

Amount (in '000 Currency) Instrument	Currency	Nominal at 31-12-04	Nominal at 31-12-05	Nominal at 31-12-06
Interest Rate Swaps:				
Floating to fixed (1)	USD	369,428	146,244	137,981
Fixed to floating (2)	EUR	154,241	-	-
Interest Rate Swap + Collar:				
Floating to floating	USD	96,120	87,840	-

(1) IBERIA pays fixed i and receives floating i.
(2) IBERIA pays floating i and receives fixed i.

The mean fixed interest rates of the interest rate hedges are: Euro 3.78%, Dollar 3.37%, and Swiss Franc 2.43%.

Further, Iberia, Líneas Aéreas de España, S.A. formalised interest rate exchange operations carried out within the internal structures of Japan Operating Leases (JOL) to a notional value of Dollars 578 million at 31 December 2004.

Fuel Risk

Underlying risk	Commodity	Volume (Tm)	Hedge	Nominal (Tm)
Consumption of aviation fuel (Tm)	JET Kero CIF-NWE	2,237,309	Swaps	1,350,000

Iberia, Líneas Aéreas de España, S.A. has continued to date with the policy of hedging the price of kerosene directly, and for this purpose employs a combination of financial tools. Live hedges as at 31 December 2004 permit the Company to establish a mean price equivalent to Brent at Dollars 37.5 per barrel for the first half-year of 2005 and Dollars 42 per barrel for the second half of the year.

17. BALANCES AND OPERATIONS WITH GROUP AND ASSOCIATED COMPANIES

The composition of the debit and credit balances with companies in the IBERIA Group and associated companies as at 31 December 2004 is as follows:

Thousands of Euros

Company	Balances Debtors Short-term Term	Balances Creditors Short-term Term
Vuelos Internacionales de Vacaciones, S.A.	-	2,267
Compañía Auxiliar al Cargo Exprés, S.A.	6,811	415
Iberia Tecnología, S.A.	115	1,082
Sistemas Automatizados Agencias de Viaje, S.A.	1,543	307
Cargosur, S.A.	-	2,455
Amadeus Group	4,435	-
Binter Finance, B.V.	8,676	-
Venezolana Internacional de Aviación, S.A. (a)	-	2,473
Iberamérica Aerospace LLC	3,028	18
Multiservicios Aeroportuarios, S.A.	1	4,281
Other	55	1,034
	24,664	**14,332**

(a) The Company has recorded a short-term debit balance to the value of € 29,302 thousand with Venezolana Internacional de Aviación, S.A. which is fully provisioned.

The principal operations carried out by the Company with Group and Associated company during financial year 2004 as are follows:

Thousands of Euros

Company	Services Provided	Financial Income and Dividends	Services Received	Expenses Financial
Compañía Auxiliar al Cargo Exprés, S.A.	18,397	265	2,572	-
Sistemas Automatizados Agencias de Viaje, S.A.	12,049	3,314	229	-
Amadeus Group	31,042	6,604	111,333	-
Auxiliar Logística Aeroportuaria, S.A.	97	-	3,460	-
Multiservicios Aeroportuarios, S.A.	90	136	31,322	-
Binter Finance, B.V.	38	-	272	-
Other	143	204	-	100

"Amadeus Group" invoices the Company for tickets reservations made on their system and in addition, the Company receives a commission for each ticket issued through that system.

The services provided to SAVIA relate, principally, to the canon for exploiting the trade mark, IT services and rent.

The services provided to Compañía Auxiliar al Cargo Exprés, S.A. correspond to cargo transport,

18. TAX SITUATION

The "Debtors" and "Other non-trading debts" headings of the Balance Sheet as at 31 December 2004, attached, include the debit and credit balances respectively with the Public Authorities, and the break-down is as follows:

	Thousands of Euros
Debit balances (Note 10):	
Advance corporation tax	37,193
Debtors - Foreign Tax Administrations	2,610
Debtors - Spanish Tax Authority for Value Added Tax	1,409
Debtors - Spanish Tax Authority, other receivables	34,401
	75,613
Creditors balances:	
Creditors - Spanish Tax Authority for personal Income Tax	29,884
Creditors - Spanish Tax Authority for Airport taxes	22,202
Debtors - Foreign Tax Administrations	26,506
Creditors - Social Security	41,369
Other balances payable	660
	120,621

The Corporation Tax expense is calculated in terms of the financial or book results, which do not necessarily have to coincide with the fiscal results, this being understood to be the tax assessment basis.

As from 1 January 2002, the Company pays tax as the dominant company under the tax consolidation arrangement provided for in Chapter VII of Title VII of the Consolidated Corporation Tax Law (Royal Legislative Decree 2/2004, dated 5 March).

The reconciliation of the financial results for Financial Year 2004 with the taxable income for Corporation Tax for the year is shown below:

Thousands of Euros

	Increase	Decrease	Amount
Financial results for the year (before tax)			242,438
Permanent differences	913	(1,267)	(354)
Temporary differences:			
arising during the year	206,872 (a)	(1,367)	205,505
arising during previous years	74	(227,286) (b)	(227,212)
Taxable revenue (fiscal results)	**-**	**-**	**220,377**

(a) This sum corresponds for the most part to contributions to provisions for pensions and other liabilities to the staff in addition to deferred profits for memorandum credits.
b) This sum corresponds principally to applications of provisions made in previous years for pensions and other liabilities to the staff, in addition to other provisions for contingencies and the application of profits for memorandum credits.

The sum recorded under the heading of "Corporation Tax" in the Profit and Loss Account for Financial Year 2004, attached, corresponds to:

Thousands of Euros

	Loss/(Profit)
Application of tax rate of 35% to book profit adjusted for the various permanent differences	84,729
Plus/(Less):	
Deductions in tax payable	(27,761)
Corporation Tax regularisation for 2003	(7,504)
Other	7,878
Corporation Tax	**57,342**

The regularisations in Corporation Tax for financial year 2003 correspond principally to certain deductions not accounted for in the projected tax. The heading of "Other" includes principally the regularisation of advance tax, the estimated recovery period of which exceeds 10 years in accordance with Spanish accounting standards.

The tax credits and debits were recorded, in line with their recovery date, in the "Debtors", "Long-term Debtors", and "Other debts" headings of the Balance Sheet as at 31 December 2004, attached, and the break-down is as follows:

Thousands of Euros

	Debtors			Other Debts		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
Temporary differences arising in the financial year	-	64,527	64,527	-	478	478
Temporary differences pending application arising during previous years	37,193	215,223	252,416	-	2,205	2,205
Total	**37,193**	**279,750 (*)**	**316,943**	**-**	**2,683**	**2,683**

(*) Correspond principally to advance tax deriving from provisions made to meet commitments to staff and other provisions.

The estimated calendar for the application of long-term tax credits as at 31 December 2004 is as follows:

Thousands of Euros

Year of Recovery	
2006	42,300
2007	42,300
2008 and following	195,150
	279,750

The Directors of the Company estimate that the total value of these credits will be recovered within a period no greater than ten years.

The legislation in force in respect of Corporation Tax established various tax incentives in order to promote investment and contributions to mutual associations. The Company has availed itself of various tax benefits for such items, and it is planned to apply deductions to the value of € 3,701 thousand in the Corporation Tax declaration for Financial Year 2004.

The Company has planned to apply double taxation deductions to the value of € 7,080 thousand in the Corporation Tax declaration for Financial Year 2004.

During Financial Year 2004, the Company reinvested € 124,869 thousand corresponding to the sum obtained from the sale of assets generating a deduction of € 16,980 thousand. Over recent financial years, the sums reinvested and the corresponding deductions are as follows:

Thousands of Euros

	Reinvestment	**Deduction**
2001	13,818	1,224
2002	72,794	4,423
2003	31,516	4,822
2004	124,869	16,980

As a consequence of a succession of inspections, the tax authorities opened a number of declarations, which were signed in disagreement and appealed by the Company, corresponding to years 1993 to 1997 (principally for Value Added Tax and withholdings on account for personal Income Tax).

Further, the Company has appealed the declarations opened in relation to Customs Dues corresponding to 1998 (second half-year), 1999, and 2000 (first five months).

Similarly, in relation to Aviación y Comercio, S.A. (company absorbed by the Company during financial year 2000) appeals lodged against declarations made by the Tax Inspectors in respect of the inspection of tax declarations presented in respect of certain taxes during financial years 1989 and 1990, 1993 and 1994, 1997 and 1998 are pending resolution.

The Directors of Iberia, Líneas Aéreas de España, S.A. do not expect that the resolution of the various appeals mentioned above will give rise to additional liabilities over and beyond those recorded in the annual accounts for financial year 2004.

Further, in respect of the years subject to potential inspection, 2000 to 2004 for Corporation Tax, and 2001 to 2004 in respect of all other taxes applicable to the Company, the Directors of Iberia, Líneas Aéreas de España, S.A. do not expect that there will be a risk incurred with a significant impact on the annual accounts.

In compliance with the provisions of Article 93 of the Consolidated Corporation Tax Law (Royal Legislative Decree 4/2004, dated 5 March) it is hereby declared that the information relating to the merger of the Company with Aviación y Comercio, S.A. is included in Note 19 of the Memorandum for financial year 2000. A non-financial contribution has been made to Servicios de Instrucción de Vuelo, S.L. during the present financial year, in respect of which, in compliance with Article 84 of the Consolidated Corporation Tax Law part of the tax benefits have been waived.

19. INCOME AND EXPENSES

a) Net value of turnover

The distribution of the net value of the turnover corresponding to the business of the Company during financial year 2004 is shown below:

	Thousands of Euros
By bussiness activities	**2004**
Revenues from passengers (a)	3,757,803
Revenues from cargo	240,284
Handling (aircraft despatch and airport services)	302,435
Technical assistance to airline companies	112,435
Other income	110,937
	4,523,894

(a) Includes other revenues (recovery of tickets pending use, trading agreements, etc.) to the value of € 325,663 in 2004.

The Company is the principle operator in handling services within Spain in virtue of the award of the contract by public tender opened by Aeropuertos Nacionales y Navegación Aérea. This contract expired in March 2003, and the new invitation to public tender by Aeropuertos Nacionales y Navegación Aérea remains pending.

The distribution of passenger revenues by network is as follows:

	Thousands of Euros
Network	**2004**
Domestic	1,262
Medium haul	1,063
Long haul	1,107
	3,432

b) Other trading income

The composition of this heading in the attached Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
Item	**2004**
Commission Income	111,407
Revenues from canons	8,476
Revenues from rent	10,423
Assignment of deferred income	19,950
Other trading income	65,467
	215,723

Commission income covers, principally, the commission charged for the sale of tickets flown by other airline companies, commissions arising from the franchise agreement with Air Nostrum, and the commissions obtained through agreements formalised with Mundicolor and Touroperador Viva Tours, S.A.

c) Profit arising from disposals of intangible assets, tangible assets, and control portfolio

The composition of heading "Profits arising from disposals of assets and control portfolio" in the Profit and Loss Account for 2004, attached, is as follows:

	Thousands of Euros
Disposal of building in Barcelona (Note 6)	28,599
Disposal of Iber-Swiss Catering, S.A., and Touroperador Viva Tours, S.A. (Note 7)	19,942
Disposal of VivaTours trademark (Note 5)	15,000
Disposal of other tangible assets (flight simulators)	21,338
Other	10,393
	95,272

d) Extraordinary Income

The composition of the heading "Extraordinary Income" in the attached Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
Application of income in various financial years (Note 4-g)	24,575
Recovery of provisions for liabilities (Note 13)	10,931
Recovery of provision for Major Overhauls (Note 13)	6,500
Recovery of other Provisions	8,000
Other	8,024
	58,030

The "Recovery of other provisions" account includes the revenue deriving from adjusting liabilities arising from the valuation of the points in the Iberia Plus card pending redemption at 31 December 2004.

e) Income and profits from previous financial years

As a consequence of the forthcoming entry into service of new information systems for the management of tickets sold and pending use, the Company has made an estimate of the balances of client advances for tickets and travel documents which were pending regularisation for various reasons, and proceeded to recognise them as income in this heading of the Profit and Loss Account together with other sums of lesser value.

f) Supplies

The composition of the heading "Supplies" in the Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
Item	**2004**
Aviation fuel	653,518
Spare parts for aircraft fleet	154,932
Domestic materials	22,694
Other supplies	18,448
	849,592

The line "Spare parts for aircraft fleet" includes those which were initially recorded in assets which have been incorporated into the relevant aircraft in substitution for other spare parts during the financial year and the net book value of which at the moment at which they were so incorporated is recognised as an expense under this heading in the Profit and Loss Account.

The expense for aviation fuel during financial year 2004 amounted to € 730,030 thousand. Related futures operations reduced this expense by € 76,512 thousand.

g) Workforce and staff costs

The composition of the heading "Staff costs" in the Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
	2004
Wages and salaries and similar	1,068,678
Social costs	343,129
	1,411,807

The number of employees measured in terms of the average workforce during Financial Year 2004, by professional category, is detailed below:

	Number of Employees 2004
Landside:	
Higher Group of Managers and Technical staff	1,281
General Administrative group	6,541
Other	10,434
	18,256
Airside:	
Pilots	1,929
Technical Flight Officers	70
Cabin crew	4,422
	6,421
	24,677

h) Other operating expenses

The composition of this heading in the Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
	2004
Sales expenses	342,406
Rental of air fleet (Note 6):	
Dry lease (a)	348,017
Wet lease (a)	15,525
Cargo	15,317
Other	5,545
Air traffic services	359,145
Stopover expenses	41,162
Incident costs	16,895
Air navigation fees	270,533
Air fleet maintenance (b)	117,163
Other maintenance	33,667
Reservation system expenses	130,347
On-board services	68,967
Other rental (c)	71,856
Other (d)	267,049
	2,103,594

(a) The expense for fleet rental amounted to € 319,926 thousand during financial year 2004. The related interest rate and exchange rate hedging operations gave rise to an increase in this expense to the value of € 43,616 thousand.

b) Includes subcontracted maintenance expenses and contribution to provisions for major overhauls.

(c) Includes hangar rental expense amounting to € 3,950 thousand.

(d) Fees relating to audit services provided to Iberia, Líneas Aéreas de España, S.A. and companies in the Group by the principle auditor, and by other entities linked to the principal auditor, during financial year 2004, amounted to € 407 thousand.

Additionally, the fees relating to other professional services provided to Iberia, Líneas Aéreas de España, S.A. and companies in the Group by the principal auditor and by other entities linked to the principal auditor during financial year 2004, amounted to € 230 thousand.

i) Extraordinary expenses

The composition of the heading "Extraordinary expenses" in the Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
Provisions for extension of Redundancy Plan (see Note 13).	105,752
Provisions for fleet (Note 6)	16,099
Contribution to provision for liabilities (Note 13)	43,582
Other extraordinary expenses	4,349
	169,782

20. REMUNERATION AND OTHER BENEFITS TO THE BOARD OF DIRECTORS

The sum for the remuneration accrued on all items during Financial Year 2004 by members of the Board of Directors breaks down according to the following detailed table:

	Thousands of Euros
Remuneration to the Board of Directors	
Fixed attribution	660
Financial compensation for attendance at Board Meetings	516
Compensation in kind	53
Total compensation	**1,229**

Further, Iberia, Líneas Aéreas de España, S.A. has incurred expenses relating to the performance of the functions of the non-executive directors with a value of E 10 thousand.

In addition, compensation of the Executive Directors during Financial Year 2004 were as follows:

	Thousands of Euros
Executive Directors	
Fixed remuneration	1,002
Variables remuneration	576
Compensation in kind	98

The sum corresponding to Social Security, insurance and other expenses recorded by Iberia, Líneas Aéreas de España, S.A. deriving from the activities carried on by the Executive Directors amounted to € 464 thousand.

No advance or credit of any kind has been extended to any of the members of the Board of Directors during financial year 2004, and there are no commitments incurred with the Board in respect of pensions.

21. BREAKDOWN OF HOLDINGS IN COMPANIES WITH SIMILAR BUSINESS ACTIVITIES AND PERFORMANCE OF SIMILAR ACTIVITIES WHETHER AS EMPLOYED OR FREE-LANCE STAFF MADE BY THE DIRECTORS

In compliance with the provisions of Article 127 ter.4 of the Consolidated Text of the Law on Limited Companies, introduced by Law 26/2003, dated 17 July, modifying Law 24/1988, dated 28 July, on the Stock Exchange, and the Consolidated Text of the Law on Limited Liability Companies, in order to reinforce transparency in quoted limited liability companies, the performance by the various members of the Board of Directors whether as employee or free-lance, of activities of the same, analogous, or complementary nature as that constituting the business purpose of Iberia, Líneas Aéreas de España, S.A. are listed below.

Name	Activity	Type of activity	Company	Post/Function
Roger Maynard	Air transport	Employed	British Airways	Alliances and Investments Director
	Air transport	Employed	British Airways Citiexpress	Chairman
Lord Garel-Jones	Handling	Employed	Acciona	Board Member

Further, in accordance with the text indicated above, it is declared that the only Board Member with a holding in companies with the same, analogous, or complementary nature as that constituting the company purpose of Iberia, Líneas Aéreas de España, S.A. is Mr Roger Maynard, who holds 4,545 shares in British Airways.

Finally, the members of the Board of Directors (or persons acting on their account) have not carried out, whether with Iberia, Líneas Aéreas de España, S.A. or with the other companies in the IBERIA Group, any transactions other than the ordinary business of the companies nor any transaction under conditions other than those prevailing in the market.

22. INFORMATION ABOUT THE ENVIRONMENT

Within the framework of it environmental policy, Iberia, Líneas Aéreas de España, S.A. has continued to develop various activities during 2004 with the intention of ensuring proper management of its principal impacts upon the environment deriving from the overall activity of air transport.

In the course of financial year 2004, the Company has incurred expenses of an environmental nature to the value of € 2,773 thousand, as shown in the following table:

	Thousands of Euros
Environmental repairs, conservation, and transport	1,041
Environmental technical services	550
Sponsorship, publications, and other environmental expenses	124
Staff costs associated with environmental management	869
Environmental taxes	189
Total	**2,773**

Further, the assets of an environmental nature including filtration plants, hazardous waste stores, systems for filtration and recharging gases, infrastructure for the recycling of water, among others, show an acquisition cost of € 50,622 thousand and accumulated depreciation of € 20,498 thousand as at 31 December 2004.

With reference to the fleet, the Company maintains a policy of fleet renovation in which the environment is a significant aspect to be borne in mind (reduction of acoustic and atmospheric impact to a minimum). In this respect, the Company continues to incorporate new models to reduce fuel consumption by around 20% in comparison with aircraft of earlier generations. Thus, during financial year 2004, 3 aircraft of the A-340/600 fleet were incorporated for long-haul flights, and two B-747 were retired; the remaining B-747s will cease to be operated in the course of the year 2005; and for medium haul, three A-321 and two A-319 were acquired and four B-757 were also retired.

In respect of land operations, the award of Environmental Management System Certification, ISO 140001:1996, to the aircraft maintenance activity carried out on the premises in Madrid is the principal news of the financial year.

As far as potential contingent liabilities in respect of the environment are concerned, the Company believes that such contingencies are sufficiently well-covered by civil liability insurance policies which have been contracted together with the provisions relating to probable or certain liabilities, court proceedings in progress, and indemnities or obligations which are pending with undetermined sums.

23. FLOW OF FUNDS STATEMENTS FOR FINANCIAL YEARS 2004 AND 2003

The Flow of Funds Statements of the Company for Financial Years 2004 and 2003 are shown below:

APPLICATION OF FUNDS	Thousands of Euros 2004	2003
Start-up expenses	238	81
Fixed asset additions:		
Intangible assets	16,651	25,616
Property, plant and equipment	332,037	204,426
Long-term investments in Group and associated companies	805	802
Other investments	178,658	228,570
Deferred charges	11,669	2,401
Dividends paid	27,293	35,608
Repayment or transfer to short term of long-term debt:		
Loans	44,145	47,502
Other accounts payable	20	5,885
Provision for major repairs	-	5,912
Provisions for pensions	10,196	10,861
Provisions for obligations to employees	13,172	13,453
Provision for third-party liability	115,180	70,836
Total funds applied	**750,064**	**651,953**
Funds obtained in excess of funds applied (increase in working capital)	**175,630**	**112,147**

SOURCE OF FUNDS	Thousands of Euros 2004	2003
Funds obtained from operations	559,153	536,551
Capital increase	21,956	5,388
Long-term debt:		
Other companies	3,336	3,511
Disposals of property, plant and equipment and intangible assets	226,959	168,500
Disposals of long-term investments	25,221	14,579
Early redemption or transfer to short term of other investments:		
Other investments	82,233	31,014
Deferred revenues	6,384	4,209
Long-term deferred tax liability	452	348
Total funds obtained	**925,694**	**764,100**
Funds applied in excess of funds obtained (decrease in working capital)	**-**	**-**

Thousands of Euros

VARIATION IN WORKING CAPITAL	2004		2003	
	Increase	Decrease	Increase	Decrease
Treasury stock	11,895	-	-	11,830
Inventories	11,219	-	-	13,295
Accounts receivable	29,536	-	10,050	-
Current liabilities	-	29,632	-	21,680
Short-term investments	162,541	-	148,737	-
Cash	187	-	5,191	-
Asset accrual accounts	-	10,116	-	5,026
Total	**215,378**	**39,748**	**163,978**	**51,831**
Variation in working capital	**175,630**	**-**	**112,147**	**-**

Reconciliation between the book results and resources proceeding from operations is as follows:

	Thousands of Euros	
	2004	**2003**
Financial results	185,096	105,762
Plus/(Less):		
Contributions to depreciation and provisions for assets	199,228	202,549
Contributions to provisions for contingencies and expenses	247,530	151,284
Expenses deriving from deferred interest and amortizable expenses	27,067	30,924
Tax credit recoverable over the long term	23,939	47,878
Net exchange rate differences, proceeding from long-term	33,622	5,968
Net exchange rate differences through revaluation of fixed assets	-	72,666
Revenues deriving from deferred income	(45,296)	(17,613)
Net results from disposals of assets	(81,541)	(11,014)
Recovery of excess provisions and depreciation	(30,492)	(51,853)
	559,153	**536,551**

Company Management Report

MAIN AGGREGATES

IBERIA	2004	2003	% Variation
Income (millions of €)			
Operating revenues	4,739.6	4,550.8	4.1
EBITDAR	754.2	681.7	10.6
Operating income	186.6	139.2	34.1
Income before taxes	242.4	148.8	62.9
Net income for the year	185.1	105.8	75.0
Net earnings per share (€ cents) (1)	19.74	11.51	71.5
Dividend per share (€ cents) (1)	5.0	3.0	66.7
Passenger traffic: production and revenues			
ASK (millions)	61,058	56,145	8.8
RPK (millions)	45,924	42,100	9.1
Load factor (%)	75.2	75.0	0.2 p.
Passenger revenues (millions of €)	3,432.1	3,356.8	2.2
Average yield (€ cents)	7.47	7.97	(6.3)
Financial aggregates and ratios			
Shareholders' equity (millions of €)	1,414.9	1,235.1	14.6
Net debt (millions of €) (2)	(1,138.1)	(925.6)	23.0
EBITDAR margin (%)	15.9	15.0	0.9 p.
Operating income margin (%)	3.9	3.1	0.8 p.
Net income margin (%)	3.9	2.3	1.6 p.
Operating revenues per ASK (€ cents)	7.76	8.11	(4.3)
Operating cost per ASK (€ cents)	7.46	7.86	(5.1)
Operating cost per ASK excl. fuel (€ cents)	6.39	6.87	(7.0)
Resources			
Equivalent average no. of full-time employees	24,677	24,441	1.0
Productivity (thousands of ASK per employee)	2,474	2,297	7.7
Operating aircraft at December 31	154	149	3.4
Usage of Company aircraft (B.H. per aircraft per day)	9.10	8.78	3.6

IBERIA GROUP	2004	2003	% Variation
Income (millions of €)			
Operating revenues	4,805.4	4,619.3	4.0
EBITDAR	766.9	700.7	9.4
Operating income	203.3	160.7	26.5
Income before taxes	283.2	201.7	40.4
Consolidated net income for the year	220.0	145.9	50.8
Income attributed to the parent company	218.4	143.6	52.1
Financial aggregates and ratios			
Shareholders' equity (millions of €)	1,645.8	1,432.8	14.9
Net debt (millions of €) (2)	(1,162.3)	(938.5)	23.8
EBITDAR margin (%)	16.0	15.2	0.8 p.
Operating income margin (%)	4.2	3.5	0.7 p.
Consolidated income margin (%)	4.6	3.2	1.4 p.

(1) Number of shares as of December 31: 937,467,468 in 2004; 919,016,894 in 2003.
(2) Negative figure means cash and cash equivalents exceed interest-bearing debt (excluding interest on financial lease contracts).

1. 2004 HIGHLIGHTS

IBERIA generated consolidated income of € 220 million in 2004, an increase of 50.8% compared to earnings for the prior year. The EBITDAR margin was 16%, 0.8 points up on the prior year.

In parallel with an intense cost cutting program, the company continued with the implementation of actions aimed at enhancing customer service including key investments to renew the IBERIA fleet and the design of the new Business Plus class for long-haul flights. Meanwhile, IBERIA was admitted to the Dow Jones Stoxx Sustainability Index in 2004, in clear recognition of its strong social, economic and environmental commitment.

The world air transport industry saw generalized traffic growth in 2004, which was particularly high in the case of Middle and Far Eastern airlines. According to data published by the International Civil Aviation Organization (ICAO), revenue passenger kilometers (RPK) on scheduled flights worldwide increased by 14% compared to the prior year, although this growth was partly due to the recovery of demand following the contraction experienced in 2003 because of the Iraq war and the SARS epidemic. The increase in traffic achieved by European network airlines was somewhat less, 9% up on 2003 according to data published by the Association of European Airlines (AEA), due to sluggish growth in the main European economies and stiff competition from US, Asian and, above, all low-cost European carriers.

Notwithstanding growth in demand, the air transport industry as a whole incurred total losses worldwide of around US$ 4.8 billion 2004 according to the latest estimates of the International Air Transport Association (IATA). The main reason for these new losses in the industry was the sharp rise in the price of oil, which could not be offset by the 2.5% cut in aggregate unit costs, excluding fuel. Moreover, average revenues per passenger again fell across the industry due to strong competition, repeating the trend of recent years.

Despite this difficult background, however, IBERIA was able to make significant progress with the implementation of the measures envisaged in the 2003/05 Master Plan in 2004, and as a result the company succeeded in raising consolidated net income after taxes by 75% to a total of € 185.1 million.

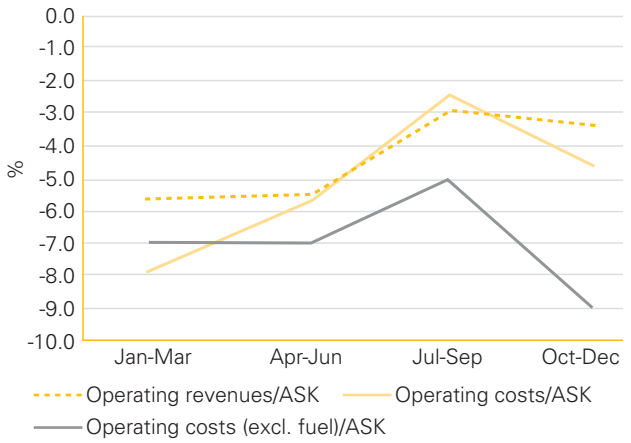
In 2004, IBERIA again achieved a significant increase in productivity following the necessary parenthesis of the previous two years due to the crisis in the air transport industry. Available seat kilometers (ASK) rose by 8.8% compared to the prior year to over 61,000 million, breaking the record set in 2001. In RPK terms, traffic grew by 9.1% relative to 2003 (in line with the AEA as a whole) resulting in a passenger load factor of 75.2%, slightly higher than in the prior year. The company carried nearly 26.7 million passengers in 2004.

The IBERIA Group increased its operating revenues by 4.0% compared to 2003. However, the increase in revenue generated by significant growth in traffic and the strong performance of the handling and maintenance businesses was partially offset by the fall in average revenues both for passengers and cargos. In particular, the average yield slipped by 6.3% compared to 2003 as a consequence of strong competition within the sector, especially in Europe, and the depreciation of the US dollar against the euro.

The sharp rise in the price of aviation kerosene, which reached record highs in the last quarter of 2004, was the main reason for the 17.4% increase in the company's fuel costs, even though the impact was largely cushioned by the hedging policy and the depreciation of the US dollar, which also benefited other costs. Nevertheless, the increase in operating expenses was held down to 3.2% over the prior year, mainly thanks to the implementation of the measures established in the Master Plan. In particular, the new distribution model in Spain and the redesign of in-flight services made a major contribution to results.

IBERIA succeeded in reducing its unit operating cost (per ASK) by 5.1% with respect to 2003, staying ahead of the 4.3% drop in unit operating revenue. The unit operating cost excluding fuel fell be 7.0% compared to the prior year, and the evolution was positive throughout the year thanks to the progressive implementation of the measures contained in the Master Plan. The following chart shows that the biggest drop in the unit cost excluding fuel was achieved in the last quarter (9.0%). In the second half of the year, meanwhile, the company succeeded in narrowing the year-on-year difference in unit operating revenue, representing an improvement on the decline experienced in the first six months.

Quarterly variation 2004/2003
IBERIA unit revenues and costs



To sum up, the IBERIA Group earned total operating income of € 203.3 million in 2004, an improvement of 26.5% compared to income for 2003, while at the same time strengthening its already sound financial position. At December 31, 2004 shareholders' equity was almost 15% higher than at the close of the prior year, while net debt remained negative with cash and cash equivalents exceeding interest-bearing debt (excluding interest on financial lease contracts) by over € 1.162 billion, an increase of almost 24% in relation to the 2003 balance.

Risk management

IBERIA has continued with the development of a global non operating risk management program aimed at limiting the possible impact of exchange rate, interest rate and aviation fuel price fluctuations on the Company's earnings.

The year was marked by a sharp rise in oil prices, which several times climbed to historic highs both for crude and refined products, such as aviation kerosene.

In early 2004 prices were around US$ 30 per barrel ($/bbl), but they soon rose, particularly from May onwards, reaching over US$ 45/bbl in August and a record high of more than US$ 52/bbl in October. This was followed by a correction, and prices had fallen back to around US$ 40/bbl by the end of the year.

IBERIA's hedging policy proved especially effective in this environment of historically high prices, to a great extent cushioning the impact of the rise in kerosene prices. Over the twelve months of 2004, the fuel price hedges arranged by IBERIA produced accumulated savings of close to € 81 million in fuel costs.

IBERIA had hedged 60% of fuel purchases at prices that were significantly lower than market in the first half of the year and 80% in the second half. Together with a favorable exchange rate, these hedges ensured that the impact on fuel costs was significantly reduced and enabled the company to maintain one of the lowest unit fuel costs per ASK of all European airlines.

Implementation of the Master Plan

The objective of the 2003/05 Master Plan is to reduce operating costs and raise asset usage, providing the company with flexible instruments to tackle the ever fiercer competition in its markets. In the first half of 2003 IBERIA revised the Plan, which was originally prepared in 2002, with the aim of reinforcing the strategic measures by bringing forward the implementation of certain initiatives. Significant progress was made with the execution of certain key measures envisaged in the Master Plan in 2004.

On January 1, 2004 the "New System for Remunerating Travel Agencies in Spain" came into effect. This system provides for a scaled reduction in the basic commission IBERIA pays to Spanish travel agencies to 1% from July 2005 onwards. As a result, IBERIA paid a basic commission of 3% in the first half of 2004 and 2% in the second half, compared to a commission of 6.5% in 2003. The saving in commercial expenses obtained from the application of the New Model in Spain already represents over two thirds of the total savings expected to be gained from this measure by 2005 in accordance with the Master Plan.

This low commissions model has also been taken abroad, and IBERIA has succeeded in reducing the basic commission paid to travel agents in several countries, including the United Kingdom, Ireland, Germany, Portugal and the Central American nations. Meanwhile, a new inter-airline agreement between the companies forming part of **one**world came into force in September 2004, reducing commissions on sales made by members of the alliance. In addition, sales made through IBERIA's new channels (Iberia.com and Serviberia) have continued to grow.

As a result of the above, the ratio of net commercial expenses (including advertising and less commission revenues) to IBERIA's traffic revenues fell by 2.5% to 5.8%.

Another key initiative of the Master Plan is the change in the model for in-flight service on short and medium haul flights. On March 1, 2004, a new "à la carte" pay service was launched in tourist class on all domestic flights and the segment of medium haul international flights with a duration of less than three hours (the implementation date for links with the Canary Islands was June 1).

The new in-flight service model in tourist class has resulted in a significant reduction in the cost of food and catering materials and handling, as well as simplifying the service and cutting the number of cabin crew members required to serve passengers.

IBERIA implemented various initiatives to increase asset usage, another of the strategic measures contained in the Master Plan. In the long haul fleet, the number of block hours per aircraft day was increased by 7.3% compared to 2003, and the process of replacing Boeing B-747s was speeded up. In the short and medium haul fleet, usage (measured in block hours) rose by 2.5% work began to increase the number of seats per aircraft while maintaining the difference between them. This initiative affected the A-320 (8% more seats than in the previous configuration), A-321 (4.3%), A-319 (4.8%) and MD-87 (6.4%) models. By the end of 2004, a total of 50 aircraft had been densified. Work will continue during the first half of 2005 in line with the maintenance and overhaul schedule until seating plans have been optimized on all of the Airbuses forming part of the IBERIA fleet.

As regards employee productivity, ASK per employee were 7.7% up on the prior year in 2004, despite an increase of only 1% in equivalent full-time employees of IBERIA. This was achieved basically by taking on staff in the handling area in order to meet the increase in activity for third parties. Excluding handling staff, the increase in ground employees' productivity was 11.8% compared to 2003.

The company has commenced the negotiation of new collective labor agreements with its employees. Management of IBERIA considers employee productivity gains to be a key objective and priority for the coming years.

The 2003/05 Master Plan envisages a range of actions in other areas with the aim of achieving additional savings of between € 110 and 120 million in 2005. In this regard, insurance costs were cut by 28% in 2004 compared to the prior year. At the same time, significant progress was made in the area of maintenance as a result of agreements reached with

regard to flexible working practices, productivity and new procedures for dispatching aircraft.

The objective of the Master Plan is to achieve a diminution in the 2002 unit operating cost of between 10% and 12% by 2005. Nevertheless, this reduction was estimated on the basis of an oil price of US$ 24.5 per barrel. IBERIA's unit cost in 2004 was €c 7.46 per ASK, a reduction of 6.2% in relation to 2002, or 8.1% excluding the cost of fuel in both periods.

Quality improvement

The two priority objectives established in the 2003/05 Master Plan are to maintain adequate returns and to improve quality. This commitment takes the form of a Global Service Quality Improvement Plan, which provides for action in the two vital areas of customer service and punctuality.

In this regard, 2004 was a key year for the implementation and operational roll-out of the CRM (Customer Relationship Management) philosophy in IBERIA. The main achievement of the CRM project is to provide IBERIA employees in real time with the resources and information necessary for them to recognize the value of each customer at every point of contact with the company. This has made it possible to improve the service provided with the consequent positive impact on profitability. The operational roll-out of CRM was accompanied by a training plan aimed at almost 9,000 company employees who have direct relations with customers.

IBERIA has also implemented other measures with the aim of improving customer services. These include centralized management of all communications with customers via the Customer Service Center; the inclusion of new functionalities and services on the company's commercial website (Iberia.com) and in the information hotline (Serviberia); expansion of electronic ticketing to new destinations and in itineraries combining IBERIA flights with those of other partners in the oneworld alliance; and self-service check-in machines at airports.

In particular, the IBERIA Group continues to strengthen relations with "high value" customers. IBERIA has launched its new Business Plus class on intercontinental routes, in which it intends to invest € 100 million to significantly improve all elements of in-flight service. The company has also taken steps to enhance Business class service in the medium haul sector. In March 2004 improvements were made to meals (which are still provided free of charge and are of recognized quality), and at end of the year the company ceased to sell the central seat in each row in order to offer customers greater comfort and more space.

Meanwhile, IBERIA included new companies in its Iberia Plus loyalty program, which had over 2,026,000 cardholders at the end of 2004, an increase of over 20% on the prior year.

Flight punctuality is one of the factors that most affects the level of customer satisfaction. In view of this, IBERIA created a Punctuality Committee in early 2003, the members of which represent all of the areas involved in operations, in order to seek ways of preventing delays, identify their causes and take the necessary corrective action. In 2004, the Committee has continued ongoing monitoring of compliance with the program in accordance with the planned schedule. At the same time, the company initiated an Integral Punctuality Improvement Plan which envisages over forty projects involving the review of all procedures and factors that could affect the common objective of improving punctuality. As a result of these actions, the company was able to maintain high levels of punctuality in 2004 (82.2%).

The IBERIA Group's commitment to improving quality is oriented towards all of its activities, and with this aim in mind, ISO 9001:2000 Quality management systems have been implemented

in various divisions (specifically Cargo, Systems, Material, Operations) and at airports (passenger and ramp handling) where an integrated quality and environmental management system is in place with ISO 9001 and ISO 14001 certification. In the course of 2004, these divisions successfully completed the internal and external audit necessary to maintain the relevant certificates. The company has also continued to work to complete the certification of all key activities.

Rationalization of flight networks

One of the most important events of 2004 was the closure of the Miami traffic distribution center, which was used by IBERIA pursuant to the Fifth Liberty agreements entered into by Spain and the United States.

Until last September, IBERIA operated two daily flights with wide-body aircraft on the transatlantic Madrid-Miami route. It also had four smaller aircraft (Airbus A-319) based in Miami with their respective crews to distribute traffic to the countries of Central America and pick up inbound traffic from those destinations.

The strict security controls implemented at US airports following the September 11 terrorist attacks, such as the requirement for a visa to enter the United States either as a destination or in transit, and the cost of these measures, had seriously affected customers' perception of the product, especially among those outbound from Central American countries. This situation was the main reason for the closure of the Miami hub. However, the company also felt there was sufficient demand to increase the number of direct links between Europe and Central America, while the decision was compatible with IBERIA's strategic interest in these markets and its firm commitment to quality.

On October 1, 2004, IBERIA commenced direct flights from Madrid to Guatemala, San José de Costa Rica and Panama using A-340 aircraft to replace the connecting flights via Miami it had operated using the fleet of A-319s. At the same time, links with other Central American destinations (Cancún, Managua, San Pedro Sula and San Salvador) began to be operated by carriers in the region (Mexicana de Aviación and TACA) with which IBERIA has entered into code sharing agreements. The Spanish maintains one daily direct flight from Madrid to Miami, from where customers can link to other destinations in North America by connecting with American Airlines flights.

This restructuring improves customer service, provides direct flights to three of the main cities of Central America and offers easier and more numerous connections to other destinations, thereby substantially improving on the alternatives previously available in the market. It will also enable IBERIA to optimize results in the region.

In the medium haul sector, IBERIA increased its routes to Africa and the Middle East, still a minority market for the company, by 45% with the aim of diversifying production and growing in markets that are less mature than Europe.

In the course of 2004, IBERIA also redistributed its domestic routes with the aim of improving the profitability of the network, gradually raising capacity in-flights within the Iberian Peninsula and slowing the growth of links with the Canary Islands, where competitors had created increasing overcapacity.

At the end of 2004, the IBERIA commercial network, including flights operated by the franchisee Air Nostrum, covered a total of 98 destinations in 38 countries.

Agreement with British Airways

In December 2004 IBERIA and British Airways entered into an agreement for the joint development of routes between London Heathrow, Madrid and Barcelona. This agreement provides for the joint operation of these trunk routes as from January 1, 2005 with profits to be shared.

The agreement is covered by the anti-trust exemption already granted to the alliance between the two airlines by the European Commission, allowing them to carry out plans for the joint development of the network, coordination of capacities and joint prices, sales and operating accounts.

The customers of both airlines will enjoy greater choice and flexibility of schedules and services, as well as benefiting from improved connections at the airports concerned, facilitating access to more destinations. IBERIA and British Airways, both members of the oneworld alliance, expect to be able to rationalize services and costs. This agreement represents a further step in the creation of closer relations between the two airlines, which will continue to examine new avenues for cooperation to respond effectively to the challenges of the future.

Finally, IBERIA and British Airways have expanded their code sharing agreements, which covered a total of 65 routes (including those operated by franchisees) at the end of 2004.

Other commercial agreements

IBERIA also has code sharing agreements with other partners of the oneworld alliance. These are American Airlines, Lan Chile, Finnair and, since July 2004, Cathay Pacific Airways. This new agreement covers routes connecting Hong Kong with Madrid and Barcelona via Amsterdam and London Heathrow.

In addition, IBERIA has Frequent Flyer Agreements with all of the airlines forming part of oneworld.

IBERIA customers can also benefit from commercial agreements made with other carriers that are not part of oneworld. For example, IBERIA and Mexicana de Aviación entered into a code sharing agreement and a frequent flyer agreement in January 2004, both of which came into effect on April 15th, 2004. As a result of these agreements, both companies have been able to expand destinations, while passengers who are members of their respective loyalty programs can obtain and redeem points on the services operated by either airline. These agreements have also helped to strengthen IBERIA's positioning with regard to traffic between Europe and Central America.

In accordance with the code sharing agreement, links between Mexico City and Monterrey, Guadalajara, Puerto Vallarta, Veracruz, Cancún and Acapulco operated by Mexicana are marketed with the Iberia code. Since October 2003 Mexicana has also operated the route between Miami and Cancún with the Iberia code. In return, ten routes operated by IBERIA (links between the airports of Madrid and Barcelona, Bilbao, Oviedo, Seville, Valencia, Vigo, Paris, Milan, Rome and Mexico City) include the Mexicana code.

In August 2004 IBERIA and TACA (Transportes Aéreos de Centroamérica) entered into an important code sharing and traffic distribution agreement. This agreement, which came into effect on October 1, allows the Spanish company to distribute and capture traffic at various destinations in Central America to which it does not fly directly but has links via flights operated by the Central American carrier with an appropriate number of seats.

Specifically, IBERIA operates three direct flights to the region, which arrive daily in San José de Costa Rica and three times per week in Guatemala and Panama. From San José and Guatemala, travelers can connect with the TACA flights commercialized with the IBERIA code to continue their journey to the cities of Managua (Nicaragua), San Pedro Sula (Honduras) and San Salvador (El Salvador). The agreement also covers flights linking these Central American destinations with Miami and Havana. This new program therefore multiplies connections and offers IBERIA customers the possibility of flying between Europe and the main cities of Central America every day of the week.

In 2004 IBERIA made new code sharing agreements with other companies and expanded the

number of destinations covered by existing ones. These include the agreement made with the Colombian airline Avianca, which commenced in September, and the significant expansion of routes covered by the existing agreement with Royal Air Maroc, also as from September.

During 2004 IBERIA and the regional carrier Air Nostrum continued developing the franchising agreement that has linked them commercially since 1997. Thus, Iberia Regional Air Nostrum further expanded its European service, increasing the frequency of flights and opening new routes, such as the links between Oviedo and Brussels and Paris, between Vigo and Valladolid and Paris and the Mallorca-Nice and Madrid-Manchester routes. New routes were also set up in the domestic market. These are Barcelona-Albacete, Barcelona-Badajoz, Albacete-Mallorca, Málaga-Oviedo, Vigo-Sevilla, Oviedo-Sevilla and Málaga-Santiago de Compostela. In October 2004 the European Regions Airline Association (ERA) bestowed its Golden Palm on Air Nostrum. This is a major honor awarded in recognition of the airline's capacity to sustain excellence over time.

New technologies

The IBERIA Group continues to apply new technologies to its business in order to improve service and reduce costs.

IBERIA has redoubled its efforts to foster the use of electronic or "cybertickets", an initiative that is intended to improve customer comfort. In this type of ticket, flight coupons consist of an electronic entry kept in a data base, replacing the classic paper ticket. A physical ticket is thus no longer necessary, and tickets can therefore be booked and issued simultaneously in a telephone call, while tickets can be changed without any need to leave home or the office and there is no risk of loss. Cybertickets are widely used by the customers of Iberia.com and Serviberia.

The company has extended the option of using electronic tickets to a number of new international destinations (Montevideo, Dublin, Tel Aviv and Zurich among others) in 2004. By the end of the year, then, cybertickets could be used on all domestic routes (except the Madrid-Barcelona shuttle), and on all IBERIA flights from any point in Spain to destinations in thirty-four countries. Over five 5,800,000 electronic tickets were issued in 2004, an increase of 72% on the prior year, and they now represent 36.3% of total tickets issued. In sales originating in Spain in 2004, cybertickets accounted for 40% of the total tickets issued.

Achieving optimum use of the Internet is another strategic priority pursued by the IBERIA Group on an ongoing basis.

Customers can obtain information on flights, fares and available seats through Iberia.com, the company's website, as well as making their own bookings and buying tickets with the option of asking for an electronic ticket. The company has added various new functionalities to the website in 2004, supplementing the flights offered with other non-air-transport products (e.g. hotel rooms, travel insurance and car hire) through marketing agreements. Iberia.com ticket sales in 2004 totaled € 206.5 million, almost 32% higher than in 2003.

Users of Iberia.com can also access the IBERIA corporate website, a new version of which was launched in 2004 with the aim of enhancing transparency on all matters concerning the firm. The new corporate website provides wide-ranging information about the IBERIA Group (key figures, history, fleet and so on), a page on the firm's social commitments and another on Job Opportunities, as well as the latest press items related with the airline. It also provides access to a page specifically designed for investors and shareholders, which has also been fully upgraded. The new version provides more information, which is clearly set out and organized, and has an attractive design to facilitate navigation by users.

Other examples of IBERIA's use of new technologies include the self-service check-in machines installed for passengers traveling without luggage; the Air Shuttle check-in system and control system which directly provides the customer with both ticket and boarding card in the same document; air-ground satellite communication services; and the SMS text messaging system for cell phones.

Fleet Renewal Plan

The Group has pressed ahead with the Fleet Renewal Plan, which is designed to create a more modern and uniform fleet, thereby improving the quality of the service provided to customers, reducing operating costs and ensuring that aircraft are quieter and cleaner.

In January 2003, the Board of Directors of the company approved the replacement of the fleet of Boeing B-747s with new A-340/600 aircraft. This four-engine model has a range of 13,900 kilometers and is the longest jet in the A-340 family. In its current configuration it has capacity for 342 seats compared to 249 on board the A-340/300 version, 18 units of which are in service in IBERIA.

At December 31st, 2004 the IBERIA Group was already operating six A-340/600 aircraft, three of which were brought into service in the last quarter of the year. The fleet renewal process has been brought forward, with the result that the retirement of the B-747 will be completed in 2005, when IBERIA will have a long haul fleet using a single aircraft, the Airbus A-340. This will facilitate efforts to raise aircraft usage and the productivity of crews. In accordance with the contracts made with International Lease Finance Corporation (ILFC) and Airbus, the company expects to receive four A-340/600 aircraft in the course of 2005 (one aircraft was brought into service on January 27) and a further three in 2006.

IBERIA has been operating with only three types of fleet (A-320 family, MD-87/88 and B-757) on short and medium haul flights since June 2003, compared to seven aircraft types before the commencement of the Renewal Plan in 1998. At the end of 2004, the IBERIA Group operated a total of 125 short and medium haul aircraft, 74 of which belong to the Airbus A-320 family. Over the course of the year, the company added nine new aircraft (four A-320s, three A-321s and two A-319s) to this fleet.

IBERIA has commenced negotiations with the aircraft manufacturers Boeing and Airbus with a view to reaching agreement for an extensive renewal of its short and medium haul fleet. In the coming months, a decision will be made with regard to the addition of over 70 new aircraft to replace the Boeing B-757 and McDonnell Douglas MD-87 and MD-88 fleets, as well as the "older" units of the Airbus A-320 model, which were acquired at the beginning of the 1990s. As a result of this renewal, IBERIA will soon have one of the most modern and efficient fleets in the market.

Actions in affiliates

IBERIA has continued to actively manage its portfolio in line with the strategy defined in the 2003/05 Master Plan, the objective of which is to sell investments in companies that are not directly related with its core air transport business and are not considered to be strategic for the development of the Group, and to outsource certain functions in order to improve efficiency in the use of resources.

During the fourth quarter of 2004 IBERIA, Air France and Lufthansa, the main shareholders of Amadeus Global Travel Distribution, S.A. (Amadeus GTD) received various bids from financial investors interested in acquiring an interest in the share capital of this multinational concern, which manages one of the world's leading bookings distribution systems. The three shareholders of Amadeus GTD undertook a selection process, which culminated in early 2005 with the decision to negotiate exclusively with the consortium formed by the venture capital firms BC Partners and Cinven, which had presented a proposal to bid for 100% of the Class A shares of Amadeus GTD at a price of € 7.35 per share via a newly created company. The three shareholders opened negotiations with BC Partners and Cinven on January 12th with a view to agreeing the terms and conditions of the bid.

At December 31, 2004 IBERIA held 18.28% of the Class A shares of Amadeus GTD. The operation proposed would generate financial gains in the first half of 2005 upon the approval and completion of the bid, while at the same time allowing the company to maintain a significant interest in the capital of the new company.

In addition, the Board of Directors of IBERIA resolved at the meeting held on January 27th, 2005 to commence negotiations and, where appropriate, to sell 66% of the subsidiary Sistemas Automatizados Agencias de Viajes, S.A. (SAVIA) to Amadeus GTD for a price of € 82.5 million, which would be adjusted on the basis of net debt and working capital at the date of the operation, subject to compliance with legal requirements and the relevant official authorization. IBERIA does not consider its investment in this subsidiary to be strategic, whereas the policy of Amadeus GTD, which already owns 34% of SAVIA, is to acquire 100% ownership of its national marketing companies. Similar deals were already carried out in prior years for the equivalent companies to SAVIA in the French and German markets, among others.

In February 2004, IBERIA and CAE, a company specializing in the manufacture of advanced simulation and control technologies and integrated training services, jointly incorporated a flight training firm under the name Sociedad de Instrucción de Vuelo, S.L. (SIV) in accordance with an earlier agreement made in October 2003. IBERIA holds a little less than 20% of the share capital of SIV, while CAE, which manages the new company, owns the remaining 80%. IBERIA and CAE contributed the assets held at their respective flight schools at La Muñoza and Alcalá de Henares. Via SIV, IBERIA will at all times have access to the cutting edge technology necessary to maintain its leading position with regard to the preparation and training of its crews, at the same time as improving the profitability and efficiency of the assets concerned.

In April 2004, the Antitrust Office of the Spanish Ministry of Economy and Finance authorized the acquisition by Gate Gourmet International of the 70% interest held by IBERIA in Iber-Swiss Catering, S.A. IBERIA and Gate Gourmet (owner of the remaining 30% of Iber-Swiss' share capital) had already agreed to carry out this transaction at a price of € 23.4 million in December 2003. This agreement provides for both the sale of the aforementioned shares and the formalization of a service contract whereby Gate Gourmet International will provide IBERIA with general catering services worldwide for seven years. In particular, the agreement provides for cooperation between the two companies in all activities associated with the development of the new in-flight pay catering service IBERIA has introduced on certain short and medium haul flights since March 2004.

In February 2004 Antitrust Office also authorized the sale by IBERIA of its investment in Touroperador Viva Tours, S.A. and the "Viva Tours" brand to Iberojet in accordance with the agreement reached between the two companies. The price of this sale was € 16.9 million.

New Terminal Area

At an extraordinary meeting held on November 2, 2004, the Board of Directors of Aeropuertos Españoles y Navegación Aérea (AENA) resolved to locate IBERIA and its partners in the **one**world alliance in the New Terminal Area (NTA) at Madrid-Barajas airport formed by Terminal Building T-4 and the Satellite Building T-4S. Air Nostrum (an IBERIA franchisee) and certain other carriers that do not form part of any alliance will also be located at the new installations.

The agreed allocation of airport space by terminals is based on technical criteria such as the market share of each airline at the airport, as well as commercial relations between companies.

AENA has sought a balance in the initial utilization of capacity at each of the airport's terminals and to reserve adequate space to permit growth in the operations of all carriers in the coming years, as well as the expansion of their alliances. Other objectives are to to foster the development of hub operations both at terminals 1, 2 and 3 (Star Alliance and SkyTeam) and at NTA (**one**world), to minimize connections between terminal areas and connection times by ensuring that the main airlines operate in the same area as allied carriers; and to guarantee appropriate and equal service quality at both Terminal Areas.

The allocation of the NTA to IBERIA and its oneworld partners will allow them to carry out their growth strategies without constraints, providing adequate space and resources for them to operate efficiently and offer quality services from 2006 onwards.

Corporate Responsibility

The IBERIA Group is deeply committed to environmental protection and social action within the framework established in the Corporate Responsibility Policy.

IBERIA's social action strategy is based on support for organizations carrying out social assistance projects through the provision of its usual services. The company undertakes actions in collaboration with its employees, among which the work performed by the NGO Mano a Mano, the Asociación de Empleados Padres de Minusválidos (APMIB) and the Fundación Tutelar APMIB stand out. It also supports organizations through sponsorship agreements and promotes the involvement of customers, as well as receiving the collaboration of suppliers.

The IBERIA Group maintains a policy of global environmental management, which covers all activities on the ground and in the air. In the air transport industry, fleet renewals are a basic instrument to minimize environmental impacts. In 2004, IBERIA has continued replacing its B-757 aircraft with new Airbus jets for medium haul flights. It has also retired three B-747 aircraft and acquired three new Airbus A-340/600s. These aircraft include the latest technological advances and will therefore reduce both fuel consumption and noise.

In 2004, IBERIA was admitted to the Dow Jones Stoxx sustainability index, which comprises 167 European companies applying best practice in the financial, social and environmental fields.

The matters outlined in this section are discussed in more detail in the Corporate Governance Report.

2. OPERATING PERFORMANCE OF THE MANAGEMENT AREAS

2.1. Transport

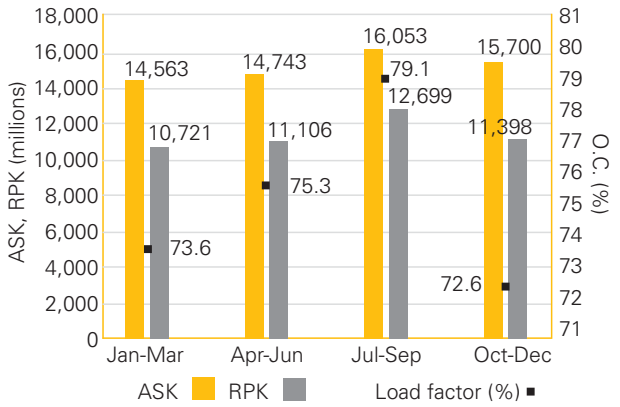
2.1.1. Production and passenger traffic

World air traffic grew strongly in 2004, confirming the trend that had commenced in the later months of the prior year and exceeding the levels achieved in 2000. According to the data published by the International Air Transport Association (IATA), international passenger demand in 2004 rose by 15.3% compared to the prior year, as against a 12.1% increase in services. This resulted in a load factor of 74.2%. Weakness in the base period, which was severely affected by the Iraq war and the effects of the SARS epidemic (Sever Acute Respiratory Syndrome) explains approximately one third of this strong year-on-year increase in traffic, which was stimulated by economic growth and by falling prices in many markets.

Growth in the activity of European airlines was somewhat lower than that achieved by North American and Asian companies. According to data of the Association of European Airlines (AEA), the schedule international traffic of all members rose by 9.8% in relation to 2003. If domestic traffic, which contributed only 0.9%, is included, the increment in total revenue passenger kilometers (RPK) for the AEA was around 9.0% in 2004.

In 2004 IBERIA's traffic increased by 9.1% compared to 2003, with an 8.8% rise in capacity measured in terms of available seat kilometers (ASK). The company was thus able to improve the passenger load factor by 0.2 percentage points to 75.2%. The performance of international traffic was excellent, especially on intercontinental flights, which grew by 11.3% overall.

Passenger traffic. Quarterly evolution in 2004



IBERIA recorded the greatest increases in services and demand in the first quarter of the year with growth of 10.4% and 13.4% respectively over the prior year in terms of the aggregate volume for the network as a whole. In the following quarters, growth rates were more moderate, partly because of the gradual recovery of traffic in the course of 2003. Nevertheless, in July and August 2004 IBERIA successively broke its all-time monthly records for the volume of services and demand.

Throughout 2004 IBERIA adjusted its service to the evolution of demand in the various markets. On a cumulative basis for the year, the company exceeded 61,000 million ASK for its operations as a whole, increasing the service in relation to 2003 in all three sectors, representing 10.5% in the long haul network, 9.8% in the international medium haul sector and 3.8% in the domestic sector.

In absolute terms, over half of the total increase in demand was related to Latin American routes. A particularly significant increase in capacity (19.5%) was achieved in South America, where IBERIA launched a new direct flight between Spain and Uruguay in July. Services to destinations in Central America also increased significantly (9.3%), particularly to Mexico, Peru, the Dominican Republic and Venezuela.

Commencing October 1st, IBERIA restructured its operations in Central America with the objective of improving customer service and the company's results in the region. As a consequence, IBERIA ceased operating its own flights between its distribution center in Miami and the various Central American countries, replacing these with direct flights from Madrid to Guatemala, San José de Costa Rica and Panama and connecting these three airports with other destinations in the region through flights operated by other carriers under shared codes.

As a result of this restructuring and the sharp increase in South Atlantic capacity in 2004, the average passenger haul in the long range sector grew by 4.5% compared with the prior year. Furthermore, faster growth in intercontinental flights led to a 4.7% rise in the average passenger haul for the network as a whole to reach 1,720 kilometers.

Flights between Spain and other European Union countries, a market characterized by strong competition and the fast growth of low cost carriers, accounted for over 84% of IBERIA's service in the medium haul international sector in 2004. On these routes, services increased by 6.7%, mainly due to the greater frequency of flights to destinations such as Berlin, Brussels, Paris, Rome and Milan. The company also launched direct flights between Barcelona and Lisbon and Malaga and Milan. During the year the company has adjusted its service to adapt to the evolution of the different markets.

In 2004 IBERIA significantly increased its services to the Middle East and North and Central Africa in relative terms. The company began operating a number of new links (e.g. Madrid-Marrakech, Madrid-Lagos, Madrid-Cairo (direct flight) and Barcelona-Casablanca) and increased the frequency of flights to other destinations. The aim of this increase in capacity was to diversify production and grow in emerging markets which had suffered from the effects of the Iraq war in 2003. Demand gradually improved in the second half of the year, and the cumulative load factor for the year rose (0.7 points above the level of 2003), despite the sharp increase in services (45%).

The densification of some of the aircraft forming the medium haul fleet over the course of 2004 generated a small percentage rise in service capacity in the medium haul sector.

In the domestic sector, IBERIA increased capacity mainly on routes linking Madrid and Barcelona with other destinations in mainland Spain. The company also raised capacity in the service to the Balearic Islands, mainly in the summer season. Links with Oviedo, Palma de Mallorca, Málaga, Seville and Valencia were strengthened, and operations began on the new Vigo-Valencia route.

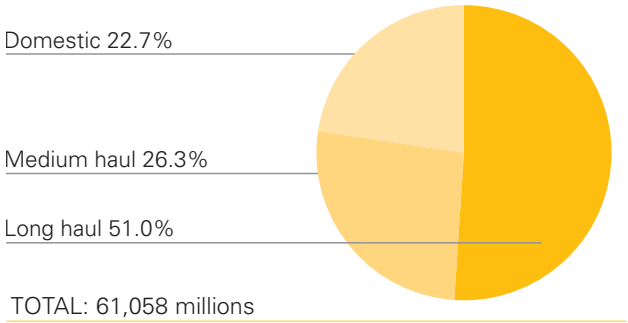
Increases in capacity between mainland Spain and the Canary Islands in relation to the prior year were progressively reduced in the course of 2004, and a decline of 5.9% in ASK was finally recorded in the last quarter. The objective of this redistribution was to optimize the profitability of the network following the sharp increase in the services of competitors on routes to the Canaries and the resulting tensions for unit revenues.

The detail, by sector, of the ASK is as follows:

ASK (millions)	**2004**	**2003**	**Var. 04/03**	**% Var.**
Madrid-Barcelona	1,985	1,937	48	2.5
Mainland-Canaries	5,104	5,010	94	1.9
Madrid-Mainland (*)	3,181	3,008	173	5.8
Other domestic	3,561	3,368	193	5.7
Domestic	**13,831**	**13,323**	**508**	**3.8**
Africa and Middle East	1,410	974	436	44.8
EU	13,542	12,687	855	6.7
Other European countries	1,107	961	146	15.2
Medium haul	**16,059**	**14,622**	**1,437**	**9.8**
North America	6,745	6,511	234	3.6
Central America	14,608	13,369	1,239	9.3
South America	8,741	7,312	1,429	19.5
Southern Africa and other	1,074	1,008	66	6.5
Long haul	**31,168**	**28,200**	**2,968**	**10.5**
Total IBERIA	**61,058**	**56,145**	**4,913**	**8.8**

(*) All mainland connections except Barcelona.

Breakdown of ASK in 2004



IBERIA and the regional carrier Air Nostrum continued developing the franchising agreement that has linked them commercially since 1997. Thus, Iberia Regional Air Nostrum continued to expand its domestic and European services by increasing frequencies and launching new routes, such as the Nice-Mallorca, Oviedo-Paris, Manchester-Madrid, Barcelona-Albacete and Barcelona-Badajoz links. New weekend routes, such as Albacete-Mallorca, Málaga-Oviedo and Málaga-Santiago were also opened. The regional carrier also operated additional flights in holiday periods and increased the frequency of flights on the Málaga-Bilbao and Melilla-Valencia routes, as well as the links between Bilbao and Alicante, Santiago de Compostela and Seville.

By the end of 2004, IBERIA's commercial network covered thirty-five domestic destinations, forty-two medium haul international routes and twenty-one long haul routes including flights operated by the franchisee Air Nostrum.

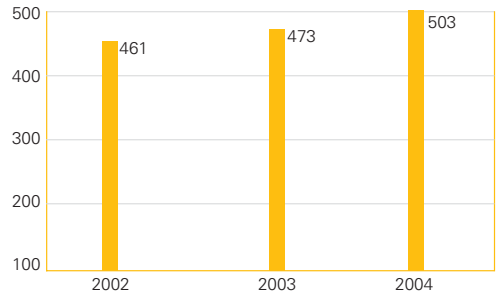
Also, in 2004 IBERIA continued to implement the code-sharing agreements entered into previously with other companies, which enable it to increase the number of destinations offered to its customers. As a result, new routes were included in the agreements with British Airways and GB Airways, making up a total of 65 different links. Flights were also expanded under the agreements with Royal Air Maroc, Royal Jordanian and SN Brussels. IBERIA also made new

code sharing agreements with Avianca, Cathay Pacific, Mexicana de Aviación and TACA, among other airlines.

IBERIA's production measured in block hours was 6.5% higher then in 2003. In this regard, the company took the important step of returning to the use of wet lease aircraft in order to achieve flexibility of production where necessary.

Passenger Aircraft Block Hours	2004	2003	Var. 04/03	% Var.
Iberia-owned aircraft	499,069	472,855	26,214	5.5
Wet lease	4,389	-	4,389	--
Other lease transactions	5	12	(7)	(58.3)
IBERIA	**503,463**	**472,867**	**30,596**	**6.5**

Block Hours (thousands)



The number of passengers carried by IBERIA within the network as a whole rose by 4.2% in relation to 2003. This increase is lower than that recorded for the number of RPK due to growth in the average passenger haul. This increased by as much as 7.1% on international flights, but only 2.0% on domestic flights.

The total number of passenger transported under the IB code, which includes those carried on flights operated by the franchisee Iberia Regional Air Nostrum, totaled 30.1 million in 2004.

The distribution of passengers transported by IBERIA was as follows:

Passengers (thousands)	2004	2003	Var. 04/03	% Var.
Madrid-Barcelona	2,793	2,793	0	0.0
Mainland-Canaries	2,228	2,213	15	0.7
Madrid-Mainland (*)	5,293	5,129	164	3.2
Other domestic	4,560	4,446	114	2.6
Domestic	**14,874**	**14,581**	**293**	**2.0**
Africa and Middle East	398	281	116	41.1
EU	7,333	6,977	356	5.1
Other European countries	576	498	78	15.7
Medium haul	**8,307**	**7,756**	**551**	**7.1**
North America	833	784	49	6.3
Central America	1,793	1,745	48	2.8
South America	776	644	132	20.5
Southern Africa and other	109	103	6	5.8
Long haul	**3,511**	**3,276**	**235**	**7.2**
Total IBERIA	**26,692**	**25,613**	**1,079**	**4.2**

(*) All mainland connections except Barcelona.

RPK increased by 11.3% on aggregate in international flights compared to 2003 and by 1.7% in the domestic sector. In this case the increment lower than the rise in passenger numbers due to slower growth in links to the Canary Islands, which have a longer average haul.

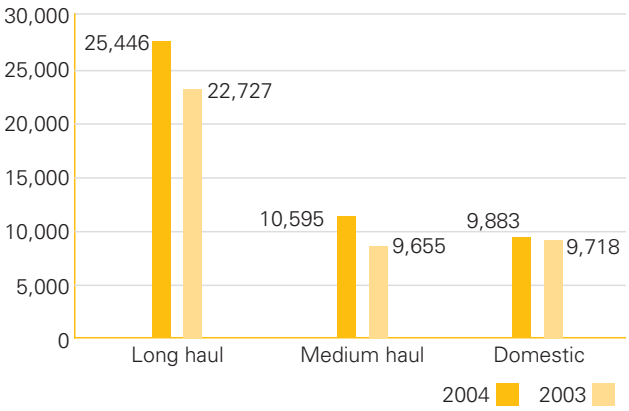
In the long haul sector, demand held up well, growing by 12.0% while the mix of classes improved. The sharp increase in the service in South America met with a highly favorable response from traffic (20.9%). IBERIA also achieved significant increases in demand in Central America, Africa and the Middle East, as well as destinations in non EU countries in Europe.

A breakdown of the RPK is as follows:

RPK (millions)	**2004**	**2003**	**Var. 04/03**	**% Var**
Madrid-Barcelona	1,346	1,346	0	0.0
Mainland-Canaries	3,930	3,908	22	0.6
Madrid-Mainland (*)	2,121	2,061	60	2.9
Other domestic	2,486	2,403	83	3.5
Domestic	**9,883**	**9,718**	**165**	**1.7**
Africa and Middle East	933	639	294	46.0
EU	8,988	8,448	540	6.4
Other European countries	673	568	105	18.5
Medium haul	**10,595**	**9,655**	**940**	**9.7**
North America	5,470	5,242	228	4.3
Central America	11,720	10,549	1,171	11.1
South America	7,378	6,105	1,273	20.9
Southern Africa and other	878	831	47	5.7
Long haul	**25,446**	**22,727**	**2,719**	**12.0**
Total IBERIA	**45,924**	**42,100**	**3,824**	**9.1**

(*) All mainland connections except Barcelona.

Revenue Passenger Kilometers (millions)



IBERIA's average passenger load factor of 75.2% for all the flights operated in 2004 was more than 0.2 percentage points higher than in 2003 and represented the highest load factor ever achieved by the Company.

Load factor (%)	**2004**	**2003**	**Var. (**) 04/03**
Madrid-Barcelona	67.8	69.5	(1.7)
Mainland-Canaries	77.0	78.0	(1.0)
Madrid-Mainland (*)	66.7	68.5	(1.8)
Other domestic	69.8	71.4	(1.6)
Domestic	**71.5**	**72.9**	**(1.5)**
Africa and Middle East	66.2	65.5	0.7
EU	66.4	66.6	(0.2)
Other European countries	60.8	59.1	1.8
Medium haul	**66.0**	**66.0**	**(0.1)**
North America	81.1	80.5	0.6
Central America	80.2	78.9	1.3
South America	84.4	83.5	0.9
Southern Africa and other	81.7	82.4	(0.7)
Long haul	**81.6**	**80.6**	**1.0**
Total IBERIA	**75.2**	**75.0**	**0.2**

(*) All mainland connections except Barcelona.
(**) The differences in terms of percentages appear not to add up as a result of the rounding-off effect.

The load factor in the long haul sector saw the best performance in 2004, improving by one percentage point over the prior year to 81.6%. In Central and South America the increases were 1.3 and 0.9 percentage points respectively.

The year-on-year monthly differences in the medium haul sector showed an upward trend in the last quarter, with the result that the same load factor (66%) was achieved as in 2003.

On the aggregate for international flights, the load factor improved by 0.7 points to reach 76.3%. The load factor in the domestic sector, however, followed a downward trend throughout 2004. The main reasons were strong competition and the gradual implementation of a more selective revenue management policy aimed primarily at improving the average yield. Moreover, the restructuring of the service carried out by IBERIA to reduce the share of routes to the Canary Island, which have a higher load factor than flights in mainland Spain, affected declining load factors in the domestic sector as a whole.

2.1.2. Passenger traffic revenues

In recent years, airlines have suffered an ongoing decline in unit revenues, particularly in Europe and North America, due to the strong competition in most markets.

In this context, IBERIA's yield declined by 6.3% in 2004 compared to the prior year. This fall was mainly a consequence of strong competitive pressures in the domestic and medium haul sectors; the appreciation of the euro against the US dollar, which significantly depressed revenues in the long haul sector; and the increase in the average passenger haul affecting the whole of the network due to the faster growth in services on long haul routes.

In the first two quarters of the year, the yield fell by 8.7%, but performance progressively improved during the second half of 2004 with the result that the decline was limited to 3.6% in the last quarter.

In the second quarter of 2004 IBERIA implemented a more selective revenue management policy in the domestic sector, which gradually succeeded in correcting the fall in the yield in relation to 2003, despite a decline in the load factor. As a result of this policy and the changes made to the service, the yield in the domestic sector actually increased in November and December in relation to the prior year's levels.

In the medium haul sector, IBERIA expanded various services and launched promotional campaigns to combat strong competitive pressures in Europe, due in particular to the rapid penetration of low cost carriers in Spain, and to stimulate demand on the new routes opened.

A detail of the average yield by commercial sector in 2004 and 2003 is as follows:

Yield (€ cents/RPK)	2004	2003	Var. 04/03	% Var.
Domestic	12.77	13.12	(0.35)	(2.7)
Medium haul	10.03	10.91	(0.88)	(8.1)
Long haul	4.35	4.52	(0.17)	(3.8)
Total IBERIA	**7.47**	**7.97**	**(0.50)**	**(6.3)**

The average revenue per ASK for the company's network as a whole fell by 6.0% compared to 2003, mainly due to the decline in the yield. A detail of average revenues per ASK by segment is as follows:

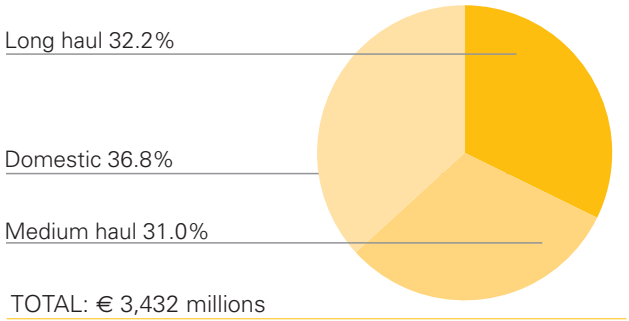
Revenues per ASK (€ cents)	2004	2003	Var. 04/03	% Var.
Domestic	9.13	9.57	(0.44)	(4.6)
Medium haul	6.62	7.20	(0.58)	(8.1)
Long haul	3.55	3.65	(0.10)	(2.7)
Total IBERIA	**5.62**	**5.98**	**(0.36)**	**(6.0)**

IBERIA's passenger revenues increased by 2.2% with respect to the prior year in 2004. Passenger revenues rose by 7.7% and 0.9% respectively in the long and medium haul sectors, but declined by 1.0% in the domestic sector.

The detail, by segment, of the passenger revenues is as follows:

Passenger Revenues (millions of €)	2004	2003	Var. 04/03	% Var.
Domestic	1,262.2	1,275.3	(13.1)	(1.0)
Medium haul	1,063.0	1,053.4	9.6	0.9
Long haul	1,106.9	1,028.1	78.8	7.7
Total IBERIA	**3,432.1**	**3,356.8**	**75.3**	**2.2**

Breakdown of revenues in 2004



2.1.3. Cargo

Worldwide, air cargo traffic held up well during 2004, helped by growth in the economy and international trade and prolonging the recovery that commenced in the last quarter of 2003. According to data published by the International Air Transport Association (IATA), world cargo traffic measured in terms of revenue cargo kilometers (RCK) increased by 13.4% compared to 2003.

The goods transport and mail activity of Iberia Carga achieved significant growth throughout 2004. The number of RCK increased by 19.0% with respect to 2003 to over € 1,033 million, 94% of which were transported in the holds of IBERIA aircraft. Some 80% of this traffic volume was carried on Atlantic flights, with the greatest increases in South America.

Iberia Carga continued to use Havana as a platform for transits to Mexico and other countries in Central America, although the service to these destinations has declined since October 2004 due to the start-up of direct flights from Madrid to the countries of Central America.

Unit RCK revenues (cargo yield) declined by 11.6% with respect to 2003 as a consequence of the depreciation of the US dollar against the euro (around a quarter of traffic revenues are denominated in US currency), strong price competition, the increase in network traffic (originating in Europe, which has a lower yield) and the significant rise in the average cargo haul (6.7%). As a result, goods and mail transport revenues rose by only 5.2% to € 232.7 million.

Revenues generated from the various services provided at cargo terminals totaled € 25.8 million, 16.6% up on 2003 mainly as a result of growth in the third party cargo handling activity. Meanwhile, productivity at Spanish cargo terminals (measured in tons per employee) rose by 8.9% compared to 2003.

In September 2004 Iberia Carga launched the BONUS loyalty product. Customers (shippers, transit operators and agents) joining this program obtain points depending on the destination of shipments and the annual volume of cargo carried by the company. The points obtained can be exchanged for free business class tickets on Iberia flights.

During 2004 Iberia Carga renewed its ISO 9001:2000 Quality Certificate, originally obtained from AENOR in July 2003, having achieved all of the quality objectives established for the year.

IBERIA was designated the best cargo carrier between Italy and Latin America by ANAMA, the National Association of Air Cargo Agents.

The main parameters of this business unit were as follows:

IBERIA CARGO	2004	2003	Var. 04/03	% Var
ATK (millions)	1,405.8	1,269.3	136.5	10.8
In holds	1,274.4	1,151.6	122.8	10.7
In cargo aircraft	131.4	117.7	13.7	11.6
RCK (millions)	1,033.2	868.2	165.0	19.0
In holds	972.6	813.6	159.0	19.5
In cargo aircraft	60.6	54.6	6.0	11.0
Load factor (%)	73.5	68.4	5.1	7.5
In holds	76.3	70.6	5.7	8.1
In cargo aircraft	46.1	46.4	(0.3)	(0.6)
Average yield (€ cents/RCK)	22.52	25.47	(2.9)	(11.6)
Total cargo revenues (millions of €)	232.7	221.1	11.6	5.2
Equivalent full-time employees	1,090	1,079	11	1.0

2.2. Handling

The production of this business unit, measured in terms of weighted planes handled, increased by 6% in 2004 compared to the prior year in a scenario of general growth in air traffic. Activity for third parties increased by 17,950 weighted aircraft, 7.9% more than in 2003. IBERIA's own activity, meanwhile, grew by over 9,100 weighted aircraft, an increase of 4.0%.

Various new corporate customers were won in 2004 including Lan Chile, Channel Express, Lan Ecuador, Tuy Airlines, Air Madrid and Cargolux.

Operating revenues (including internal billings to the "Airline" business) totaled € 582.9 million in 2004, up € 52 million on 2003. This represents an increase of 9.8%, achieved mainly due to growth in the activity and billings from a larger number of supplementary services, as well as price adjustments.

The average headcount for 2004 increased by 457 equivalent employees in relation to 2003, up by 5.4%. This was due to the rise in the number of aircraft handled, the return of subrogated activities at certain airports and the provision of new services in part related with new security measures. Temporary personnel increased by 325 equivalent employees to form 20% of the staff of Iberia Handling in 2004, while the number of permanent staff (including part-time workers) rose by 132 equivalent employees.

Productivity improved with a decline in the number of man hours per weighted aircraft handled from 32.09 in 2003 to 31.91 in 2004. This reduction was helped by the distribution of traffic, which favored more efficient management of human resources.

New initiatives were taken to improve all Iberia Handling's quality parameters, namely punctuality, check-in waiting times and baggage reclaim times. A new baggage reconciliation system (BRS) was implemented at Madrid-Barajas airport, allowing fast localization of passenger baggage, cutting costs and improving security.

IBERIA also pressed ahead with the expansion of the system of self-service check-in machines, and a total of 69 machines were in service in Spanish airports by the end of 2004. Also, the "Easy Check-in" project was contracted, which allows customer airlines of IBERIA to perform check-ins through their own systems.

A stopover has been opened at Albacete, where passenger handling services are provided.

The following table shows the main operating aggregates of Iberia Handling:

IBERIA HANDLING	2004	2003	Var. 04/03	% Var.
Weighted planes handled (WPH) (thousands)	482.0	454.9	27.1	6.0
Third-party handling revenues (millions of €)	301.7	270.0	31.7	11.7
Operating revenues (millions of €)	582.9	530.8	52.1	9.8
Operating revenues/ WPH (€)	1,209.3	1,166.7	42.6	3.7
Productivity (hours/WPH) (*)	31.91	32.09	(0.18)	(0.6)
Equivalent full-time employees	8,980	8,523	457	5.4

(*) Total man hours per weighted aircraft. A negative variation reflects a productivity gain.

2.3. Maintenance

Iberia Maintenance is responsible for maintaining the company's aircraft but also provides technical assistance services to third parties, including domestic and international airlines, aircraft manufacturers and lessees.

Aircraft maintenance activities increased in 2004 and 114 C, D, E and IL major overhauls were carried out. Work performed for other airlines represented 12.9% of the total.

Maintenance work was successfully completed for the return of four Boeing B-757 and two Airbus A-320 aircraft operated by IBERIA under leases which terminated in 2004.

The launch of the new Business Plus product in the long haul fleet represents a major challenge for the Maintenance Division, and especially for the Interior Engineering Unit and Maintenance Workshops, which are responsible for establishing the technical specifications and guaranteeing the proper functioning and maintenance of the new seats, which are more sophisticated than earlier models.

In the Engines Workshop, production amounted to 122 units, and the first repairs of the CF34, the latest engine to be included in service capabilities, were carried out. Third party engines accounted for 29.5% of this work. The first jobs were also carried out on the APU 131-9A, which has also recently been included in the technical capabilities.

With regard to line maintenance, the "maintenance on request" service was started up in February 2004, in accordance with the Master Plan. This simplifies transit inspections in maintenance programs in conformity with the stipulations of the manufacturers of Airbus and Boeing Aircraft.

Maintenance activities carried out for other airlines increased in 2004, particularly during the second half of the year, contributing to better use of facilities and of the resources invested. As a consequence, the external operating revenues of Iberia Maintenance increased by almost 9% compared to 2003.

Against a backdrop of strong competition, Iberia Maintenance increased the number of customers to which it provides services, signing contracts inter alia with Air Jamaica, Air India, Arkia Israeli Airlines, Armenian, Avianca, AWAS, Bouillioun Aviations Services, China Southern Airlines, HMY Airways, Luxor Air, Meridiana, MK Airlines, Snecma and Sosoliso Airlines.

Similarly, commercial relations and agreements were strengthened with Air Luxor, Air Nostrum, Atlas International, British Airways, Cameroon Airlines, Cebu Pacific Air, Channel Express, Free Bird Airlines, Fly Air, GAMCO, General Electric, Gulf Air, Hola Airlines, Iberworld, Iran Air, LTE Volar Airlines, LTU, Olympic Airways, Onur Air, Rolls Royce, Royal Nepal Airlines, Spanair, Syrian Arab Airlines, TAP Air Portugal, Transmeridian Airlines, Triton Aviation International, Turkmenistan Airlines, Varig and Yemenia, as well as numerous other customers to a total of approximately one hundred.

As regards the provision of services to the Spanish Navy and Air Force, a painting agreement was made for the Wing 11 P3 Orion aircraft, a CSCI2 inspection was carried out on a B-707 and improvements were made to the fuel systems of 3 Hercules C130 aircraft.

The Division also won various tenders, one for the transformation of two B-707s to the "all high density passenger" configuration and installation of the Quick Change "Cargo-Passenger" system, which provides great versatility for the aircraft; another for the provision of full support systems to calibration teams for navigation aids installed in two Falcon 20s; and, finally, one for the repair of a B-707 and a Falcon 20 and the completion of check-lists.

Iberia Maintenance continued to provide full support to the whole State VIP Transport Fleet, which uses A-310 and Falcon 900 aircraft. The Division also overhauled four Pegasus Harrier engines and numerous components, and upgraded the Spanish Navy's engine test banks at the Rota base.

The Maintenance Division has demonstrated its capability to deal with changes in production and organizational systems in order to contribute to productivity gains, the reduction of costs and the reliability of the fleet, as shown by the successful completion of the implementation phase of the "SAP R/3 Aerospace & Defense" application.

In December 2004 the IBERIA Maintenance Division was awarded the ISO 14000 Environmental Management Certificate at the La Muñoza Industrial Facility by AENOR. In September, the Spanish Ministry of Defense awarded the PECAL 2120 certificate following the transition from the former PECAL 120 standard. In 2004, Iberia Maintenance also increased its approved capabilities under the EASA 145 Certificate to include maintenance of CR34 engines (on the wing and in workshops for customers such as Air Nostrum) and Falcon 900 aircraft, among others.

Iberia Maintenance has also maintained the certifications it already held in 2003, obtaining new ones from the Aeronautical Authorities of our customers, increasing the total to 20 certificates.

The following chart reflects the evolution of revenues and employees:

IBERIA MAINTENANCE	2004	2003	Var. 04/03	% Var.
External operating revenues (mill. of €)	122.4	112.5	9.9	8.8
Third party technical assistance revenues (mill. of €)	112.4	104.0	8.4	8.1
Equivalent full-time employees	3,912	3,898	14	0.4

2.4. Systems

In 2004 the System Division took part in various projects in collaboration with other IBERIA divisions. In view of its future economic relevance, we may mention project ICARO in the first place. This involves the development of an Integrated Projection Management System, the objective of which is to optimize the functionality of crew management and the implementation of a planning tracking system.

The Customer Relations area has been one of the most active in recent years. In 2004 it has focused primarily on fostering the use of new customer relations tools and marketing techniques. A number of additional investments were made in the CRM (Customer Relationship Management) system which entered service in late 2003 in order to create new functionalities, support new campaigns and improve the structure of data bases. Various functional improvements were also made to IBERIA's commercial website. Adaptations of these systems for relations with SMEs were also brought into operation supported by the BRM projects (corporate website enabling centralized management and treatment of member SMEs of the program). Finally, a project was started for the implementation of the new Passenger and Luggage Claims Management system, which will be brought into service in 2005.

In the Commercial area, a number of developments in PROS (Revenue Management) modules to include functionalities not covered by the tool in certain modules. Further functional upgrades

are pending for 2005. Meanwhile, the implementation of the SIVAPLUS project, which involved a technical redesign of Flight and Scheduling Program modules, will provide facilities for the Program Administration to manage aircraft turnarounds, manage slots and obtain statistical data on services and production.

In the Cargo area, the number of agents connected to e-cargo was increased and the customer relations and loyalty system, Bonus, was implemented in Europe. Also, operational management systems were extended throughout the SOCA network Sales Office Cargo Administration and further progress was made with the Revenue Management system.

In the Maintenance area, the implementation phase of the IMAGINA project was completed. The involved integrated automation of the whole information and management system for the area based on ERP (SAP R/3).

In the Control and Administration area, work commenced on the development of the Oracle Financials module linking domestic cash management. This project is expected to be completed in 2005. At the same time, the Oracle Financials system will be rolled out at Sales Offices, connecting both the offices and stopovers to the central system. Meanwhile, accounting systems were adapted to the requirements of International Financial Reporting Systems (IFRS).

As regards the new "Revenue Accounting" project, the design phase has been completed and the project is now in the construction phase, which is scheduled for completion by the end of 2005. This project will also involve the design of the Sales Office Administration module that will replace the existing MOVES system.

The main project in the employee Communication and Services area in 2004 was "Home Access", which will allow employees of IBERIA to access the company's Intranet, Ibpróxima, from home, hotels and cybercafés. Access became available in May, and since then the number of users has grown spectacularly from 7,000 before implementation to almost 17,000 at the end of the year, with a high of 300,000 page visits, compared to maximums of 90,000 before the project. This project will also make it possible to integrate numerous employee services that were previously spread between the Employee and Crew Portal in a single site, Ibpersons. Ibpróxima has become a meeting place for the whole community of employees, where the company provides information, services and tools with the aim of boosting involvement.

In the Systems area, the "Telephone Billing Control" project was completed. This involved the implementation of an information system to improve the management of all data concerned in telephone billings from the various external providers through the development of a series of products and services. The new system unifies the management of fixed line and cell phone billings, while generating files for the accounting allocation of billings that can be loaded into the company's accounting system. During the year 1,080 desktop PCs and 490 portables were installed. Also, major work was undertaken to expand the installed base of Application Servers, Content Management and Web Servers in order to meet the requirements of strategic corporate applications such as BRM, Corporate WEB and Ibpersonas.

In December, the Systems Division of IBERIA obtained AENOR Quality Certification under the ISO 9001:2000 Standard in the areas of Installations and Maintenance, Support and Infrastructure, and Architecture, Servers and Network, all of which are the responsibility of the company's Production Department. This completed the certification of the Systems Division's activity, since certification had already been obtained for information systems development, the data processing center, sales of services and IT purchases.

2.5. Projects

2.5.1. Risk map

During 2004 the Management of IBERIA worked in collaboration with the professional services firm KPMG to create a Risk Map for the company in

response to the resolution of the Audit and Compliance Committee set up by the Board of Directors pursuant to the regulations of the Spanish National Securities Market Commission (CNMV) governing transparency, reliance and good governance in listed companies. The validation of the Risk Map is the first step for the development of a risk management system, which was rolled out in February 2005. Effective risk management in an organization facilitates the achievement of its goals.

The evaluation of risks implies identifying key processes in each business area and the associated risks within the overall framework of the company's strategy and objectives, and designing a risk map for each process. This ensures a better understanding of existing risks, the rationalization of resources and cost reduction, as well as facilitating the implementation of new controls and proactive management by the company.

With the assistance of the aforementioned consulting firm, the company has validated the IBERIA risk map over the course of 2004. This was achieved through interviews with the senior managers responsible for each of the company's business area in order to specify strategic challenges and identify the associated risks. The key controls required to mitigate each of the risks in each area were identified and the intensity of these risks was assessed for the purposes of prioritization.

A series of criteria were established to evaluate the magnitude of the risks that could affect the company (low, moderate, high and catastrophic) and the likelihood of occurrence (unlikely, moderate, likely, certain). Time horizons (long, medium or short term and imminent) were then defined to evaluate the temporal scope for the occurrence of each risk identified.

Finally, the project was presented to the Audit and Compliance Committee and the process of designing contingency plans to minimize the impact of the main risks assessed commenced.

2.5.2. Service quality

Customer satisfaction is a key commitment for IBERIA, which is crystallized in the development of a plan for the global improvement of service quality. Key initiatives related with this strategic objective are discussed below.

CRM

The quality of customer service and differentiation are key to success in the present competitive environment. In accordance with this philosophy, IBERIA commenced a CRM (Customer Relationship Management) project in 2001. 2004 may be considered a milestone year in the implementation and launch of the CRM concept in IBERIA.

The main concepts developed in the course of the initial project were realized during the year, and practically all points of contact in Spain (Serviberia, airports, sales offices) and most international points have now been provided with the necessary resources to identify our best customers and offer them personalized services and benefits on a uniform basis in each case.

The implementation of technology and procedure was accompanied by an ambitious attitude training plan affecting almost 9,000 ground and flight employees.

One of the basic and indispensable factors throughout this process is to identify and learn about our customers. Consequently, a major effort was made to increase the number of customers who are members of the IB Plus Program. As a consequence, over 350,000 customers joined the program in 2004.

The strength of this support has made it possible to implement differentiated criteria for action and, above all, to carry out Relational Marketing actions, the aim of which is to boost the loyalty of our customers and improve IBERIA's revenue ratios.

Over 65,000 value management actions were carried out at check-in desks in the course of 2004. These actions consisted in offering free upgrades or access to VIP lounges to certain customers, whose characteristics recommended such distinction.

Another line of action was to hold events to which high value customers identified as being of special interest to IBERIA were invited. These were mainly exclusive cultural, sporting and gastronomic events, and they were received a very positive response from our customers. Thirty-five events were held in 2004, attended by almost 1,100 customers.

Finally, the relational marketing campaigns carried out in 2004 reached more than 600,000 customers, who received some kind of personalized attention containing exclusive proposals to incentivize their use of IBERIA services in accordance with their individual profiles.

By the end of 2004 a total of € 15.6 million had been invested in this project. An investment of € 1.3 million is planned for 2005. This will be applied basically to integration with other information and management systems in accordance with development schedules linked with the project and the optimization of customer management processes in specific areas of the service.

Customer Service Center

Another key aspect of the process of improving customer service is centralized and integrated management of communications with all customers of the IBERIA network. The Customer Service Center (CSC) and the Baggage Information Hotline work in close cooperation to systematically process all suggestions, complaints and other customer communications, regardless of the channel utilized (telephone, letter, e-mail etc.) and source. The Customer Service Center answers all communications received on a uniform and consistent basis and has achieved ever shorter response time. Furthermore, systematic treatment of all information received ensures that facets of the service which customers consider could be improved are identified, allowing the design of plans for correction and improvement.

IBERIA remains the European network airline with the best quality indicators as regards lost luggage at its various hubs. At Madrid-Barajas airport, IBERIA recorded 17 instances of lost luggage per thousand passengers in 2004, a significantly lower figure than any of its main competitors at their respective hubs. Dividing the total number of incidents (delays, loss or damage to luggage) by total passengers in the flight network as a whole, results in a ratio of 11.43 incidents per thousand passengers for 2004, a reduction of 3.2% compared to the prior year.

New Business Plus class

IBERIA has designed a new business class for intercontinental routes, which has been given the name Business Plus. This will improve on and unify the present Business Intercontinental Class and First Class. The new class will be commercialized as from April 2005, although some passengers have already had the opportunity to enjoy Business Plus, because the three new Airbus A-340/600 aircraft the company received from the manufacturer in the last quarter of 2004 arrived with the new fittings already installed.

The company will invest over € 100 million to install the new Business Plus class on all aircraft of the Airbus A-340 fleet. The 21 Airbus A-340 aircraft operated by IBERIA at the end of 2004 will be progressively modified over the course of 2005, while the long haul aircraft acquired under the fleet renewal plan will arrive factory fitted with the configuration and services of the new class.

IBERIA has reviewed all of the elements making up in-flight service in order to define the new business class. Business Plus class customers will enjoy their on space on board, providing greater privacy and comfort thanks to a separation of over one and a half meters between rose with a partition screen and individual lighting with brightness control. The new ergonomic seats will also enhance comfort. These seats, which have been specially designed by the company, can be converted into beds with a

length of 1.90 m and 66 cm. The new seats have all of the functionalities offered by the latest technology, including adjustable back massage, adjustable headrests, moveable armrests, extendable footrests and a programming system that allows adaptation to the individual customer and memorizes his/her preferred position.

In addition to the change of seats, the materials and designs used for upholstery, blankets, pillows and other accessories have been completely renewed. Customers have a permanent snack-bar area. Also, the new class is equipped with the latest communication and entertainment systems for passengers with 26 video and 15 audio channels and the option of interactive games with a larger individual screen. Business Plus customers will be provided with an individual telephone, computer connection and e-mail and SMS messaging capable of both sending and receiving, among other services.

All IBERIA staff in contact with these customers will be issued with new uniforms in mid-2005 to coincide with the progressive implementation of the new Business Plus class on intercontinental flights.

Preferential services for high value customers

During 2004 IBERIA has carried out a range of other actions aimed at improving the service provided to its best customers in recognition of the value they contribute to the business. The level of comfort in Business class on medium haul international flights was improved by ceasing to sell the central seat in each row. Catering services have also been improved in all Business classes.

Meanwhile, in 2004 IBERIA inaugurated a shower service customers using the Iberia Plus Platinum, Iberia Plus Gold and Club Fiesta business classes in transit in Madrid from intercontinental flights. The company has entered into agreements with its partners to allow its best customers access to other facilities and services at Barajas airport (Meetings and Business Center, hairdressing, etc.) on preferential terms.

In addition, the Customer Service Center undertakes proactive treatment of incidents affecting high value customers, seeking to anticipate any complaints or claims. The holders of the Iberia Plus Platinum and Iberia Plus Gold cards also have access to a specific area of the telephone hotline (Serviberia), which provides an exclusive service.

Iberia Plus

The Iberia Plus program is designed to give special attention to and reward habitual customers of the IBERIA Group. Iberia Plus cardholders accumulate points when they fly with IBERIA or use the services of other companies participating in the program. These points can be exchanged either for flights or for other services. There are four types of card (Iberia Plus Classic, Silver, Gold and Platinum), all of which are personal and issued free of charge. Cards are awarded on the basis of the points accumulated, and each one adds a range of benefits.

Apart from IBERIA itself, the airlines associated with the program are all of the partners in **one**world (American Airlines, British Airways, Aer Lingus, Cathay Pacific, Finnair, Lanchile and Qantas), together with Air Nostrum, Binter Canarias, Swiss, SN Brussels and, since April 2004, Mexicana de Aviación. Various major hotel chains (Paradores de Turismo, NH Hoteles, Sol Group…), the leading car hire firms and a range of companies from other sectors (Iberia Cards, American Express and Telefónica, among others) are also associated with the program. In addition, Repsol, CAMPSA and Petronor joined the program during 2004.

At December 31st, 2004 the program had over 2,026,000 registered cardholders, 20% more than in the prior, and remains one of the most important airline loyalty programs worldwide.

Punctuality

In early 2003 IBERIA began the implementation of the Integral Punctuality Improvement Plan. During 2004, the committee responsible for coordinating this Plan continued permanent tracking of flight punctuality, seeking to prevent possible delays and analyzing their causes.

Average punctuality was 82.2% in 2004. It was impossible to repeat the very high level achieved in 2003 (83.8%) for a number of reasons, most of them external. These included increasing traffic congestion at the Madrid-Barajas and Barcelona-El Prat airports, the company's two hubs, adverse, sometimes severe, weather (e.g. various hurricanes in the Caribbean in September and October), and a significant increase in the utilization of aircraft to provide our customers with more frequent flights. The Punctuality Committee and all other areas of the company concerned with the Plan continue to seek new initiatives to improve procedure and the coordination of operations.

Quality indicators

IBERIA applies a number of quality control and monitoring mechanisms to track both service parameters and the level of customer satisfaction.

Compliance with the service quality standards established by the company is tracked measuring OQL (Observed Quality Level) indices. For this purpose, the whole of the customer service process is controlled both on the ground and in flight, from the first request for information and ticket booking through management of complaints and claims.

In order to determine customer perceptions of compliance with their expectations (Perceived Quality Level or PQL) over the course of 2004, over 18,000 surveys of customers at the end of their journey were carried out in two waves covering 30 basic attributes of the service process.

Finally, the Quality Systems certified in accordance with the ISO 9001:2000 include specific quality indicators related with processes in the various activities, which are measured internally with an appropriate frequency.

ISO Certificates

The IBERIA Group is firmly committed to improving quality in all of its activities, and with this aim in mind ISO 9001:2000 Quality management systems have been implemented in various divisions (specifically Cargo, Systems, Material, Operations) and at airports (passenger and ramp handling) where an integrated quality and environmental management system is in place with ISO 9001 and ISO 14001 certification. In the course of 2004, these areas of the company successfully completed the internal and external audit necessary to maintain the relevant certificates.

IBERIA has also continued work to complete the certification of key activities. In December 2004 the Maintenance Division was awarded ISO 14001:1996 Environmental Management certification by AENOR at the La Muñoza industrial facility (Madrid-Barajas).

Also in December, the Systems Division completed the process of ISO 9001:2000 certification, which includes the Installations and Maintenance, Support and Infrastructure, and Architecture, Servers and Network areas of the Production Department.

Finally, IBERIA's Infrastructure Department obtained ISO 9001:2000 certification from AENOR, also in the month of December, for its maintenance services management activities in buildings and installations, waste treatment, electrical power and fuel oil at its facilities in Barajas, La Muñoza and in the city of Madrid.

In order to facilitate the management of these systems, IBERIA has developed an important IT application in the Internet environment. This system, known as SIGDOC, permits straightforward, quick and effective management of the requirements established in the various standards on line.

2.5.3. Direct distribution channels

Iberia.com

The Company had launched a new version of the Iberia.com platform in 2003, which improved online booking, purchasing and information

processes and provided customers with access to new products, establishing a more individual relationship through personalization rules and profile management. The company continued to work in the same direction in 2004, incorporating new functionalities and services to raise customer satisfaction. Improvements were made inter alia to communication and control processes, as well as the sale of personalized proposals, and a new breakdown of ticket prices and charges was added. Also, navigation speeds were raised.

IBERIA has made various marketing agreements with other companies with a view to the inclusion of new non-air-transport products (hotel rooms, travel insurance, car hire) for online commercialization in order to complete the service offered to customers. In this regard, an important agreement for the sale of hotel rooms via Iberia.com was made with the online travel agent Lastminute.com, which came into effect in February 2004.

The process of international expansion of Iberia.com continued apace during the year, with the aim of providing a specific website in all of the countries where IBERIA has a presence. Six new websites were added (Portugal, Uruguay, Argentina, Colombia, Mexico and Brazil) bringing the total number of countries with their own site up to 24 at the end of 2004.

The company sold almost one million one hundred thousand air tickets through this direct channel in 2004, up 18.2% on 2003. Sales revenues totaled € 206.5 million (not including sales of other products), representing an increase of close to 32% compared to 2003. The number of customer hits on the site attained a daily average of 145,000.

Serviberia

Serviberia is a centralized end customer service hotline that offers ticket sales and bookings with the option of choosing either a cyberticket or home delivery, as well as information 24 hours a day, 365 days a year. Serviberia takes calls from all over Spain and from the main European countries through Serviberia Europe.

Serviberia incorporated various technological advances in order to improve the quality of the service provided. Some 493,000 calls were taken in 2004 using an automatic voice recognition system providing flight information, with a 95% level of recognition. Iberia Plus gained a further 22,000 new customers through Serviberia using the Siebel-CRM application. As regards the loyalty program, a specific telephone hotline has been created for Iberia Plus Gold and Platinum cardholders, which received close to 283,000 calls, up 105% on 2003.

Direct sales via this channel continued to grow in 2004. Seviberia sold over 842,000 tickets, 17% more than in 2003, for a total of € 167.4 million, while approximately 5,053,000 calls were taken, an increase of 4% on the prior year. In addition, the cyberticket attained a penetration of 86% in sales made by Serviberia over the year as a whole, 16 points more than in 2003.

2.5.4. Cooperation with British Airways

Agreement for joint operation of routes

On December 16, 2004 IBERIA and British Airways entered into an agreement to operate trunk routes between Spain and the United Kingdom jointly as from January 1, 2005. As a result, the two companies will operate routes between London Heathrow, Madrid and Barcelona airports jointly and share profits.

In addition, IBERIA and British Airways have coordinated their flight programming for the 2005 summer season, which will commence at the end of March. Customers will benefit from more convenient timetables with flights distributed throughout the day and from better connections at hubs. The customers of the IBERIA Group will gain facilities for connections with British Airways flights to Asia, while those of British Airways will obtain improved options to use the extensive IBERIA network in Latin America.

This agreement is supported by the favorable ruling issued by the European Commission in December 2003 with regard to the wide-ranging commercial alliance planned by IBERIA and British Airways together with its franchisee GB Airways. The European Commission guaranteed exemption from Article 81(3) of the European Treaty for six years, the usual period established in the 1987 Regulation.

The airlines had forged their alliance in July 2002, subject to approval by the European authorities, with the aim of working together in a more coordinated fashion in their global networks, including the competitive market between Spain and the U.K. The alliance approved by the European Commission provides, among other possibilities, for the coordination and integration of commercial and marketing strategies, distribution practices and procedures, joint planning of flight networks, the utilization of mechanisms for profit sharing and financial cooperation, and a joint approach in cargo operations, including prices, capacity management, sales and handling activities.

Code sharing agreements

Iberia and British Airways commenced their code sharing agreements in June 1999. The first agreements, which remain in force, focused on links from trunk routes (from Madrid and Barcelona to the rest of Spain, and from London to the rest of the United Kingdom). Further shared code flights were subsequently launched on certain trunk routes, including routes to Latin America (Lima and Havana) operated by the Spanish airline, and links with destinations in Asia and Africa (Bangkok, Nairobi, Singapore) operated by the UK carrier.

In February 2004, IBERIA and British Airways entered into an agreement to increase the number of flights offered under the code sharing regime. In accordance with this agreement, the flights operated by British Airways between London Heathrow and the Canadian cities of Toronto, Montreal and Vancouver, as well as Dubai (United Arab Emirates), will be commercialized with the IBERIA code in connection with frequencies from Spain. The IB code will also be included in the flights operated by the UK airline between Manchester and Madrid. Meanwhile, British Airways commercializes the flights operated by the Spanish airline between Barcelona and Munich under its own code.

At the same time, IBERIA will include its code in GB Airways flights between London Gatwick and Murcia, Fuerteventura, Tenerife North and Ibiza. In addition, IBERIA passengers can now fly from Johannesburg to another three cities in South Africa (Cape Town, Durban and Port Elizabeth) and to Harare (Zimbabwe) on flights bearing the Spanish code and operated by Comair, British Airways' South African subsidiary.

At December 31, 2004, code sharing agreements include a total of 40 routes operated by the IBERIA and British Airways fleets. If the routes of their respective franchisees (Air Nostrum and GB Airways) and the subsidiary Comair are included, a total of 69 routes operate under the code sharing regime.

2.5.5. New business development

Iberia Cards

Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (hereinafter "Iberia Cards) is a Financial Credit Establishment incorporated by IBERIA, which owns 40% of its capital stock, and the banking institutions Caja Madrid, BBVA and Banco Popular Group, each with 20%, in April 2002.

Iberia Cards has issued the Visa Iberia card since 2002, as well as a wide range of payment instrument products aimed specifically at frequent flyers. The main attraction of these cards is the Iberia Plus loyalty program. Using the Visa Iberia Card, customers obtain Iberia Plus points, which can be exchanged for plane tickets, hotel rooms, car hire and other products offered by companies associated with the program. In 2004 the Visa Iberia card awarded a total of 127.5 million Iberia Plus points, 72% more than in the prior year. At December 31, 2004, a total of 388,000 were in circulation, an increase of close to 35% compared to the prior year.

Iberia Cards launched the new Visa Iberia Corporate card in 2003, which is intended to meet major clients' needs with regard to the management of travel and representation expenses. With this card, firms can obtained detailed information regarding flights made with any airline, as well as maintaining an overview of card spending to improve control over the expenses incurred. This card also accumulates Iberia Plus points.

As regards the volume of billings, Iberia Cards customers made purchases for over € 1.933 billion in 2004, an increase of 76% in relation to the prior year. In 2004, Iberia cards generated income before taxes totaling € 4.2 million, a very significant increase on the prior year (€ 0.1 million in 2003).

SIV

In February 2004 IBERIA and CAE, a world leader in the manufacture of flight simulators, formally incorporated the company Servicios de Instrucción de Vuelo (SIV), a joint venture in which IBERIA holds just under 20% and CAE, which will take responsibility for management, 80%.

Both companies contributed the assets at their respective flight and training schools facilities to the new company, the IBERIA facility being located at the La Muñoza industrial estate near Barajas airport and the CAE facility at Alcalá de Henares. SIV will consolidate the training operations carried out at these centers, where around 4,000 pilots per year are trained, including those of IBERIA, Air Nostrum and some thirty other Spanish and foreign carriers. IBERIA and CAE expect to generate revenues of approximately € 18 million in the first year of operations of the new company. Revenues will increase in the future based on the outlook for Iberia's growth and the development of new third party training opportunities by CAE.

As a result of its association with CAE, which specializes in vanguard technology in the field of flight simulation and imaging, IBERIA has succeed in outsourcing and strengthening its crew instruction and training activity, while the company's employees will gain access to cutting edge technological solutions, which will provide a major competitive advantage in the new challenges facing the industry.

IBERIA and CAE officially opened the joint flight instruction center at La Muñoza (Madrid). This facility has six flight simulators, two for the Airbus A-320, two for the A-340/300, one Boeing 747-200 and one MD87/88. The Alcalá de Henares center, meanwhile, is equipped with simulators for the Airbus A-320, CRJ200, MD82 and Dash-8.

MASA

Multiservicios Aeroportuarios, S.A. (MASA) was incorporated in April 2002. Its corporate purpose is to perform all kinds of ancillary services in Spanish airports, including internal and external cleaning of aircraft and airport installations in general, the provision of VIP services, VIP lounges and similar services, and maintenance of installations and equipment related with such activities. Most of MASA's volume of business in 2004 was generated from the provision of services of this kind at the airports of Madrid and Barcelona.

MASA was incorporated with share capital totaling € 130,000, in which IBERIA owns a 49% interest. Its partner in the venture is ZENIT Servicios Integrales, S.A., which owns 51%.

The net sales of MASA in 2004 totaled € 45 million, almost € 9 million more than in 2003, representing an increase of approximately 25%. The company's operating margin also increased from € 0.8 million in 2003 to € 2 million in 2004.

Serpista

In March 2004 IBERIA, Cobra and TEMG Mantenimiento, S.A. (TEMG) commenced the process of incorporating a jointly-owned company to carry out the activities of aircraft, passenger and cargo handling equipment maintenance and repair. Cobra, a company engaged in the repair and maintenance of equipment and installations in general, is the majority shareholder of Serpista with 51% of its share capital and manages the venture. IBERIA and TEMG respectively hold 39% and 10% interests. The company's share capital totals € 1,170,000, and it generated a volume of business worth approximately € 10 million in 2004. The activity of this company is focused on Spanish airport environments, although it will remain alert to business opportunities in the international sphere.

2.5.6. IAS/IFRS transition project

The Extraordinary Summit of the Heads of State of the European Union held in Lisbon on March 23 and 24, 2000 agreed a new strategic objective for the EU with the aim of fostering employment, economic reform and social cohesion. The harmonization of financial information to achieve optimum allocation of capital through the adoption of a single regulatory framework governing accounting standards was to form a key pillar of this objective. This objective culminated in the promulgation of Regulations 1606/2002 of the European Parliament and the Council dated July 19, 2002 and 1725/2003 of the Commission dated September 29, 2003, which require all groups of companies traded on European capital markets to present their consolidated financial statements in accordance with the new common regulatory framework from 2005 onwards.

The new regulatory framework is formed initially by International Accounting Standards (IAS) and by the International Financial Reporting Standards (IFRS), the name applied to the new standards issued by the International Accounting Standards Board since November 2003. For the sake of simplicity, this regulatory framework is referred to hereinafter as IFRS.

As a consequence, the IBERIA Group will be required to present its financial statements as at and for the year ending December 31, 2005 in accordance with IFRS. Similarly, it will also present the six-monthly interim financial statements at June 30, 2005 in accordance with the new standard. As IFRS require that the financial statements also include comparative figures for at least one accounting period, it was necessary to set the commencement date for the transition at January 1, 2004 with the result that the financial statements for 2004 have been prepared in accordance with both the Spanish General Chart of Accounts IFRS.

The application of IFRS to the individual accounts will be established in accordance with national regulations. In the case of the IBERIA Group, this means that the individual accounts will be prepared under the Spanish General Chart of Accounts and the consolidated accounts under IFRS from 2005 onwards.

This change will affect the composition of the financial statements and net worth, as well as information systems in general and reporting systems in particular. Because it impacts on numerous areas of the company, the IFRS Transition Project may be considered as of strategic importance.

Phases of the Project

The IBERIA Group commenced this Project in 2002, carrying out the work in three phases comprising analysis of impacts, preparation for the change and conversion.

After gathering all of the relevant financial and legal information, a first presentation was made to the Audit Committee in July 2002, providing a simulation of the main impacts that would have arisen from the application of IAS to the balance sheet and income statements at December 31, 2001.

The main objectives achieved in the first two stages of the project were as follows:

- Identification of the main differences between the Spanish General Chart of Accounts and IFRS.
- Identification of needs in relation to the adaptation of information systems to provide the relevant information for IFRS.
- Preparation of a schedule of actions to ensure a smooth transition.
- Assessment of the impact on net worth that would have been produced by the application of IFRS to the consolidated financial statements at December 31, 2002. The simulation carried out on the 2002 accounts was presented to the Audit Committee in October 2003 and to the Board of Directors in February 2004.

The last phase of the IFRS Transition Project commenced in March 2004 with the creation of the IAS Committee, a team formed by officers from various divisions which reviews progress on a fortnightly basis. In accordance with the planned schedule, all of the changes to information systems identified in the preceding phase have been implemented in the course of the third phase. An initial IFRS balance sheet at January 1, 2004 was

prepared and all of the accounting closes carried out since January 2004 were loaded until the GL module of the IAS accounting data base entered service in November. Financial reports in line with the new regulatory framework were then designed and prepared. Finally, a plan has been implemented to train employees in the new accounting framework. To date over 150 employees have received training.

Decisions taken

A series of important decisions have been taken over the course of the Project with the aim of utilizing as far as possible points in common between IFRS and the Spanish General Chart of Account. The most significant such decisions are as follows:

- Definition of formal issues. The functional currency is the euro. The income statement is presented in accordance with the nature of revenues and expenses, while the balance sheet is classified in accordance with the current or long term maturity of assets and liabilities.
- Provision for major repairs. The criteria applicable under the Spanish General Chart of Accounts was in line with the international standard (capitalization of amounts generated as a result of overhauls) for aircraft owned by the company.
- Allowances. It has been decided to maintain the existing risk hedging policy under the Spanish General Chart of Accounts. Work continues to reduce the impacts inherent in the application of the IFRS as far as possible.
- Advances on aircraft. These amounts were reclassified from tangible assets to long term financial investments at December 31, 2003 to avoid any discrepancy with IFRS.
- Consolidated group. The companies forming the consolidated group have been revised and expanded under the Spanish General Chart of Accounts in order to minimize differences with international standards. Accordingly, Binter Finance BW, Air Miles España SA and Noamar Air Handling NV have been included in the Group.
- Cash flow. The company has opted to prepare the cash flow statement using the indirect method. This was included in the six-monthly information reported in 2004.
- Segments. Four business segments have been defined (Airline, Maintenance, Airports and Other Activities) and three geographical segments (Spain, Short and Medium Haul International and America and Long Haul).
- Exchange differences capitalized in aircraft. Following consultation with ICAC (the Spanish Institute of Chartered Accountancy) with the aim of seeking a change in the Ministerial Order which requires that these amounts be capitalized under the Spanish General Chart of Accounts, though they are prohibited under IAS.

2.6. Corporate responsibility

2.6.1. Community work

IBERIA's social action strategy is based on support for organizations carrying out social assistance projects through the provision of its usual services. The main programs are related with job access for disabled people, voluntary work by employees, transportation of passengers requiring some form of assistance and the allocation of space in cargo holds for the transportation of humanitarian aid.

The company's social actions are based on four main pillars:

Employees	Mano a Mano, APMIB, Special Olympics
Institutions	Sponsorship agreements: Spanish Agency for International Cooperation, National Transplants Organization, Ministry of Social Affairs and Fundación Ilusiones, among others.
Customers	Spanish Red Cross, Special Olympics
Suppliers	Christmas campaign

The many projects carried out in 2004 include most notably the following:

- *Mano a Mano (Hand in Hand)*, an NGO created by Iberia employees in 1994, carries out development aid work in, among other countries, Ecuador, Peru, Equatorial Guinea, Honduras and El Salvador.

- During its eleven years of existence, thanks to the company's support, *Mano a Mano* has distributed more than 1,200 tonnes of humanitarian aid in the form of food, clothing, footwear, medicines and health supplies, learning materials and toys. In 2004 alone, IBERIA carried almost 200 tonnes of aid. Of this total, 170,000 kg were related with projects already under way worldwide, 15,000 kg comprised emergency aid to mitigate the impact of Hurricane Jeanne in the Dominican Republic, and 5,000 kg were personally transported by crew members in their luggage. Over € 117,000 were collected in 2004. The amount was invested in financial support for a part of the projects in progress worldwide.
- *Asociación de Empleados Padres de Minusválidos* (APMIB) (*Iberia Parents of Handicapped Children Employees' Association*), which was created by the Company's employees in 1977, now has seven Special Care Centers catering for more than 2,200 handicapped persons.
- IBERIA is one of the main clients of the Special Employment Center, where over 450 handicapped people work manufacturing slippers and packaging for cutlery and condiments, as well as providing gardening, printing and laundry services for the company. IBERIA's contributions to this association amounted to over € 3.8 million in 2004, including direct corporate contributions (including billings to IBERIA for contracts) and donations from members of the company's staff.
- As in prior years, IBERIA carried out its Christmas Campaign in December 2004, the main aim of which is to raise funds to provide financial assistance to the projects carried out by *APMIB* and *Mano a Mano* throughout the year. On this occasion, the company organized a Charity Auction, a Raffle and a Solidarity Market which succeeded in raising € 80,000 thanks to the support of over 90 suppliers of the company and the magnificent participation of the employees of the IBERIA Group. This sum was donated equally to the two aforementioned organizations.
- *Fundación Tutelar APMIB (APMIB Guardian Foundation)* is continuing with its work on the Imhotep project with the creation of an integral socio-employment care center for the handicapped. Its mission is to provide residential care and training to the handicapped and to promote research into disabilities.
  During 2004 the Foundation carried out a range of different activities, including the award of Residential Grants and Financial Aid to various organizations; training activities for the parents of handicapped children and professionals in the sector (Seminars on Legal Protection for the Disabled); award of research grants of € 6,010 per year; and refurbishing of fourteen apartments donated by IBERIA to the Foundation in 2002, which now provide residential space for 48 people. IBERIA contributed a total of € 36,000 to this latter project in 2004.
- The Company endeavors to involve its customers in the various social welfare projects. The main activities in this area during 2004 included offering customers the option of ceding Iberia Plus points to the company to collaborate in the Red Cross Family Reunion project, and the campaign to collect coins from passengers on international flights to support the Special Olympics. This generated a total of € 19,546 over the course of 2004.
- Each year IBERIA enters into agreements with the Spanish Ministry of Employment and Social Affairs and the Spanish International Aid Agency whereby it offers special prices on its flights to NGOs, foundations and associations working in the aid sector in Spain and abroad. The investment made by IBERIA in 2004 in respect of collaboration with social institutions totaled € 767,260.
- In addition to sponsorship agreements, over € 7.1 million were invested in support of artistic and cultural activities, socio-economic development, education, sport, health and tourism.
  IBERIA provides information on its social action projects through three channels. These are the **Corporate Responsibility Report** published annually, which provides detailed information on the projects enumerated above; the magazines Ronda Iberia, Iberiavión and Iberia Plus, and the in-flight video; and on the Internet through the company's website www.iberia.com, and the corporate Intranet, which is open to all employees.

2.6.2. Environment

During 2004 IBERIA has maintained its commitment to environmental protection in the conduct of its activities within the framework established in the Corporate Responsibility Policy. Accordingly, it has promoted projects and programs designed to ensure adequate control of all environmental matters related with the provision of the air transport service.

In 2004, IBERIA was admitted to the Dow Jones Stoxx sustainability index, which comprises 167 European companies applying best practice in the financial, social and environmental fields. IBERIA's admission to this index comes in recognition of the effort made by the company to ensure integrated management in these three areas, which are key to the successful operations of any firm.

All issues related with environmental management and sustainability are described in the Annual Corporate Responsibility Report. This Report is prepared in accordance with GRI (Global Reporting Initiative) criteria. This is an internationally recognized standard, which has been validated by an external certification earnings (AENOR) in accordance with GRI criteria since 2003.

The environmental expense incurred by the company in 2004 totaled almost € 2.8 million. A detail is as follows:

	Thousands of Euros
Environmental Expenses	**2004**
Environmental repairs, maintenance and transport	1,041
Environmental technical services	550
Sponsorship, publications and other environmental expenses	124
Personnel expenses relating to environmental management	869
Environmental taxes and levies	189
Total	**2,773**

As regards flight operations, the fleet renewal plan is the company's principal means of minimizing acoustic and atmospheric environmental impacts. The new models incorporate the latest technologies available in terms of fuel efficiency, reducing consumption by around 20% compared to the older generations of aircraft. The savings have a direct effect on the volume of carbon dioxide, the main greenhouse gas, released into the atmosphere because such emissions are proportional to fuel consumption.

Three Airbus A-340/600 aircraft were added to the long haul fleet in 2004, and steps were taken to speed up the retirement of the Boeing B-747s, which will be phased out of service in 2005. In the medium haul fleet the process of replacing the Boeing B-757 fleet with new Airbus aircraft continued apace. As well as providing other operational benefits, the renewal of the fleet has contributed to a reduction of 4.3% in specific consumption in 2004.

In the matter of noise pollution, over 90% of the current fleet is in compliance with the most exacting standard, Chapter 4, which is applicable exclusively to new aircraft certified from 2006 onwards and represents a reduction of 10 decibels in the perceived noise compared to the previous standard.

One of the key events in ground operations was the ISO 14001:1996 certification obtained for the Environmental Management System in the aircraft maintenance activity carried out at the La Muñoza facility (Madrid-Barajas). This new certification covers the activity of IBERIA which generates the main ground-based environmental impacts and ensures control and continuous improvement of all areas affected. The environmental management systems certified, including the Integrated Quality and Environmental System for passenger and ramp handling certified in 2003, affect 67% of ground employees. On-site control of the environmental management systems implemented involved over 150 auditor-days in 2004. The environmental training programs carried out in 2004 mainly affected the maintenance activity certified, with over 3,100 course hours given.

The company considers that any possible environmental contingencies that might arise are sufficiently covered by its third party civil insurance policies and by the provisions relating to probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount.

3. RESOURCES

3.1. Fleet

Details of the passenger aircraft operated by IBERIA as of December 31, 2004, is as follows:

Aircraft type	Owned	Lease financial	Lease operating	Wet lease	Total operated
A-340/300			18		18
A-340/600	1		5		6
B-747 (a)	1		2	2	5
Long haul	**2**		**25**	**2**	**29**
A-319			6		6
A-320 (b)	13	10	35		58
A-321 (b)		2	8		10
B-757	1		12		13
MD-87	19		5		24
MD-88	13		1		14
Short/medium haul	**46**	**12**	**67**		**125**
TOTAL (a)	**48**	**12**	**92**	**2**	**154**

(a) Not including inactive aircraft.
(b) Two aircraft operated under interim charters at December 31 have been classified in accordance with their definitive status, one A-320 to be owned and one A-321 under an operating lease.

At December 31, 2003, the Company had 149 available passenger aircraft. The following list shows the additions and retirements in 2004, explaining the net increase of five aircraft in service:

Additions
- Four A-320: two owned, one operating lease and one interim charter.
- Three A-321: two operating lease and one interim charter.
- Three A-340/600: one owned and two operating lease.
- Two A-319 under operating lease
- Two B-747 under wet lease.

Retirements
- Two A-320 under operating lease
- Four B-757 aircraft under operating lease
- Three B-747 owned (inactive at December 31)

The Group has continued with the implementation of its fleet renewal and expansion plan, the objective of which is to acquire modern aircraft providing better performance and lower fuel consumption, as well as to improve the uniformity of aircraft types in order to optimize the utilization of assets.

As regards the long haul fleet, IBERIA has continued to replace Boeing B-747s with new Airbus A-340/600 aircraft in accordance with the resolution adopted by the company's Board of Directors in January 2003. The A-340/600 aircraft consume less fuel, are more efficient, have larger holds and are quieter and more comfortable than the B-747 aircraft. In 2004, IBERIA added three new A-340/600 aircraft to the long haul fleet, one in October and two in November. Following these additions, the company now has six aircraft of this model.

The three new A-340 aircraft acquired in 2004 are equipped with the full configuration for the new Business Plus class in the intercontinental fleet, including exclusive ergonomic seats and advanced communication and entertainment systems for passengers. The aircraft are fitted with a new satellite communication system providing worldwide cover, allowing crew members to access full data and voice services from the cockpit, which is equipped with electronic flight controls and flight instruments using cathode ray screens.

The replacement of the Boeing 747 aircraft owned by IBERIA will be completed in the course of 2005. Thereafter, the IBERIA Group will use a single model, the Airbus A-340 versions 600 and 300 on long haul flights, which are currently configured with 342 and 249 seats respectively.

Two B-747 aircraft owned by Air Atlanta have operated for IBERIA under a wet lease (i.e. aircraft and crew) since July 2004. Contracting aircraft under wet leases provides the company with greater flexibility to adjust capacity to the evolution of the market.

IBERIA added three new A-321s in January, May and December 2004; four A-320s in March (two), June and July; and two A-319s in August and December. Following these nine additions, and taking into consideration that the company returned two A-320 aircraft upon the termination of lease contracts, the fleet operated on the short and medium haul routes of the IBERIA Group included a total of 74 Airbuses at the year end. These models, which share the same type certification, operate the medium haul international and domestic routes best suited to their seating configuration.

During the second half of 2004, the company retired four Boeing B-757 aircraft operated under operating leases. These aircraft were returned in accordance with the fleet renewal plan, which envisages the retirement of this model.

IBERIA has undertaken densification work in the short and medium haul fleet in 2004 with the aim of optimizing the utilization of assets in accordance with the 2003/05 Master Plan. At December 31, 2004, the number of seats had been increased in a total of 50 aircraft, distributed among the A-319 (126 to 132 seats), A-320 (150 to 162), A-321 (186 to 194) and MD-87 (109 to 116) fleets. Densification work on Airbus aircraft will be completed in the course of 2005.

The average usage of the passenger fleet as a whole measured in block hours per aircraft day was 9.12 hours, 3.9% up on usage in 2003.

BH/Aircraft/Day	2004	2003
Average short and medium haul aircraft utilization (a)	8.10	7.90
Average long haul aircraft utilization	13.79	12.85
Average utilization of own fleet (a)	**9.10**	**8.78**
Average utilization of wet lease fleet (b)	11.71	-
Total average aircraft utilization (a)	**9.12**	**8.78**

(a) Including 900 hours operation by the IBERIA A-320 fleet under wet lease for British Airways.
(b) In 2004 two Air Atlanta aircraft operated under a wet lease regime for IBERIA.

3.2. Personnel

3.2.1. Headcount

A detail of IBERIA's average headcount in 2004 and 2003 is as follows:

	Ground		Flight		Total	
	2004	2003	2004	2003	2004	2003
Transport	4,846	5,114	6,421	6,378	11,267	11,492
Airports	8,980	8,523			8,980	8,523
Maintenance	3,912	3,898			3,912	3,898
Systems	518	528			518	528
Total IBERIA	**18,256**	**18,063**	**6,421**	**6,378**	**24,677**	**24,441**
Variation 2004 / 2003 (%)	1.1		0.7		1.0	

In 2004 the Company's average headcount increased by 1.0% to 24,677 equivalent full-time employees. As regards flight personnel, the number of cabin crew members rose by 1.3%, while technical crew members decreased overall by 0.8% due to the reduction in the number of flight technicians resulting from the progressive retirement of the Boeing B-747 fleet. Ground staff increased by 1.1%, mainly as a result of the 5.4% rise in the number of IBERIA Handling employees to cover growth in third party handling. These employees were hired mainly under appropriate contracts to fit production rates. Disregarding the handling employees, the number of ground employees of the Company was 2.8% lower in 2004 than in 2003.

In the course of 2004 a total of 831 employees accepted the conditions set out in the Labor Force Reduction Plan. The majority of these redundancies took the form of early retirement, accepted by 599 employees. The aforementioned figure also includes 72 cases of contract novation (this involves a 50% reduction in working hours), and the Plan therefore resulted in a reduction of 759 equivalent full-time employees. Also, 27 employees abroad left the Company.

On December 16, 2004 the Directorate General of Employment authorized an extension of the IBERIA Labor Force Reduction Plan until December 31, 2007 for ground personnel, cabin crew, and flight engineers, whose representatives and Management had already reached agreement. The terms and conditions of the Plan will remain unchanged, and the consent of both the company and the employee will be required for acceptance. The Plan will be immediately applied to flight engineers as a result of the progressive retirement of the B-747 fleet.

3.2.2. Productivity

The productivity of IBERIA's total staff improved by 7.7% in relation to the prior year, reaching 2.47 million ASK per employee in 2004. The increase was similar in the case of ground staff (7.6%), although productivity gains rose as high as 11.8% if handling employees are excluded, an area where growth was linked mainly to the increase in activity for third parties which does not contribute to ASK. In terms of block hours per crew member, productivity increased by 5.4% in the case of pilots and 5.8% for cabin crew members.

The variations in 2004 in the productivity of the various groups of employees were as follows.

Productivity of IBERIA staff	2004	2003	% Var.
Total labor force (thousands of ASK per employee)	2,474	2,297	7.7
Ground personnel (thousands of ASK per employee)	3,345	3,108	7.6
Ground staff excluding Handling employees (thousands of ASK per employee)	6,582	5,885	11.8
Technical crew (BH per crew member)	263.7	250.1	5.4
Cabin crew (BH per crew member)	116.5	110.1	5.8

The agreements reached at the end of 2003 between Management and the representatives of aircraft maintenance employees came into force in 2004, resulting in productivity gains and greater flexibility of human resources in the area of maintenance.

The terms of the collective labor agreements and the resolutions of the conciliation committee issued within the framework of the 2001 arbitration ruling for technical crews ended on December 31, 2004. Accordingly, Management and the representatives of ground staff, technical crews and cabin crews have commenced negotiations in recent months. Management's priority in this negotiation process is to achieve a significant increase in productivity and establish measures to favor flexibility and efficiency covering all employees.

4. FINANCIAL PERFORMANCE

4.1. Operating income

The detail of IBERIA's 2004 and 2003 operating income statements for management accounting purposes, which differ from the statements of income in the annual report because the revenue and expense items are aggregated using management accounting criteria, is as follows:

Millions of Euros

IBERIA	2004	2003	Var. 04/03	% Var.
Operating Revenues				
Passenger revenues	3,711.7	3,587.5	124.2	3.5
Cargo	243.8	232.0	11.8	5.1
Handling	302.4	271.1	31.3	11.5
Maintenance revenues	112.4	104.0	8.4	8.1
Commercial expenses	111.4	121.0	(9.6)	(7.9)
Other operating revenues (a)	257.9	235.2	22.7	9.7
Operating Revenues	**4,739.6**	**4,550.8**	**188.8**	**4.1**
Operating Expenses				
Personnel expenses	1,411.8	1.355.7	56.1	4.1
Fuel	653.5	556.8	96.7	17.4
Traffic service costs	417.2	386.0	31.2	8.1
Aircraft lease expenses (b)	384.4	369.2	15.2	4.1
Commercial expenses	342.4	437.8	(95.4)	(21.8)
Aircraft maintenance	272.1	235.5	36.6	15.5
Navigation charges	270.5	257.6	12.9	5.0
Depreciation and amortization	183.2	173.4	9.8	5.7
Booking systems	130.4	128.2	2.2	1.7
In-flight services	86.9	115.8	(28.9)	(25.0)
Insurance	36.5	50.8	(14.3)	(28.1)
Other operating expenses (b)	364.1	344.8	19.3	5.6
Operating Expenses	**4,553.0**	**4,411.6**	**141.4**	**3.2**
Operating Income	**186.6**	**139.2**	**47.4**	**34.1**

(a) Catering sales are included in other operating revenues.

(b) In 2004 cargo hold leases have been included under the caption "Other operating expenses". In order to harmonize criteria, the expense incurred in this respect in 2003 (€ 4.5 million), which was formerly recorded in "Aircraft lease expenses" has been transferred to the aforementioned caption.

IBERIA generated total operating income of € 186.6 million in 2004, an increase of € 47.4 million (34.1%) compared to 2003. Operating income represents a margin of 3.9% on operating revenues, up 0.8 points on 2003.

The unit operating cost was €c. 7.46 per ASK in 2004, 5.1% lower than in 2003. This reduction was less than the decline in unit operating income, which fell by 4.3% in relation to 2003 to €c. 7.76 per ASK.

4.1.1. Operating revenues

IBERIA generated total operating revenues of € 4,739.6 million in 2004, an increase of 4.1% in relation to 2003. Passenger revenues, which represented 78.3% of the company's total operating revenues, grew by 3.5% compared to 2003. The aggregate balance of other revenues was € 1,028.0 million, an increase of € 64.7 million, up 6.7% in relation to 2003.

Passenger revenues

Passenger revenues amounted to € 3,711.7 million in 2004. The difference between this figure and that shown in the "Main Aggregates" and "Traffic Revenues" (section 2.1.2.) tables is due to the fact that the latter relates directly to the actual production for each year and does not reflect accounting adjustments and revaluations or the revenues derived from the unused ticket recovery process, which are included in the operating income statement.

Passenger revenues were € 124.2 million higher than in 2003. A detail of this increase broken down by sector is as follows:

Millions of Euros

	Var. pass. revenue 04/03	Reasons for variation			Other	Var. acc. revenue 04/03
		Price	Volume	Exchange rate		
Domestic	(13.1)	(32.5)	21.9	(2.5)		
Medium haul	9.6	(90.1)	104.4	(4.7)		
Long haul	78.8	(10.1)	123.1	(34.2)		
IBERIA	**75.3**	**(132.7)**	**249.4**	**(41.4)**	**48.9**	**124.2**

Passenger revenues in respect of tickets used in 2004 increased by € 75.3 million in relation to the prior year. Growth in the volume of traffic (9.1%) generated an increase of € 249.4, which was partially offset by the 6.3% fall in the yield resulting in a negative impact of € 174.1 million. This decline in the yield was mainly due to strong competitive pressures in the domestic and medium haul markets, as well as the 4.7% increase in the average haul resulting from faster growth in the service offered on international routes. Variations in exchange rates also had a negative impact, reducing passenger revenues by € 41.4 million, basically due to the depreciation of the US dollar against the euro.

The depreciation of the dollar had the greatest impact in the long haul sector. Nevertheless, revenues increased by € 78.8 million in this network, 7.7% higher than in 2003 due to general growth in demand, which responded favorably to the increase in capacity achieved by the company.

In the medium haul sector, the increase in passenger revenues arising from growth in traffic was partially offset by the decline in the yield. The strong competitive pressure exercised by European network airlines and the fast growth of low cost carriers in the Spain-Europe market continued to affect prices.

Competition also intensified in the domestic market, where IBERIA implemented a policy of prioritizing improvements in the yield. This involved applying a more selective revenue management, despite the effect on the load factor, and increasing the service in mainland Spain. The difference between the domestic sector yield in 2004 and that of the prior year was gradually reduced in the course of the year, and an increase of 3.6% was finally recorded in the last quarter.

The aggregate of other passenger revenues (not related with the activity) totaled € 279.6 million in 2004, an increase of € 48.9 million compared to 2003. This was mainly due to the rise in revenues from the recovery of unused tickets and fees earned on direct sales and other services related with tickets issued in Spain.

Cargo

Cargo revenues amounted to € 243.8 million in 2004. The difference between this figure and that shown in the table in section 2.1.3. is due to the fact that the latter figure includes both cargo and mail transportation revenues, but excludes revenues from excess baggage and other minor items.

Cargo revenues rose by € 11.8 million (5.1%) in relation to 2003, as a result of the 19.0% increase in the number of revenue cargo kilometers. Unit cargo revenues were also negatively affected by the depreciation of the dollar, the increase in the average cargo haul and competitive pressures.

	Millions of Euros
Variation in cargo revenues 04/03	
Var. act. revenue 04/03	11.6
Reasons for variation:	
Price	(23.8)
Volume	42.4
Exchange rate	(7.0)
Other	0.2
Var. acc. revenue 04/03	11.8

Handling

Airport handling revenues were € 31.3 million higher than in 2003, an increase of 11.5% due to growth in activities carried out for third party airlines (7.9% in terms of weighted planes handled), the provision of new supplementary services and the rise in the unit price.

Maintenance revenues

Revenues from maintenance services provided to third parties were € 8.4 million higher than in 2003, an increase of 8.1%. Growth in engine overhauls for third parties was particularly notable in this area.

Commercial expenses

Commissions decreased by € 9.6 million compared to 2003, mainly as a consequence of the new system for remunerating travel agencies in Spain and the cut in the inter-airline commission paid by members of the **one**world alliance.

Other operating revenues

Aggregate "Other Operating Revenues" totaled € 257.9 million in 2004, an increase of € 22.7 million up 7.5% on 2002. The main items included under this heading comprise revenues from cargo services which totaled € 59.1 million in 2004 representing significant growth compared to the prior year, mainly due to the rise in security and fuel charges; revenues from the use of the various booking systems, which were over € 38.5 million in 2004; other traffic revenues generated mainly in respect of commercial agreements entered into with other airlines, most of which were members of the **one**world alliance, for a total of € 36.4 million in 2004; own work on fixed assets, which generated € 13.3 million in 2004; and revenues in respect of catering sales, which totaled € 9.9 million in 2004.

"Other operating revenues" include "Adjustment of traffic revenues not allocable to passenger routes" and "Other traffic revenues", which are included under "Passenger revenues" in the notes to financial statements. Aggregate other operating revenues totaled € 46.1 million in 2004 and € 28.1 million in 2003. Also, the "Other Operating Revenues" caption includes the balance of the "Adjustment of Traffic Revenues Not Allocable to Cargo Routes" account, which in the notes to financial statements are included under "Cargo Revenues" and which totaled -€ 3.5 million in 2004 and € 0.3 million in 2003.

4.1.2. Operating expenses

Operating expenses totaled € 4,553 million in 2004, an increase of 3.2% million compared to 2003. The factors giving rise to the biggest changes in these expenses during the year were increases in certain airport taxes and, above all, the sharp rise in fuel prices; growth in the air transport activity (8.8% measured in ASK); and growth in third party aircraft maintenance and handling activities, which made it necessary to increase staff at airports. The impact of these factors was partially offset by various other factors, including the implementation of the measures established in the Master Plan, especially those designed to raise the productivity of employees, the modification of tourist class in-flight services on short and medium haul flights, the fall in air transport insurance premiums and, above all, the cut in commissions payable to travel agents. The fall in interest rates and depreciation of the dollar also had a positive effect.

Personnel expenses

Personnel expenses increased by 4.1% in relation to 2003 to reach € 1,411.8 million. Of this amount, € 1,068.7 million represent wages, salaries and similar expenses, and the remaining € 343.1 million represent Social Security charges, contributions to employee funds and other social charges.

The main reasons for the increase in the expense were the increase in salaries in line with the rise in the CPI for 2004, "Profit-Sharing Due to the Improvement in Earnings in 2004", consolidation in 2004 of the payment due to the improvement in earnings in 2003, the effect of promotions and the increase in the total headcount. The increase produced by these items was, however, partially offset by other factors, including the improvement in the "salary mix" obtained from the application of the Labor Force Reduction Plan.

Fuel

The fuel expense rose by € 96.7 million, up 17.4% in relation to 2003. A detail of this increase is as follows:

	Millions of Euros
Reasons for Variation:	
Price	149.4
Volume	50.8
Exchange rate	(83.0)
Efficiency	(20.5)
Variation in fuel expense 2004/03	96.7

The prices of crude oil and refined products, such as aviation kerosene, rose sharply in 2004, reaching a record high in October. In the case of IBERIA, the average annual price of kerosene in US dollars before hedging rose by over 30% in relation to 2003.

IBERIA applies active risk management policies in the form of fuel price hedges to control the cost of aviation fuel. The hedges made by the company enabled it to reduce the impact of rising oil prices in international markets by € 80.7 million.

The depreciation of the US dollar and lower unit fuel consumption also helped offset a part of the increase in the expense caused by the higher oil price and growth in the air transport activity.

As a result, the unit cost of fuel was €c. 1.07 per ASK, 7.9% higher than in 2003.

Traffic service costs

Traffic service costs amounted to € 417.2 million in 2004, € 31.2 million more than the expense in 2003 representing an increase of 8.1%. The cost of the items included under this caption relates to the variation in air transport activity, which increased by 8.8% in terms of ASK and by 4.0% in terms of the number of take-offs. The cost incurred in respect of landing charges increased by 6.0% with respect to 2003 to reach a total of € 124.5 million in 2004. Meanwhile, aircraft dispatching costs amounted to € 100.3 million, an increase of 17.2% which was mainly due to the sharp rises in AENA's H1 and H2 tariffs resulting from the criteria followed for the application of the charge in accordance with the regulation under which it was created. The cost of other airport services (walkways, parking, etc.) was € 52.8 million in 2004, while the expense incurred in aircraft cleaning and catering equipment was € 61.4 million.

The unit cost of traffic service was €c. 0.68 per ASK, a slight decrease (0.6%) compared to 2003.

Aircraft lease expenses

Aircraft lease expenses amounted to € 384.4 million in 2004, up € 15.2 million (4.1%) from 2003. This amount relates mainly to passenger aircraft leases, which totaled € 369.1 million in 2004, 4.5% up on 2003, due to the addition of new aircraft and the wet lease contract. The cost of cargo aircraft leases was € 15.3 million in 2004, a decrease of € 0.7 million with regard to 2003.

Commercial expenses

Commercial expenses amounted to € 342.4 million in 2004, down 21.8% from 2003.

Of total commercial expenses in 2004, 89% related to commissions, sales bonuses and other development and promotion expenses. The aggregate cost of these items declined by € 89 million compared to 2003, a reduction of 22.6%. This reduction was partly due to the implementation of the new remuneration system for travel agents in Spain; the gradual extension of the policy of reducing commissions to other countries, which has generally cut basic commissions and optimized the bonus system; the inter-airline agreement between the oneworld partners; and the growth of new direct sales systems such as Iberia.com and Serviberia.

Advertising and promotion expenses amounted to € 37.8 million in 2004, down 6.4 million compared to the expense incurred in the prior year.

Net commercial costs (commercial expenses net of commercial revenues) fell by 27.1% in relation to the prior year. Net commercial costs as a percentage of traffic revenues again improved in 2004 to 5.8% following a decrease of 2.5 percentage points from 2003.

Aircraft maintenance

Aircraft maintenance expenses, which include the cost of aircraft spare parts used, maintenance outsourcing costs and the provision recorded for major repairs, amounted to € 272.1 million in 2004, an increase of € 36.6 with respect to 2003. A part of this increase (€ 10.9 million) is due to the inclusion under this heading of Boeing B-747/300 maintenance reserves payable to the lessor, which were included in aircraft leases in 2003. The cost of work related with the return of aircraft within the framework of the fleet renewal plan and the increase in third party activities also affected the rise in aircraft maintenance expenses.

The unit cost of the aforementioned aircraft maintenance work increased by 6.3% from the previous year to €c. 0.45 per ASK.

Navigation charges

Air traffic control expenses, such as in-flight navigation assistance and airport approach expenses, rose by a total of € 12.9 million with regard to 2003, representing an increase of 5.0%, mainly due to growth in the company's production.

Navigation charges rose by € 8.8 million, up 4.3% on 2003. Approach charges rose by € 4.1 million, an increase of 8.1% compared with 2003. These charges increased by 3% at Spanish airports in 2004.

Depreciation and amortization

The depreciation and amortization expense for 2004 amounted to € 183.2 million, up € 9.8 million on 2003. The highest increases related to aircraft, engines and computer hardware and software.

Booking systems

Despite a 3.4% increase in bookings, the expense in this regard increased by only 1.7% compared to 2003 thanks to the control measures implemented. As consequence, the total expense amounted to € 130.4 million in 2004, representing a decrease of 1.6% in the average cost per booking in relation to the prior year.

In-flight services

The in-flight service expense, which includes the cost of catering materials, decreased by € 28.9 million with respect to 2003, a fall of 25%. The reduction in the average cost per passenger was even greater (28%) and was achieved mainly through the implementation of the new à la carte service on domestic and medium haul international flights (except those with a flight time of over three hours). The application of the global catering contract made with Gate Gourmet and the renegotiation of other supply contracts also contributed to the reduction of the expense. These savings were achieved in 2004 on top of those already made in 2003, mainly as a result of the simplification of tourist class service on short and medium haul flights.

Insurance and other operating expenses

Following the terrorist attacks of September 11, 2001, aircraft and passenger insurance costs soared, but the aviation market has revised its charges downward in the last two years, helped by a moderate level of claims. In this context, IBERIA successfully renegotiated premiums to reduce the cost of insurance by 28.1% compared to 2003 by renegotiating premiums.

On aggregate, other operating expenses increased by € 19.3 million in relation to 2003 representing an increase of 5.6%. This caption includes numerous different items such as rents, utilities, repair and maintenance services, communications, security and surveillance services, computer software, severance costs, travel expenses and ancillary services.

4.2. Financial and extraordinary results

IBERIA reported income before taxes of € 242.4 million in 2004, representing an increase decrease of € 93.6 million from 2003. Both financial and extraordinary results improved with respect to the preceding year, as follows:

Millions of Euros

IBERIA	2004	2003	Variation 04/03	% Variation
Operating income	**186.6**	**139.2**	**47.4**	**34.1**
Financial revenues	52.3	64.0	(11.7)	(18.3)
financial expense	36.7	50.2	(13.5)	(26.9)
Exchange gains (losses)	15.5	(6.7)	22.2	n.s.
Financial income (loss)	**31.1**	**7.1**	**24.0**	**n.s.**
Extraordinary revenues	203.7	85.2	118.5	139.1
Extraordinary expenses	179.0	82.7	96.3	116.4
Extraordinary income	**24.7**	**2.5**	**22.2**	**n.s.**
Net income before taxes	**242.4**	**148.8**	**93.6**	**62.9**
Taxes	(57.3)	(43.0)	(14.3)	33.3
Income after taxes	**185.1**	**105.8**	**79.3**	**75.0**

n.s. Not significant. The measure is applied only when the variation exceeds +/-300%.

Net financial income for 2004 totaled € 31.1 million, € 24.0 million more than in 2003. Financial revenues as a whole decreased by 18.3% compared to the prior year, but expenses fell faster (almost 27%) partly due to the fall in interest rates. In both cases, the non recurring items recorded in 2003 had a significant effect. These comprised a gross capital gain of € 11.5 million in respect of the sale of IBERIA's investment in Tiempo Libre and the Mundicolor brands, and provisions of € 16.2 million set aside in respect of the investments held by IBERIA in other companies (Opodo and Cordiem).

Net extraordinary income totaled € 24.7 million in 2004, € 22.2 million higher than in 2003. Extraordinary revenues amounted to € 203.7 million, and included the following main items. Over € 34 million were generated on the sale of various buildings and premises. The sale of the investments in Iber-Swiss Catering and Viva Tours, together with the Viva Tours brand, generated income of over € 34.9 million. Around € 22.6 million were obtained from the sale of flight simulators (including spare parts) to "Servicios de Instrucción Vuelo". Deferred income amounting to almost € 25 million was recovered and, finally, € 40 million were obtained from the recovery of unused tickets. The extraordinary expenses included a provision of € 106 million aimed mainly at topping up the funds available for the labor force reduction plan and for the extension and renewal of the plan in 2004, together with other expenses and write-downs relating to the fleet renewal plan (mainly in connection with the return of B-757 aircraft).

IBERIA generated net income after taxes of € 185.1 in 2004, € 79.3 million more than in 2003, representing an increase of 75%.

4.3. Investments

In 2004 the net investments of IBERIA (net of disinvestments) in property and tangible and intangible assets had a positive balance of approximately € 283 million.

The main investments made during the year included the addition to IBERIA's own fleet of three Airbus aircraft (two A-320s and one A-340/600) with their respective engines, representing total expenditure of almost € 172 million; purchases of rotatable and repairable parts for over € 101 million; various modifications made to MD-87/88, B-747, B-757, A-320, A-321 and A-340 aircraft, for a total investment of over € 27 million; and the purchase of computer hardware and the development of software for approximately € 27 million.

Disinvestments include the sale of various properties, including the buildings in the Paseo de Gracia in Barcelona, Paseo de Pereda in Santander, in Tarragona and in Quito, as well as basements and garages pertaining the properties in Calle Núñez de Balboa and Calle Maudes in Madrid. The simulators contributed by IBERIA to Servicios de Instrucción de Vuelo (SIV) were also disposed of in 2004.

Net investment in long term financial assets had a negative balance of € 69.5 million in 2004. Among the main investments made are the interests acquired in the handling company Serpista and in Servicios de Instrucción de Vuelo. Disposals include the sale of the interest held by IBERIA in the share capital of Viva Tours (49%) and its brand Iberojet, as well as the sale of the interest in Iber-Swiss (70%) to the catering services firm Gate Gourmet International. Also, the company has disposed of long term deposits made in respect of advances for aircraft due to the addition of A-320, A-321 and A-319 aircraft to the operational fleet.

4.4. Balance sheet

The shareholders' equity of IBERIA totaled € 1,414.9 million at December 31, 2004, € 179.8 million more than at December 31, 2003. This was the result of increases in all reserves, the increase in income for the year compared to 2003 and, to a lesser extent, the increase in the capital stock of IBERIA due to successive share issues related with the employee stock options plan. In 2004 the company paid its shareholders a dividend of € 0.03 per share out of income for 2003. The total disbursed in respect of dividends was € 27.8 million.

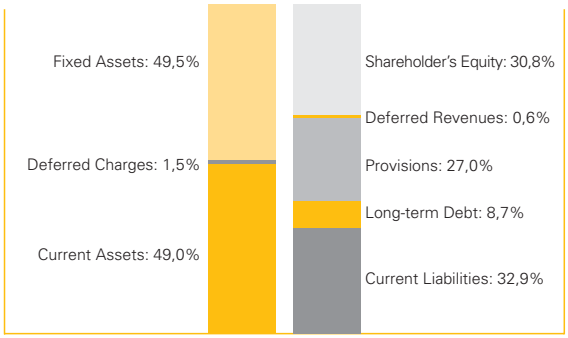
The balance of the provisions for contingencies and expenses amounted to € 1,240.7 million at December 31, 2004. This figure includes € 76.2 million of provisions for major aircraft repairs € 546.8 million of provisions for obligations to employees, and € 617.7 million of provisions for third-party liability. The last item includes an amount of € 393.9 million set aside for the IBERIA Labor Force Reduction Plan. In 2004 the company provided € 106 million for the extension of the plan, while € 57 million were applied to the plan.

The balance of long term debt decreased by € 52.2 million in 2004, due to the reduction in payables to credit institutions. The balance of interest-bearing debt also declined by € 13.9 million compared to December 31, 2003 due to the maturity of a part of the bonds issued by the company. Total interest-bearing debt (short and long term, including interest on financial leases) amounted to € 448.6 million at December 31, 2004, a reduction of 12.9% compared to the prior year.

Current assets increased by € 205.3 million compared to the balance at December 31, 2003, mainly due to the € 162.7 million increase in cash and cash equivalents (i.e. short term financial investments and cash), the balance of which amounts to € 1,524.7 million at December 31, 2004.

The net debt of IBERIA decreased significantly from -€ 925.6 million at December 31, 2003 to -€ 1,138.1 million as of December 31, 2004. In both years short-term financial receivables exceeded accounts payable to credit institutions (excluding interest on financial lease transactions).

Balance Sheet Structure (%) December 31, 2004



TOTAL IBERIA, L.A.E. € 4,587 millions

4.5. Non operating risk management

IBERIA has in place a global non operating risk management program aimed at controlling and reducing the possible impact of exchange rate, interest rate and fuel price fluctuations on the Company's earnings.

For this purpose, IBERIA uses a VAR (Value at Risk) model in order to assess probabilistically the possible impact of these market variables on its earnings, and it defines the maximum volatility targets and the hedging program required to achieve them.

Hedging program

I) Exchange rate risk

In view of the nature of its business activities, IBERIA is exposed to exchange risk, at both operating (flows) and balance-sheet level.

• Flows

The Company has a short US dollar position of approximately US$ 744 million in 2004, since revenues in US dollars (16% of the total) are lower than the expenses in US dollars (30% of the total).

In accordance with the Hedging Program, this position is covered as follows:

- Up to 50% with strategic hedges with a term of up to five years, in the form of swaps on aircraft lease payments to other currencies, mainly the euro, and option structures with terms and amounts associated with the income flows hedged.
- The remaining percentage is managed through tactical transactions with a time horizon of one year or less, which can be adapted to market trends and which are also associated with the Company's actual flows of U.S. dollar payments.

As of December 31, 2004, IBERIA had hedged 86% of its U.S. dollar flow position for 2005.

• Balance sheet

The Company has assets denominated in US dollars amounting to US$ 782 million relating to the loans granted to the Iberbus companies and the advances paid to aircraft and engine suppliers. This position is neutralized practically in its entirety through swaps and borrowings in US dollars in order to prevent exchange rate differences arising on translation. Consequently, the impact has not been significant (with the exception of exchange gains generated on the realization of a part of these hedges, which have been recognized as financial revenues). The residual effect relates to the increase in value of working capital items and to the industry's practice of recording IATA changes on a monthly basis, the balancing item for which is recorded in revenue and expense accounts for the preceding or subsequent months.

• Aircraft additions

In order to mitigate the volatility of currency markets and the impact thereof on the financing and acquisition of new aircraft, the Company hedges the exchange risk relating to aircraft financing/additions through forward purchase transactions and option structures that make it possible to assure a given level or range. At December 31, 2004 the position in respect of aircraft additions expected in 2005 is short by US$ 352 million, which is 100% hedged. Meanwhile, hedges for 2006 total US$ 109 million.

II) Interest rate risk

Although IBERIA has negative net debt in its balance sheet, if the notional debt relating to operating lease payments (multiplying by eight the aircraft lease payments and making the related adjustments) is included, the adjusted total net debt amounts to € 1,721 million. As of December 31, 2004, 81% of this amount bore fixed-rate interest, 17% floating-rate interest and 2% floating-rate interest with a cap. In the future the Company expects to continue to maintain at least 70% of this debt at a fixed or protected interest rate in order to avoid the adverse impact of possible interest rate rises.

In 2004, taking advantage of the low interest rates, the Company increased the volume of its hedged fixed-rate net debt from 78% at December 31, 2003 to 81% at December 31, 2004. Sensitivity to a 1% rise in interest rates is € 3.3 million.

• Liquidity risk

IBERIA has a policy of maintaining a cash position approximately equal to three months' revenues. As of December 31, 2004, this position amounted to € 1,524.7 million (cash plus short-term investments), and this amount has been invested in highly liquid short-term instruments, debt repos, eurodeposits, commercial paper and securitization transactions with leading financial institutions, in accordance with the risk policy in force. All the investments mature within one year and have an average maturity of six months.

In addition to its short-term investments and cash position, the company has credit facilities totaling € 260 million to guarantee its liquidity needs.

III) Fuel price risk

IBERIA controls aircraft fuel costs through active risk management policies. These policies involve fuel price hedging transactions which mitigate the effect of fluctuations in international kerosene market prices and serve to limit variances in this connection with respect to the Company's budget.

The company's current fleet of aircraft consume around 2 million metric tonnes of fuel per year, which, based on the average prices for 2004, entails a cost of approximately € 653 million. This expense is directly related with fluctuations in oil prices, which reached historic highs in 2004 reaching more than US$ 50 per barrel in October.

IBERIA has directly hedged the price of kerosene using a combination of financial tools, such as, inter alia, swaps and options and caps and collars.

In the first half of 2004, hedges against fuel prices represented approximately 60% of the volume of kerosene consumed, ensuring a price within a band of between US$ 23 and 26 per barrel.

In the second half of the year, hedges represented around 80%, ensuring a price of between US$ 23 and 26 dollars per barrel for 50% of the kerosene consumed and US$ 32.5 per barrel for the remaining 30%.

Over the year as a whole, the final average price of fuel for IBERIA was approximately US$ 37 per barrel. Before hedging, the average annual price of fuel in US dollars rose by over 30% in relation to 2003. The hedges made enabled IBERIA to achieve fuel savings of € 80.7 million in 2004, resulting in a cost of €c. 1.07 per ASK, one of the lowest for any European airline.

4.6. Outlook

The latest forecasts for 2005 published by IATA suggest that international air traffic will continue to rise, although at a slower rate than in 2004, partly as a result of more moderate growth in the world economy. Consequently, an average increase of 5.8% in RPK is expected. IATA foresees a similar increase in the volume of services, and the industry should therefore maintain similar load factors to those of 2004. Nevertheless, growth in the industry's revenues will again be constrained by falling unit revenues due to the strong competition existing, which is likely to remain especially intense in Europe because of the fragmentation of the market and the fast growth of low cost carriers.

With regard to costs, the opinion of the majority of experts is that the high fuel prices seen at the end of 2004 (over US$·40 per barrel) represent a fundamental structural change, and that they are unlikely to fall significantly in the coming months. Also, airlines will now be subject to more stringent regulations with regard to indemnities payable to passengers as a result of incidents.

In this difficult, but not unforeseen, scenario the IBERIA Group will continue to implement the strategic measures established in the 2003/05 Master Plan, which anticipated the specific threats the company will face in the coming months including the rapid penetration of low cost carriers in Spain and competitive tendering for third party handling licenses at Spanish airports.

In 2005, IBERIA will increase the services offered in the network as a whole by between 7% and 10% compared to 2004. This range reflects the company's capacity to adapt production to the evolution of the markets. The service will expand basically on intercontinental routes, while capacity will be maintained in the domestic market.

Cost cutting and productivity gains will remain priorities in the management of the Group, which will supplement the actions established in the Master Plan in order to adapt the business to the new competitive environment. Also, it will be necessary to implement new measures in 2005 to offset the rising unit cost of fuel in relation to the average cost in 2004, when the company's hedging policy succeeded in large part in cushioning the impact of the jump in the price of kerosene. IBERIA has entered into new hedging contracts for 2005 covering around 90% of expected fuel consumption in the six months and a substantially lower percentage in the second half of the year, but considering a higher price band.

In the current negotiations for the new collective labor agreements of IBERIA (the former agreements terminated in December 2004), Management seeks a significant increase in the productivity of all employees and greater flexibility, which are basic, unavoidable requirements for continued growth.

Another strategic priority for the Group is continuous improvement of the quality of service and the segmentation of customers in order to consolidate its competitive advantage over other carriers. The Fleet Renewal Plan will contribute to success in this area. In 2005, IBERIA will complete the replacement of all B-747 and will commence the commercialization of a new Business Plus class in the long haul network. The company will also sign a major contract for the renewal of approximately 60% of its short and medium haul aircraft.

IBERIA and its partners in oneworld will be able to operate efficiently from the New Terminal Area at Madrid-Barajas airport as from the first quarter of 2006, which will present an opportunity to provide customers with a quality service. In this regard, IBERIA has planned the necessary investments and has designed its plan for the transition and the transfer to the new facilities.

In the medium term, the IBERIA Group will be able to utilize its financial strength, its excellent positioning in the Europe-Latin America market and the development of its relations with British Airways to make the most of the opportunities offered by the considerable increase in the capacity of the Madrid and Barcelona airports and the growth of markets in Latin America.

5. IBERIA SHARES

5.1. Share performance

2004 has been a difficult year for the air transport industry. On the one hand, oil prices soared from May onwards and reached a high of US$ 52 per barrel in October, while on the other the strong competition in Europe due to pressure from low cost carriers drastically cut the annual earnings of many airlines.

Against this difficult backdrop, IBERIA's stock achieved a revaluation of 11.8% in 2004 (in addition to the 62.9% increase obtained in 2003). The action taken by the company to combat the adverse market conditions experienced by the industry succeeded in generating excellent results over the year, and this has been reflected in the strong stock market performance of IBERIA compared to its European peers.

At the beginning of the year the value of IBERIA on the stock market was € 2,095 million, whereas at the end of 2004 its stock market capitalization was € 2,391 million. As a consequence of the employee stock option plan, the last tranche of which matured on October 2, a total of 18,450,574 new shares are now in circulation.

In September IBERIA was admitted to the Dow Jones Stoxx sustainability index, which comprises European companies applying best practice in the financial, social and environmental fields.

Market price on December 30, 2004	2.55
Market price on December 30, 2003	2.28
Average annual market price	2.43
High	2.95
Low	1.98
Average daily trading volume (no. of shares)	6,375,367

IBERIA share performance - Ibex 35 Index - European Airlines Index (base 100 = December 30, 2003)

5.2. Treasury stock

As of December 31, 2004, the Parent Company held 16,669,560 shares of treasury stock, representing 1.78% of its share capital, with an overall par value of € 13 million and an average acquisition cost of €1.92 per share.

IBERIA recorded the mandatory reserve for treasury stock in its balance sheet as of December 31, 2004.

Governing Bodies

Board of Directors of Iberia, L.A.E., S.A. as of December 31, 2004

CHAIRMAN & CHIEF EXECUTIVE OFFICER
Mr. Fernando Conte García

VICE-PRESIDENT
Mr. Miguel Blesa de la Parra

CHIEF OPERATING OFFICER
Mr. Ángel Mullor Parrondo

MEMBERS
Mr. José M. Fernández Norniella
Mr. Tristan Garel-Jones
Mr. Pablo Isla Álvarez de Tejera
Mr. Antonio Masa Godoy
Mr. Roger Paul Maynard
Mr. José Pedro Pérez-Llorca Rodrigo
Mr. Jorge Pont Sánchez
Mr. José B. Terceiro Lomba
Mr. Gregorio Villalabeitia Galarraga

SECRETARY
Mrs. Lourdes Máiz Carro

Committees of the Board as of December 31, 2004

EXECUTIVE COMMITTEE
Mr. Fernando Conte García (Chairman)
Mr. Miguel Blesa de la Parra
Mr. Roger Paul Maynard
Mr. Ángel Mullor Parrondo
Mr. José B. Terceiro Lomba
Mr. Gregorio Villalabeitia Galarraga
Mrs. Lourdes Máiz Carro (Secretary)

APPOINTMENTS AND REMUNERATION COMMITTEE
Mr. Pablo Isla Álvarez de Tejera (Chairman)
Mr. José M. Fernández Norniella
Mr. Antonio Masa Godoy
Mr. Jorge Pont Sánchez
Mrs. Lourdes Máiz Carro (Secretary)

AUDITING AND FULLFILMENT COMMITTEE
Mr. Antonio Masa Godoy (Chairman)
Mr. Tristan Garel-Jones
Mr. José Pedro Pérez-Llorca Rodrigo
Mr. Gregorio Villalabeitia Galarraga
Mrs. Lourdes Máiz Carro (Secretary)

SAFETY COMMITTEE
Mr. José Pedro Pérez-Llorca Rodrigo (Chairman)
Mr. Roger Paul Maynard
Mr. Ángel Mullor Parrondo
Mr. Jorge Pont Sánchez
Mrs. Lourdes Máiz Carro (Secretary)

Management Board

CHAIRMAN & CHIEF EXECUTIVE OFFICER
Mr. Fernando Conte García

MEMBERS
Chief Operating Officer
Mr. Ángel Mullor Parrondo

General Director of the Airline
Mr. Enrique Donaire Rodríguez

Internal Audit & Quality Manager
Mr. Martín Cuesta Vivar

Chairman Cabinet & Protocol Manager
Mr. Francisco Sánchez Arranz

Corporate Communications Manager
Mr. Luis Díaz Güell

Finnancial Manager
Mr. Enrique Dupuy de Lôme Chávarri

International Relations Manager
Mrs. Elvira Herrero Mateo

Legal Affairs Manager
Mrs. Lourdes Máiz Carro

Control and Administration Manager
Mr. José Mª Fariza Batanero

Human Resources Manager
Mr. Sergio Turrión Barbado

Shared Services Manager
Mr. Juan Losa Montañés

Maintenance and Engineering Manager
Mr. Manuel López Aguilar

Airports Manager
Mr. Fernando Sarmentero Vidal

Information Technology Manager
Mr. Antonio Bugallo Siegel

Production Management Manager
Mr. Juan Bujía Lorenzo

Commercial Manager
Mr. Manuel López Colmenarejo

Costumer Relationship Manager
Mr. Félix García Viejobueno

Cargo Manager
Mr. Alfonso Fuertes Suárez

Operations Manager
Mr. Ricardo Génova Galván

Inflight Services Manager
Mr. Víctor García Sánchez

Legal Information

IBERIA Group

2004 Financial Year

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Iberia, Líneas Aéreas de España, S.A.:

We have audited the consolidated financial statements of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. AND SUBSIDIARIES comprising the consolidated balance sheet as of December 31, 2004, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

For comparison purposes the Parent Company's directors present, in addition to the 2004 figures for each item in the consolidated balance sheet and consolidated statement of income, the figures for 2003. Our opinion refers only to the 2004 consolidated financial statements. Our auditors' report dated April 7, 2004, on the 2003 consolidated financial statements contained an unqualified opinion.

In our opinion, the consolidated financial statements for 2004 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Iberia, Líneas Aéreas de España, S.A. and Subsidiaries as of December 31, 2004, and of the results of their operations in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards which, except for the change of method indicated in Note 6-i to the consolidated financial statetments referred to above, with which we concur, were applied on a basis consistent with that of the preceding year.

The accompanying consolidated management report for 2004 contains the explanations which the directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated management report is consistent with that contained in the consolidated financial statements for 2004. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the companies' accounting records.

DELOITTE
Registered in ROAC under no. S0692

Luis de la Mora

April 1, 2005

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414, inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso - 28020 Madrid

Consolidated Financial Statements

IBERIA GROUP

Consolidated balance sheets as of December 31, 2004 and 2003

Thousands of Euros

ASSETS	2004	2003
FIXED AND OTHER NONCURRENT ASSETS:		
Start-up expenses (Note 6-b)	**279**	**98**
Intangible assets (Note 7)	**400,722**	**430,422**
Property, plant and equipment (Note 8):	**1,013,352**	**931,763**
Aircraft:		
Cost	1,737,909	1,532,068
Accumulated depreciation and allowances	(1,111,642)	(992,699)
	626,267	539,369
Other tangible fixed assets:		
Cost	1,063,157	1,075,487
Accumulated depreciation and allowances	(676,072)	(683,093)
	387,085	392,394
Long-term investments (Note 9):	**702,004**	**763,238**
Investments in companies acconted for by the equity method	182,558	142,729
Long-term investment securities	191,111	203,703
Other loans	224,188	194,220
Long-term diposits and guarantees given	298,253	398,174
Allowances	(194,106)	(175,588)
Long-term receivables (Note 19)	**279,989**	**303,703**
Total fixed and other noncurrent assets	**2,396,346**	**2,429,224**
CONSOLIDATION GOODWILL (Note 6-a)	**91,484**	**98,098**
DEFERRED CHARGES (Note 7)	**69,350**	**85,347**
CURRENT ASSETS:		
Shares of the Parent Company (Note 10)	**31,961**	**20,066**
Inventories (Note 11)	**87,419**	**77,055**
Accounts receivable	**600,347**	**582,153**
Short-term investments (Note 12)	**1,524,848**	**1,358,027**
Cash	**30,888**	**18,086**
Accrual accounts	**20,954**	**31,205**
Total current assets	**2,296,417**	**2,086,592**
TOTAL ASSETS	**4,853,597**	**4,699,261**

Thousands of Euros

SHAREHOLDERS' EQUITY AND LIABILITIES	2004	2003
SHAREHOLDERS' EQUITY (Note 13):		
Capital stock	**731,225**	**716,833**
Additional paid-in capital	**106,501**	**98,937**
Differences due to the adjustment of capital stock to euros	**1,201**	**1,201**
Reserves of the Parent Company:	**390,827**	**312,358**
Legal reserve	86,247	75,671
Merger reserve	165	165
Revaluation reserve	38	38
Reserve for treasury stock	31,961	20,066
Voluntary reserves	272,416	216,418
Reserves at fully consolidated companies	**84,610**	**76,235**
Reserves at companies accounted for by the equity method	**113,343**	**83,894**
Translation differences	**(344)**	**(284)**
Income attributable to the Parent Company (Note 21):	**218,402**	**143,586**
Consolidated income for the year	219,988	145,852
Income attributed to minority interests (Notes 14 and 21)	(1,586)	(2,266)
Total shareholders' equity	**1,645,765**	**1,432,760**
MINORITY INTERESTS (Note 14)	**5,324**	**9,204**
NEGATIVE CONSOLIDATION DIFFERENCE	**998**	**1,494**
DEFERRED REVENUES (Note 6-i)	**25,705**	**56,805**
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 15)	**1,241,921**	**1,250,042**
LONG-TERM DEBT:		
Convertible debentures (Note 17)	**18,354**	**27,532**
Payable to credit institutions (Note 16)	**379,053**	**419,375**
Other payables (Note 19)	**16,659**	**20,447**
	414,066	**467,354**
CURRENT LIABILITIES:		
Convertible debentures (Note 17)	**9,178**	**22,573**
Payable to credit institutions (Note 16)	**48,993**	**46,930**
Customer advances (Note 6-i)	**358,186**	**413,854**
Accounts payable for purchases and services	**778,803**	**689,341**
Other nontrade payables (Note 19)	**159,694**	**157,479**
Compensation payable	**161,839**	**150,982**
Accrual accounts	**3,125**	**443**
Total current liabilities	**1,519,818**	**1,481,602**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**4,853,597**	**4,699,261**

IBERIA GROUP

Consolidated statements of Income for 2004 and 2003

Thousands of Euros

DEBIT	2004	2003
EXPENSES:		
Procurements (Note 20)	851,945	759,290
Personnel expenses (Note 20)	1,423,323	1,402,731
Depreciation and amortization expense (Notes 6-b, 7 and 8)	179,227	170,835
Variation in operating allowances	5,335	2,074
Other operating expenses (Note 20)	2,142,237	2,123,719
	4,602,067	4,458,649
Operating income	**203,304**	**160,681**
Financial and similar expenses (Notes 15 and 16)	35,649	34,474
Variation in investment valuation allowances	1,053	16,166
Exchange losses	86,958	106,742
	123,660	157,382
Financial income	**20,830**	**-**
Share in the losses of companies accounted for by the equity method (Note 9)	1,647	875
Amortization of consolidation goodwill (Note 6-a)	6,613	6,613
Income from ordinary activities	**259,827**	**183,570**
Losses on fixed assets and control portfolio (Note 8)	15,744	22,664
Variation in fixed asset allowances	(5)	2
Extraordinary expenses (Note 20)	171,740	59,283
Prior years' expenses and losses	3,516	2,521
	190,995	84,470
Extraordinary income	**23,405**	**18,113**
Consolidated income before taxes	**283,232**	**201,683**
Corporate income tax (Note 19)	63,244	55,831
Consolidated income for the year	**219,988**	**145,852**
Income attributed to minority interests (Notes 14 and 21)	1,586	2,266
Income for the year attributed to the Parent Company	**218,402**	**143,586**

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of income for 2004.

Thousands of Euros

CREDIT	2004	2003
REVENUES:		
Net sales (Note 20)	4,601,665	4,402,447
Other operating revenues (Note 20)	203,706	216,883
	4,805,371	4,619,330
Revenues from equity investments	1,000	75
Other interest and similar revenues (Note 12)	41,124	52,878
Exchange gains	102,366	100,034
	144,490	152,987
Financial loss	**-**	**4,395**
Share in the income of companies		-
accounted for by the equity method (Note 9)	42,333	34,772
Reversal of negative consolidation differences	1,620	-
Gains on fixed asset disposals and control		
portfolio (Note 20)	103,218	38,695
Gains on Parent Company share transactions (Note 10)	8,991	8,347
Extraordinary revenues (Note 20)	60,229	35,121
Prior year's revenues and income (Note 20)	41,962	20,420
	214,400	102,583

Notes to Consolidated Financial Statements

1. THE BUSINESS ACTIVITY OF THE DOMINANT COMPANY AND OF THE GROUP

Iberia, Líneas Aéreas de España, S.A. is a company principally devoted to air transport of passengers and cargos and which also carries on complementary activities; particularly important among these latter are handling and aircraft maintenance, and distribution through the Company's financial holding in the "Amadeus Group", which is the owner of the Amadeus reservations system.

As a passenger and cargo transport business the Company is an operator which boasts an extensive network, and serves three fundamental markets: Spain, Europe, and the Americas.

Iberia, Líneas Aéreas de España, S.A. is a full member of the **one**world "megacarrier" one of the most important airline groups in the world, and this permits the company to globalise its air transport business.

In addition to the business activities carried on directly and in order to complement these activities, or to meet specific segments of the market or specific needs, a number of different companies have been set up over time to form the IBERIA Group, in which Iberia, Líneas Aéreas de España, S,.A., acts as the parent company.

The registered office of Iberia, Líneas Aéreas de España, S.A. is located in Madrid, and the shares of the Company have been quoted on the Stock Exchange since April 2001.

2. GROUP COMPANIES

Group companies are considered to be those dependent companies in which the Company holds the majority of the voting rights, or in the event that it does not hold such majority, it holds effective dominance in the decisions taken by their organs of governance. In general, it is understood that there exists effective dominance when the holding in the subsidiary company is greater than 50%.

The information relating to the companies which make up the IBERIA Group and which are consolidated by means of the global integration method is as follows:

Thousands of Euros

Company name Address Corporate Purpose	Direct and Indirect Holding (%)	Capital	Reserves	Earnings (b)
Compañía Auxiliar al Cargo Exprés, S.A. Air Cargo Centre, Plot 2 p.5 nave 6, Madrid Cargo transport	75.00	192	2,557	821
Cargosur, S.A. Velázquez, 130; Madrid Air Cargo Transport	100.00	6,058	(1,047)	74
Sistemas Automatizados Agencias de Viaje, S.A. (SAVIA) Velázquez, 130; Madrid Information systems applicable to the travel and tourism sector	77.49 (a)	301	10,608	4,955
VIVA, Vuelos Internacionales de Vacaciones, S.A. Camino de la Escollera, 5; Palma de Mallorca Aircraft maintenance	100.00	644	951	919
Campos Velázquez, S.A. Velázquez, 34; Madrid Acquisition and ownership of city properties	100.00	902	215	13
Auxiliar Logística Aeroportuaria, S.A. Air Cargo Centre, Plot 2 p 5 nave 6; Madrid Cargo transport	75.00	180	48	45
Iberia Tecnología, S.A. Velázquez, 130; Madrid Air maintenance services	100.00	1,442	303	55
Consultores Hansa, S.A. Velázquez, 130; Madrid Market research - inactive	100.00	60	(2)	2
Binter Finance, B.V. Strawinskilaan 3105 100 BL Amsterdam Finance and cash management	100.00	454	90	5

(a) The financial rights of the holding amount to 72.22%, which comprises the 66% direct holding of Iberia, Líneas Aéreas de España, S.A. and the 6.22% indirect holding through the "Amadeus Group".
(b) All these companies closed their books on 31 December 2004.

The principal changes with respect to the preceding year within the scope of consolidation of the companies in the Group were the following:

- During financial year 2004 the Group sold its participation in Iber-Swiss Catering, S.A. for € 23,359 thousand. The profit generated by this operation amount to € 13,061 thousand, and are recorded under the heading "Profit on disposal of assets" in the consolidated Profit and Loss Account for financial year 2004, attached (see Note 20-c).
- During this financial year, Binter Finance B.V. came within the scope of consolidation.

At the close of financial year 2004, Iberia, Líneas Aéreas de España, S.A. had reached a preliminary sale agreement for their holding in Sistemas Automatizados de Viaje, S.A. and of the "SAVIA" trademarks in their ownership. The formalisation of this agreement in an appropriate sale contract was pending the results of a number of tasks in order to establish the final conditions of the operation. The final sale contract was formalised in March 2005.

3. ASSOCIATED COMPANIES

Associated companies are considered to be those dependent companies in which the parent Company exerts a significant influence on their management, without holding the majority of the voting rights in the subsidiary, or effective management of the company. In general, it is considered that there exists a significant influence on management when the holding of the Group in the subsidiary exceeds 20% while remaining lower than 50%.

Some subsidiary companies are also considered to be associated companies where, although there exists an effective dominance in the management, the volume of assets and activity are scarcely significant in the overall total of operations of the Group.

Information relating to the associated companies which are included in the consolidation process by means of the percentage equivalence method as of December 31, 2004 is as follows:

Company Name Registered Address Corporate Purpose	Direct Holding (%)	Thousands of Euros		
		Capital	Reserves	Earnings
Amadeus Group (b) Salvador de Madariaga, 1; Madrid Management and operation of an automated reservations system	33.80 (a)	23,044	824,518	216,367
Multiservicios Aeroportuarios, S.A. Bravo Murillo, 52; Madrid Realisation of auxiliary services within the area of an airport	49.00	130	3,454	1,383
Iber-América Aerospace, LLC Miami, Florida Sale of aircraft parts and engines	49.00	1,178	(350)	224
Empresa Logística de Carga Aérea, S.A. (ELCA) José Martí Airport City of Havana Operation of a cargo terminal at the Havana Airport	50.00	444	(157)	191
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A. José Martí Airport City of Havana Aircraft maintenance	50.00	111	(23)	644
Handling Guinea Ecuatorial, S.A. (HANGESA) Malabo Handling at the Malabo airport	51.00	301	15	1,076
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (IBERIA CARDS) Velázquez, 130; Madrid Issue and management of payment systems	40.00	6,000	2,409	2,727
Grupo Air Miles Avda. de Bruselas, 20. Alcobendas. Madrid Multi-sector client loyalty creation	22.50	72	371	(293)
Serpista, S.A. Velázquez, 130. Madrid Airport equipment maintenance	39.00	1,170	2,144	(155)
Noamar Air Handling Amsterdam, Holland. Ground assistance services	40.00	50	(65)	-
Opodo, Ltd Five Chancey Lane Cliffords INN. Londres Direct collective payment system between airline companies	4.08 (c)	272,444	(225,967)	(37,205)

(a) The financial rights of this holding amount to 18.28%, the percentage which has been used in the consolidation process.
(b) Made up of Amadeus Global Travel Distribution, S.A. (parent company) and its subsidiaries.
(c) The indirect holding in Opodo, through Amadeus Global Travel Distribution, S.A., is 18.71%.

The principal changes within the consolidation scope of the associated companies with respect to financial year 2003 were the following:

- During financial year 2004, the dominant Company sold its shareholding in Touroperador Viva Tours, S.A. for approximately € 1,864 thousand. The profit generated by this operation amounts to approximately € 1,042 thousand, and are recorded under the heading "Profit on disposal of assets" in the Profit and Loss Account for financial year 2004, attached (see Note 20-c).
- Further, Iberia, Líneas Aéreas de España, S.A. formalised a shareholding of 60% in the establishment of Serpista, S.A. in March 2004. Later, the Company proceeded to sell 21% of the capital of this company, and obtained a profit of € 1,774 thousand. Lastly, in October, the Company formalised the capital increase carried out by Serpista, S.A. to the proportion corresponding to the Company's shareholding at that time (39%).
- As a consequence of the acquisition of a holding in Opodo, Ltd. by Amadeus Global Travel Distribution, S.A., Opodo became an associated company, having appeared previously as a financial investment.
- Finally, Grupo Air Miles, Serpista, S.A. and Noamar Air Handling have become associated companies.

The commitments acquired by the majority shareholder, Airbus Industrie Financial Services, in the contracts formalised to establish the Iberbus companies (Note 9) guarantees Iberia, Líneas Aéreas de España, S.A., minority partner and lender to those companies, full recovery of the entire financial investment made, and it is for this reason that they are excluded from the scope of consolidation in financial year 2000.

4. BASIS FOR THE PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

a) True and fair view

The Annual Accounts for financial year 2004, which have been prepared by the Directors of the dominant Company, have been obtained on the basis of the individual books of account and the annual accounts of Iberia, Líneas Aéreas de España, S.A., and of the dependent companies in the Group (drawn up by the relevant Directors) integrated using the using the global integration method, and are presented in accordance with the accounting principles established in the General Plan of Accounts and Royal Decree 1815/1991 dated 20 December on the preparation of consolidated annual accounts such that they represent a true and fair view of the consolidated equity, the financial situation, and the trading results of the Company.

The integration of the consolidated companies by the equivalence method has in general been carried out on the basis of the provisional financial statements on 31 December 2004.

The individual and consolidated accounts of Iberia, Líneas Aéreas de España, S.A. and of the IBERIA Group, and of the companies in which they have holdings included within the consolidation process are pending approval by the General Shareholders' Meeting of each company. Nevertheless, the Directors of the dominant Company believe that such approval processes will not produce any modification at all of these consolidated annual accounts.

b) Consolidation principles

The value of the participation of minority shareholders in the Company's own funds and in the results for the year of the companies consolidated by the global integration method, are shown respectively in the headings "External partners" and "Profit attributed to external partners" on the consolidated Balance Sheet and in the Profit and Loss account, both attached.

The value of the participation in own funds and in the results for the year of the companies consolidated by the equivalence method are presented in headings "Holdings in companies with percentage equivalence" in the Balance Sheet and "Share in Profit or Loss of companies with percentage equivalence" in the consolidated Profit and Loss account.

The conversion to the home currency of the various headings in the annual accounts of foreign companies which have been included in the scope of consolidation has been carried out by applying the following criteria:

1. Assets and Liabilities have been converted by applying the official exchange rate in force at financial year end.
2. The capital and reserves of the subsidiary have been converted at historical exchange rates.
3. The Profit and Loss accounts have been converted at the mean exchange rate for the financial year.

The difference arising from the application of these criteria have been included in the heading "Differences on Conversion" in the chapter "Own Funds".

All the relevant accounts and transactions among the companies consolidated by the global integration method have been eliminated in the consolidation process.

The positive or negative differences which may have arisen at the date of the first consolidation of a subsidiary as the consequence of comparing the acquisition cost with the theoretical book value and which cannot be assigned to specific items are included in the heading "Goodwill on Consolidation" or "Negative difference on Consolidation" respectively, for systematic amortisation over the period in which it is considered that they will contribute to generating profits for the Group in the first case and where it is a question of negative differences, for assignment to results when the implicit capital loss in the acquisition becomes known.

The date of first consolidation is considered to be the first day of the financial year in which a pre-existing company became part of the Group or the date on which the new subsidiaries are acquired.

The accounting principles and criteria employed by the Consolidated Companies have been standardised in the process of consolidation. The effects of such standardisation on the consolidated net worth has not been significant.

5. PROFIT DISTRIBUTION OF THE DOMINANT COMPANY

The distribution of the profits of Iberia, Líneas Aéreas de España, S.A., for financial year 2004 proposed by the Directors of the Company comprises passing € 18.510 thousand to the legal reserve, € 0,05 per share to dividends, and the remainder to voluntary reserves.

6. STANDARDS OF VALUATION

The most significant valuation rules applied by the Company in the preparation of the Consolidated Annual Accounts for financial year 2004, in accordance with the provisions of the Spanish General Accounting Scheme, are as follows:

a) Goodwill

Goodwill is calculated as the positive difference between the value paid by Iberia, Líneas Aéreas de España, S.A., for the acquisition of 67% Aviación y Comercio, S.A. and the corresponding theoretical book value as at 31 December 1997.

The goodwill is depreciated using the straight-line method over 20 years. The charge to the consolidated Profit and Loss Account for the goodwill depreciation item during 2004 amounted to € 6,613 thousand.

b) Establishment costs

Establishment costs cover principally the expenses incurred in the heading of issue of public deeds and the companies register for capital increases carried out by the companies in the Group, and are depreciated at the rate of 20% per year.

The charge to the consolidated Profit and Loss Account for the depreciation of these expenses during 2004 amounted to € 39 thousand.

c) Intangible Fixed Assets

Assets acquired under financial leasing contracts are included in the intangible fixed assets at acquisition cost, and the total debt for the leasing payments together with the sum of the purchase option are shown in the liabilities. The financial expenses of such operations are included under the

heading of "Expenses to be distributed over various financial years" in the Consolidated Balance Sheet and are charged to the profit of each financial year following a financial criterion.

Assets acquired under financial leasing contracts are depreciated by applying the same criteria as those used for items of a similar nature in the fixed assets.

Until financial year 2003, the Group was applying the provisions of Ministerial Order dated 18 December 2001, under which it corrected the cost of acquisition and accumulated depreciation of the fleet acquired in the financial year in question and the preceding four financial years both under leasing agreements and outright purchase for the exchange rate differences occurring by applying the official exchange rates in force at year end to the specific financing for such aircraft denominated in foreign currency.

In 2004, these valuation differences have been charged to the Profit and Loss Account because they caused no significant impact.

The sum of € 6,597 thousand has been written off in the acquisition cost of the fleet under financial leasing agreements appearing in the Balance Sheet as at 31 December 2004, attached, owing to the effect of capitalising the accumulated valuation differences.

Computer applications are valued at cost of acquisition or cost of production and are depreciated as from the moment of entering into service using the straight-line method with a useful life of five years.

Industrial property, basically in the form of rights to the use of various trademarks, is valued at cost of acquisition and is depreciated using the straight-line method over a period of ten years.

d) Tangible Fixed Assets

Tangible fixed assets are valued at acquisition cost and are revalued in accordance with the various legal regulations including the Royal Decree-Law 7/1996, dated 7 June.

As at 31 December 2004, the cost of acquisition of the fleet of aircraft under ownership included accumulated exchange rate differences to a total value of approximately € 77,377 thousand (see Note 6-c).

The companies in the Group depreciate their fixed assets using the straight-line method, distributing the depreciable cost of assets over the years of expected useful life.

The years of expected useful life for the various items in the fixed assets are as follows:

	Years of Estimated Useful Life
Fleet of aircraft:	
Cell (a)	22
Components	4-7
Buildings and other construction	20-50
Machinery, fixtures, and tools	10-15
Land transport items	7-10
Furniture and fittings	10
Data processing equipment	4-7
Spare parts - repairable	8-0
Spare parts - rotating	18
Flight simulators	12-14

(a) Other than the MD-87 model, the total cost of which, including cell and components, is depreciated over 20 years, and for the aircraft acquired from Aviación y Comercio, S.A., which are depreciated over 12 years (MD-88) and 10 years (MD-87), being second-hand items.

Up until the present financial year, the Group has followed the procedure of establishing a fund based upon an estimate of the total maintenance cost to be incurred for major overhauls, and this cost is charged to the profit and loss account by the straight-line method over the period occurring between successive major overhauls, regardless of whether or not the aircraft in question are operated under an operating lease agreement (charter of aircraft without crew for a specified period) or are in ownership.

In the case of aircraft under ownership, with the exception of the MD fleet, on 31 December 2004, the Group proceeded to separate the cost of items to be replaced in the next major overhaul from the cost of the aircraft, in order to standardise to the greatest extent possible the treatment given to these headings under the Spanish General Accounting Scheme and International Standards. The net book value of such components is determined and the provision for major overhauls corresponding to such aircraft under the heading "Provisions" in tangible or intangible fixed assets, as the case may be, is reclassified, (Notes 7, 8, and 15); this has not caused significant changes to the value of the equity.

The net value of such components is to be depreciated as from 2005 over the years remaining until replacement, with a useful life estimated at between 4 and 7 years.

For assets subject to a temporary administrative assignment for which the years of useful life exceed the term of assignment to the Company, the assets in question are depreciated over the concession period.

The residual value of rotating replacements (those specifically assigned to types or families of aircraft) is estimated to be a percentage of between 10% and 20% of the cost of acquisition, depending on the type of the fleet to which they are assigned. For other fleet spare parts (repairable) the residual value is calculated at 10% of the cost of acquisition. The Group depreciates the entire acquisition cost of all other items in tangible fixed assets.

In order to recognise the capital loss arising from obsolescence of spare parts, the Group has established a provision for the depreciation of such spare parts, the value of which as at 31 December 2004 amounts to € 2,560 thousand.

In addition, the Group establishes reversible provisions in order to match the net book value of the fleet which is for sale with the expected realisable value depending on existing values in the second-hand aircraft market.

Improvements to the aircraft fleet which represent an increase in capacity, or efficiency, or an extension of useful life, are included in the cost of acquisition of the aircraft.

Maintenance and repair expenses, both for engines and for the cell and other aircraft components, are charged to the Profit and Loss Account for the financial year in which they are incurred.

e) Financial fixed assets and temporary investments

Holdings in the capital of non-consolidated companies are presented at acquisition cost or market value if lower. Market value is determined as the theoretical book value of the shareholding at the closing date of the financial year corrected, where appropriate, for the value of tacit capital gains existing at the moment of the purchase which persist at the moment of the subsequent valuation.

In order to recognise capital losses arising from the difference between the acquisition cost and the estimated realisation value of the shares, appropriate provisions are made.

Notwithstanding the above, the cost of acquisition of the shares in the capital of the Iberbus companies (see Note 9) has not been corrected in relation to its market value because on the basis of agreements reached the other shareholder in these companies, Airbus Industrie Financial Services, guarantees Iberia, Líneas Aéreas de España, S.A. recovery of the entire investment made.

Loan facilities to Associated companies, and other loans and credit facilities granted appear in the books as the sums issued still pending reimbursement. The Group has established provisions which are calculated in virtue of the probability of recovery of the debt, depending on their age and the solvency of the debtor, in order to meet the risks of non-recovery.

Deposits and bonds established are recorded at the value of the sum paid. These deposits include the sums issued in accordance with the provisions of the contracts for the acquisition of new aircraft, which are susceptible of reimbursement at the moment when the aircraft is delivered (see Note 9).

As a general rule, the Group places its temporary surplus cash in term financial investments which appear in the books at the value of the sum in fact disbursed. Interest associated with such operations is recorded in the books as revenue as it is accrued, and that pending maturity at the moment of the year end is shown in the Consolidated Balance Sheet, as an increase in the balance of the heading of "Temporary Financial Investments".

f) Own shares of the dominant Company

Own shares are valued at acquisition cost, which is lower than the mean quotation for the last quarter of the financial year, and that at year end.

g) Operations and balances in foreign currency

Operations in foreign currencies and the resulting credit and debit entries from the same are recorded at their equivalent value in Euros at the date upon which the operation was carried out.

At 31 December each year, the balances of the accounts payable or receivable in foreign currency are valued at the exchange rate in force on that date, except for the balance corresponding to liabilities arising from transport documents pending use which, in accordance with normal practice among airline companies, are shown in the Balance Sheet at the exchange rate for the month of the sale as established by the International Airline Transport Association (IATA). The IATA exchange rate for each month corresponds to the mean exchange rate over the last five working days preceding the 20th of the preceding month.

The differences in valuation arising from the comparison between the official exchange rate at year end and the exchange rate appearing in the accounts payable or accounts receivable in foreign currency are charged to the Consolidated Profit and Loss account if they are to the debit of the Group, under the heading "Negative Exchange Rate Differences", or if they are in favour of the Group, they are deferred until the expiry of the corresponding credit or debit, and are charged to the heading "Income to be distributed over various financial years" in the Consolidated Balance Sheet, except where negative exchange rate differences arising in the same currency have been charged to at least the same value in the prior financial year or years.

Exchange rate differences which occur at the moment of collection or payment of credits or debits in foreign currency are charged to the Consolidated Profit and Loss Account under the headings "Positive Exchange Rate Differences" or "Negative Exchange Rate Differences" depending on whether they are to the credit or debit of the Group, respectively.

h) Stocks

Stocks, which are principally aeronautical materials and fuel, are valued at mean acquisition price, and the corresponding provisions for depreciation are booked.

In order to recognise the capital losses arising from obsolescence and slow rotation of certain stocked materials, the Group companies have established the corresponding provisions.

i) Revenues and expenses

Revenues and expenses are recorded in the books in accordance with the accruals principle, that is to say, when the real flow of goods and services which they represent takes place, independently of the moment in which the monetary or financial flow deriving from them occurs.

Sales of tickets and of transport documents for cargoes and other services are initially recorded to the credit of the heading "Client Advances" in the Consolidated Balance Sheet. The balance of this heading in the Consolidated Balance Sheet represents the estimate of the liability relating to tickets and transport documents sold prior to 31 December 2004 and pending use as at that date. The revenues corresponding to these items are recognised at the moment when the transport or service is provided.

On occasions, the dominant Company carries out sale transactions on aircraft in order to continue to operate them under operating lease agreements. Up until the present financial year, capital gains obtained from such operations were credited to the Profit and Loss Account on a straight-line basis during the period over which the lease contract was established, and profits from such operations pending credit to profits for the year were entered under the heading "Income to be distributed over various years" in the Balance Sheet.

In view of the forthcoming adoption of International Accounting Standards and in order to match accounting criteria between the individual and consolidated annual accounts to the greatest extent possible, the Directors of the dominant Company have opted to credit profits obtained over previous years arising from aircraft lease-back operations to the Profit and Loss Account for financial year 2004; until financial year 2003, they had been deferred and were progressively recognised as such during the period of operation of the lease-back contract agreement so as to match them with the expenses deriving from the lease payments. Consequently, as from 2004, the Group enters these profits in the financial year in which they arise and does not defer them.

As a consequence, the Group has recorded € 24,575 thousand under the heading "Extraordinary Income" in the Consolidated Profit and Loss Account for the financial year 2004, attached, in order to charge the profits which had been deferred under the heading "Income to be distributed over various financial years" to the results (see Note 20-d).

Iberia, Líneas Aéreas de España, S.A. maintains the "Iberia Plus" card in force, the purpose of which is a permanent promotional exercise based on the cardholders obtaining points every time they make certain specific flights, use particular hotels and car hire services, or effect purchases using a credit card belonging to the scheme. The points may be exchanged for free tickets or other services provided by the companies belonging to the scheme. The Consolidated Balance Sheet as at 31 December 2004, attached, includes a provision of € 61,030 thousand for this item under the heading "Creditors for purchases or provision of services" in accordance with the estimated valuation at the established redemption price of the accumulated points pending realisation at that date.

j) Commitments to staff

In accordance with the collective agreements in force in the dominant Company, at the moment at which flight personnel reach 60 years of age, they cease to be active and go into the reserve while maintaining their working relationship with the company until the legal retirement age. The dominant Company continues the practise of recognising personnel expenses for staff in the special reserve situation throughout the active life of the worker in accordance with the relevant actuarial studies.

The heading "Provisions for contingencies and expenses-Provisions for commitments to staff" includes the liabilities accruing under this item (see Note 15).

Further, the collective agreements in force in the dominant Company provide for the possibility for flight staff who meet particular criteria to go into early retirement (special leave of absence) while the Company remains committed to payment of specific sums to such staff until the legal retirement age. The dominant Company makes a provision of the required sum charged to the Profit and Loss Account for the financial year in which this situation arises, calculated according to actuarial principles, to add to the fund already established as a special reserve in order to meet these future payment commitments to the relevant staff. Currently, there are 201 workers who have exercised this right.

The heading "Provisions for contingencies and expenses-Provisions for commitments to staff" includes the liabilities accruing under this item (see Note 15).

The actuarial studies employed in calculating the items indicated above have been performed by independent experts following the Projected Credit Unit Method using a technical interest rate of 3,5% and PERM/F-2000 P survival rates, assuming an increase in the RPI of 2% per year.

k) Montepío de Previsión Social Loreto

The Montepío de Previsión Social Loreto has the fundamental object of the payment of retirement pensions to its members (among which the employees of Iberia, Líneas Aéreas de España, S.A. and its subsidiary Sistemas Automatizados Agencias de Viajes, S.A.) are included) together with other welfare services under particular circumstances (decease or permanent incapacity for employment).

Under the terms of the collective agreements in force, these companies contribute the regulatory payments established in such agreements together with their employees (defined contributions). In accordance with the Statutes of the Montepío, the financial liability of these companies is limited to the payment of such contributions as may be established under the regulations of the association.

The contributions made by the Group in Financial Year 2004 amounted to € 22,097 thousand, and they are included in the heading "Staff expenses" in the Consolidated Profit and Loss Account, attached.

l) Provision for contingencies

The Group enters the estimated sum to meet probable or certain liabilities arising from legal proceedings and actions in progress, for indemnities or commitments outstanding but with an uncertain value, and for similar guarantees offered by the consolidated companies under the heading

"Provisions for contingencies" (see Note 15). Such provisions are made at the moment at which the liability originates or becomes known to the Company. This heading also includes provisions for estimated costs calculated according to actuarial studies carried out by independent experts under the same hypotheses as indicated in Note 6-j, arising from the redundancy scheme put into effect in March 1999, and carried on in 2000 and 2001, and the Redundancy Plan authorised by the Ministry of Labour and Social Affairs on 26 December 2001 and put into effect as from financial year 2002. This Redundancy Plan, which was initially to terminate on 31 December 2002, was extended with the authorisation of the Ministry of Labour and Social Affairs, initially until 31 December 2004, and later, on 16 December 2004, until 31 December 2007 for ground staff, passenger cabin crew, and on-board technical staff up to the limit of the target structural workforce for each group.

m) Corporation Tax

The Corporation Tax expense for the financial year is calculated in terms of the book results before taxes, plus or less, as appropriate, the permanent differences with the tax assessment basis, this latter being considered to be the taxable income in terms of such tax, reduced by credits and deductions to the tax payable, excluding tax withheld and payments on account.

n) Futures and other similar instruments

Iberia, Líneas Aéreas de España, S.A. employs these instruments in hedge operations for its equity positions and also for its flows of future collections and payments. Only "non-genuine" operations are used, that is to say operations contracted between two parties who determine the contractual terms of the operations agreed between them in each case (see Note 18).

The differences in the quotation for futures and similar instruments which become known over the life of these futures and instruments are booked as follows:

1. In hedging operations to cover exchange rates relating to equity positions, they are updated at the close of each financial year and the profit or loss generated is realised and is recorded under the headings "Positive Exchange Rate Differences" or "Negative Exchange Rate Differences" in the Profit and Loss Account.
2. In the remainder of exchange rate operations and those covering interest rates and fuel prices, differences in quotation are booked in the Consolidated Profit and Loss Account when the cancellation or final settlement of the futures operations or those of similar instruments occurs.

o) Activities with environmental impact

In general terms, environmental activities are considered to be those the purpose of which is to prevent, reduce, or repair damage to the environment.

In this respect, investments arising from environmental activities are valued at acquisition cost and are capitalised as a greater cost of fixed assets in the financial year in which they occur, following the criteria described in section d) of this Note.

Expenses arising from the protection and improvement of the environment are charged to the results of the financial year in which they are incurred, regardless of the moment in which the monetary or financial flow deriving from them occurs.

Provisions relating to probable or certain liabilities, to legal proceedings in progress, and indemnities or commitments outstanding but with an uncertain value, of an environmental nature, and which are not covered by the insurance policies contracted, are established as the case may be at the moment at which the liability or commitment causing the indemnity or settlement arises.

p) Classification of creditors

In the Consolidated Balance Sheet, attached, creditors are classified as short-term creditors if they have a term of twelve months or less, and as long-term creditors if they have a term beyond such period.

7. INTANGIBLE FIXED ASSETS

Movements relating to the intangible fixed assets accounts and the associated accumulated depreciation during Financial Year 2004 were as follows:

Thousands of Euros

Intagible fixed assets	31-12-03	Acquisitions and Provisions	Disposals	Disposals out of the scope	Transfers to Tangible Fixed Assets	Transfer of provision for major overhauls (Notes 6-d and 15)	31-12-04
Rights over assets under financial leasing arrangements	449,727	7,199	(1,017)	(2,781)	(2,218)	-	450,910
Computer applications	91,364	14,888	(738)	(1,042)	-	-	104,472
Industrial property and transfer rights	849	4	-	-	-	-	853
Depreciation	(111,518)	(40,313)	697	2,479	1,081	-	(147,574)
Provisions	-	-	-	-	-	(7,939)	(7,939)
Net book value	**430,422**	**(18,222)**	**(1,058)**	**(1,344)**	**(1,137)**	**(7,939)**	**400,722**

31 December 2004, the cost of totally depreciated assets held by the companies in the Group in intangible fixed assets amounts to € 18,321 thousand, as shown in the following detailed table:

	Thousands of Euros
Rights of assignment	394
Computer applications	17,927
Total	**18,321**

Additions to the heading "Computer Applications" for the financial year related basically to investments in systems integration projects and new development.

During the year 2004, the Dominant Company proceeded to the sale of the "Viva Tours" brand names under their ownership. The profit generated by this operation amounted to € 15 million, and is recorded under the heading "Profit on disposal of assets" in the Consolidated Profit and Loss Account for 2004 (see Note 20-c).

Furthermore, in financial year 2004 purchase options on certain items of equipment, principally for information processing, were exercised, and therefore the values for acquisition cost and depreciation corresponding to these items were reclassified to tangible fixed assets (see Note 8).

The general characteristics of the financial leasing contracts, principally for aircraft, in force as at 31 December 2004, the financial costs of which are in some cases referenced to variable interest rates, and the payments expressed in foreign currency are as follows:

	Thousands of Euros
Cash price of asset acquired	459,417
Amount of payments made:	
In previous years	123,362
In the financial year	45,254
Amount of payments pending as at 31 December (Note 16)	168,504 (a)
Amount of purchase options (Note 16)	235,276 (a)

(a) These sums include € 57,112 thousand corresponding to interest pending accrual, the contra for which is included in the section "Expenses for distribution over various financial years" in the Consolidated Balance Sheet as at 31 December 2004, attached.

The schedule of the due dates for payments pending payment as at 31 December 2004, including the value of the purchase options, is as follows:

	Thousands of Euros
Payments with Maturity in:	
2005	42,942
2006	35,792
2007	158,175
2008	33,511
2009-2013	133,360
	403,780

8. TANGIBLE FIXED ASSETS

Movements in the various tangible fixed assets accounts and the associated accumulated depreciation and provisions during Financial Year 2004 were as follows:

Thousands of Euros

Cost	31-12-03	Acquisitions	Disposals	Disposals out of the scope	Other Transfers	Dif. in exchange rates	31-12-04
Fleet of aircraft	**1.532.068**	**208.768**	**(124.299)**	**-**	**121.372**	**-**	**1.737.909**
Other tangible fixed assets:							
Property	4,105	-	(2)	(1,585)	-	-	2,518
Buildings and other construction	166,463	55	(3,618)	(7,641)	1,632	-	156,891
Machinery, fixtures and tools	409,483	21,832	(4,813)	(14,792)	3,534	-	415,244
Land transport items	34,668	3,254	(193)	(8,810)	-	-	28,919
Furniture and fittings	20,537	621	(1,403)	(456)	1	-	19,300
Data processing equipment	105,267	11,483	(2,027)	(839)	2,074	-	115,958
Spare parts for assets	258,532	101,191	(67,308)	-	-	-	292,415
Flight simulators	64,815	7,167	(61,940)	-	1,058	-	11,100
Other Assets	1,772	2	-	(1,670)	-	-	104
Assets in progress	9,845	36,433	(13,435)	-	(9,992)	(2,143)	20,708
	1,075,487	**182,038**	**(154,739)**	**(35,793)**	**(1,693)**	**(2,143)**	**1,063,157**

Thousands of Euros

Depreciation and Provisions	31-12-03	Provisions	Disposals	Disposals out of the Scope	Transfer of Provision for Major Overhauls (Notes 6-d and 15)	Other Transfers	31-12-04
Fleet of aircraft	**943,132**	**78,586**	**(1,545)**	**-**	**-**	**-**	**1,020,173**
Other tangible fixed assets:							
Buildings and other construction	110,912	3,681	(911)	(3,136)	-	(36)	110,510
Machinery, fixtures and tools	295,073	19,839	(4,574)	(10,114)	-	91	300,315
Land transport items	22,628	2,999	(187)	(6,505)	-	3	18,938
Furniture and fittings	14,110	1,056	(1,296)	(359)	-	8	13,519
Data processing equipment	70,260	12,951	(1,540)	(745)	-	1,015	81,941
Spare parts for assets	123,508	18,480	(2,591)	-	-	-	139,397
Flight simulators	42,461	1,243	(34,949)	-	-	-	8,755
Other assets	1,524	40	-	(1,477)	-	-	87
	680,476	**60,289**	**(46,048)**	**(22,336)**	**-**	**1,081**	**673,462**
Provisions:							
Fleet of aircraft	**49,567**	**16,099**	**-**	**-**	**25,803 (a)**	**-**	**91,469**
Other tangible fixed assets	**2,617**	**-**	**(7)**	**-**	**-**	**-**	**2,610**

(a) Includes € 18,206 thousand assigned to the B-747 fleet which are in the process of retirement or disposal (see paragraph on "Provisions" in this note) and € 7,597 thousand for items and components in operational fleets which are to be replaced in the next major overhaul (see Note 6-d).

The columns of "Other transfers" shown in the movements above include principally, on the one hand, those arising from intangible fixed assets (see Note 7) and, on the other hand, sums arising from financial fixed assets corresponding to advances paid on account which were finally applied principally to the payment for aircraft acquired under ownership during the financial year (see note 9).

Fleet of aircraft

Acquisitions during the period

The principal acquisitions during the period are summarised below:

	Thousands of Euros
Acquisitions to the aircraft fleet	170,402
Acquisitions of engines	7,002
Remodelling	31,364
	208,768

During financial year 2004, the dominant Company acquired one A-320 airplane and one A-340/600 airplane at a value of € 123,773 thousand. The Company later proceeded to sell these for a sum of € 119,365 thousand for operating leaseback. The net book value of these aircraft at the moment of disposal amounted to € 122,376 thousand.

Further, Iberia, Líneas Aéreas de España, S.A. acquired one A-320 airplane and one A-340/600 airplane at a value of € 126,084 thousand. In February 2005, the A-340/600 airplane was sold for operating leaseback, and the end of March 2005 it is expected to sell the A-320 airplane for operating leaseback.

The purchase contracts for these four aircraft involved the payment of advances to the value of € 80,470 thousand.

Transfers during the period

The principal transfers during the period are summarised below:

	Thousands of Euros
Deposits for fleet of aircraft	114,929
Deposits for engines	4,924
For assets in progress	1,519
	121,372

In virtue of the agreement signed with Airbus in preceding financial years, Iberia, Líneas Aéreas de España, S.A. took delivery of an A-320 airplane in replacement of a similar aircraft. As a result of this operation, the Group has proceeded to transfer the sum of € 34,459, thousand from the heading "Long-Term Deposits and Bonds" to the heading "Fixed Assets-Aircraft Fleet". In January 2005, this aircraft was sold and subsequently leased on operating leaseback.

Provisions

So as to be able to recognise possible capital losses deriving from disposals of aircraft expected to take place in the near future, the dominant Company has made the appropriate provisions for depreciation in order to match the net book value of these aircraft with their estimated realisation value. The provisions recorded and applications made during financial year 2004 were as follows:

Thousands of Euros

Provisions	Balance at 31-12-03	Provisions (Note 20-i)	Transfers (Note 15)	Balance at 31-12-04
Fleet:				
B-747	47,100	6,000	18,206	71,306
B-757	-	8,000	-	8,000
Other non-operational fleets	2,467	2,099	-	4,566
	49,567	**16,099**	**18,206**	**83,872**

As at 31 December 2004, the Group proceeded to transfer the provision for major overhauls in the books at that date for the B-747 fleet to the heading "Provisions" because that fleet is in the process of retirement or disposal. The net book value of these fleets after provisions amounts to € 18,768 thousand.

Commitments and other guarantees on the fleet

Iberia, Lineas Aéreas de España, S.A. has been using 3 aircraft under financial leasing arrangements (one A-320 and two A-321) and fifteen aircraft under operating leasing arrangements (seven A-320 and eight B-757); the return on these aircraft and the value of the aircraft themselves cover the repayment of an issue of bonds on the European market which was made by the lessor during financial year 2000 to the value of € 496,473 thousand.

Iberia, Líneas Aéreas de España, S.A. is in the middle of a fleet renovation plan, based upon two contracts formalised with Airbus Industrie (Airbus) in 1998 and 2002, with subsequent modifications for the A-320 and A-340 families respectively, and also under a contract formalised with International Lease Finance Corporation in 2003.

The aircraft pending delivery as at 31 December 2004, with the year of expected arrival according to the agreements made are as follows:

Firm aircraft

Type of Aircraft	2005	2006	Total
A-319	1 (b)	-	1
A-320	5	2	7
A-321	6 (a)	-	6
A-340/600	4 (b)	3	7
	16	**5**	**21**

(a) One A-321 aircraft has been operating under an Interim Charter arrangement since February 2005.

(b) One A-340/600 and the A-319 aircraft entered operating leasing arrangements in January and February 2005, respectively.

Aircraft under option

Type of Aircratf	2006	2007	Total
A-319	5	-	5
A-320	2	-	2
A-321	6	-	6
A-340/600	-	2	2
	13	**2**	**15**

In accordance with the base prices established in the contracts, the total cost of the aircraft under firm commitment and pending delivery as at 31 December 2004 amounts to € 1,460 thousand, of which € 936 million correspond to the A-340 fleet and € 524 million correspond to the A-320 fleet.

Operating fleet

The operating fleet of the Group as at 31 December 2004 is listed below:

Type of Aircraft	Under Ownership	Under Financial Lease	Under Operating Lease	Under Wet Lease (b)	In interim charter (c)	Total
B-747	1 (a)	-	2	2	-	5
B-757	1	-	12	-	-	13
A-319	-	-	6	-	-	6
A-320	12	10	35	-	1	58
A-321	-	2	7	-	1	10
A-340/300	-	-	18	-	-	18
A-340/600	1	-	5	-	-	6
MD-87	19	-	5	-	-	24
MD-88	13	-	1	-	-	14
	47	**12**	**91**	**2**	**2**	**154**

(a) Four aircraft which are out of service as at 31 December 2004 pending sale or scrap are not included. The net book value of these aircraft after provisions is nil.
(b) Rental system including fleet, crew, maintenance and insurance.
(c) Aircraft which are the property of the manufacturer and which the dominant Company operates, and which will be acquired under ownership or under operating lease in the short-term.

On 24 December 2004, an issue of bonds was made on the European market with a volume of Dollars 148,490,000 and € 120,300 thousand, which were covered by twenty aircraft for which the dominant Company guarantees usage under operating lease or financial lease. As at 31 December 2004, the Company had formalised contracts for operating leases for the use of one A-320 aircraft, one A-321 aircraft, and two A-319 aircraft in connection with this issue.

Fleet under operating lease, wet lease, or interim charter

During financial year 2004, two A-319 aircraft, one A-320 aircraft, two A-321 aircraft, and two A-340/600 aircraft joined the fleet under operating lease arrangements. In addition, two A-320 and four B-757 aircraft, the lease agreements for which expired in 2004, were returned.

Further, the Company operates two B-747 airplanes under wet lease arrangements and one A-320 airplane and one A-321 airplane are provisionally under an interim charter arrangement. With respect to these last two aircraft, in January 2005, the dominant Company proceeded to acquire and subsequently sell them under lease-back arrangements.

Boeing fleet

• B-757

As at 31 December 2004, Iberia, Líneas Aéreas de España, S.A. had twelve B-757 aircraft leased from different companies (one per aircraft. The lease agreements expired in financial year 2005. At the end of the lease period, the aircraft were to be returned to the lessor. In November 2004, IBERIA agreed with International Lease Finance Corporation to extend the lease of four of these aircraft until 2006, with the possibility of a further extension in the duration of the lease for one more year.

The lease agreements establish the requirement to carry out a series of overhauls on the engines and other elements in these aircraft prior to their return. In order to cover the cost of said overhauls, the Company has made a provision to the value of € 37,756 thousand under the heading "Provisions for Liabilities", of which € 31,000 thousand relate to assignment to provisions for the year. This provision also includes the expenses relating to five MD-87 aircraft which are expected to be returned at the end of their agreement periods in 2005.

• B-747

31 December 2004, Iberia, Líneas Aéreas de España, S.A. has operating lease agreements in force with Air Atlanta, S.A. on two B-747 aircraft. The expiry of these agreements is scheduled in 2005 (with an option to extend the lease for a further 9 months) and the Company has extended a guarantee for the successful conclusion of the operation in the form of a bond to the value of € 881 thousand (see Note 9).

Furthermore, the dominant Company has leased two aircraft under a wet lease agreement (hire of aircraft with crew, maintenance, and insurance). The lease agreements expire in 2006, and include the option for early termination as from the 19th month of the lease and an extension of the term for 12 or 24 months.

Airbus fleet

• A-340/600

As at 31 December 2004, Iberia, Líneas Aéreas de España, S.A. is operating five A-340/600 aircraft under operating lease arrangements concluded with various companies, the contracts for which expire between financial years 2015 and 2016. During financial years between 2013 and 2016, the contracts provide for a purchase option on these aircraft, or alternatively for them to be returned.

• A-340/300

As at 31 December 2004, Iberia, Líneas Aéreas de España, S.A. is operating eighteen A-340/300 aircraft under operating lease arrangements. Of these, four aircraft are leased for periods of nine years, with expiry of the various contracts falling between 2009 and 2010. After these periods, the Company may opt to acquire the aircraft for pre-established amounts, or return them to the lessor. The contracts for a further three aircraft expire in financial years 2014 (two aircraft) and 2015 (one aircraft). At the end of the lease period, the Company may take up an option to acquire the aircraft for pre-established amounts, or return them to the lessor; in the case of the contract expiring in 2015, the purchase option may be exercised either at the end of the term or two years prior to expiry.

The eleven remaining aircraft are leased each from a different company denominated "Iberbus" (see Note 9) in which the Company is a shareholder together with Airbus Industrie Financial Services. The basic conditions of the lease contracts relating to these aircraft are summarised below:

Original First

Iberbus company in question (a)	Original Term	First Extension
Concha, Ltd. (b)	2003	2008
Rosalía, Ltd.	2003	2008
Chacel, Ltd.	2003	2008
Arenal, Ltd.	2003	2008
Teresa, Ltd.	2004	2009
Emilia, Ltd.	2004	2009
Agustina, Ltd.	2005	2010
Beatriz, Ltd. (d)	2005	2010
Juana Inés, Ltd. (c)	2006	-
María de Molina, Ltd. (c)	2007	-
María Pita, Ltd. (c)	2007	-

(a) At the end of the leases, the Company may opt to return the aircraft or acquire them.

(b) On the delivery of one A-340/600 aircraft in 2006, the Company may extend the lease for 3 further years in addition to the first extension in exchange for a Credit agreed with Airbus.

(c) On the delivery of three A-340/600 aircraft (one in 2005 and two in 2006), the Company may extend the lease for a further 5 years in exchange for a Credit agreed with Airbus.

(d) Extension to 2010 under negotiation.

• A-319, A-320, and A-321

As at 31 December, Iberia, Líneas Aéreas de España, S.A. was operating seven A-321 aircraft, thirty-five A-320 aircraft, and six A-319 aircraft, under operating lease arrangements, the principal characteristics of such agreements are as follows:

1. There are twelve A-320 and four A-319 aircraft which are being leased under the terms of the contract formalised with International Lease Finance Corporation.
   The lease contracts for the A-320 aircraft expire in 2005 (one aircraft) and 2006 (eleven aircraft). At the end of the lease period, the Company may take

up an option for two additional extensions of one or five years, such that the total may not exceed six additional years of lease or, alternatively, may proceed to return the aircraft.
The lease contracts for the A-319 aircraft expire in 2008 (two aircraft) and 2009 (two aircraft), and on these dates the Company will proceed to return the aircraft.
As a consequence of the formalisation of this contract, the Company has made deposits to guarantee the successful outcome of the operation, to the value of € 9,911 thousand, which have been put in the books under the heading "Long-term Deposits and Bonds" in the Balance Sheet as at 31 December 2004, attached (see Note 9).

2. There are nine A-320 Aircraft leased under contracts with expiry dates ranging from 2012 to 2014, at the end of which the Company will return the aircraft to the lessor. Nevertheless, the Company may choose to exercise a purchase option on the aircraft for a value pre-established in the contracts on stipulated dates. 30 September 2007 (one aircraft), 30 March 2008 (two aircraft), 30 September 2009 (four aircraft), and 15 September 2011 (two aircraft).
3. The contracts corresponding to six A-320 expire in 2006 (three aircraft) and 2007 (three aircraft). On expiry, the Company may extend the contracts for five further years, with twelve months' notice prior to the termination of the original lease period or, alternatively, proceed to return the aircraft.
4. There are six A-320 Aircraft leased under contracts with the following expiry dates: one aircraft in 2006, three aircraft in 2007, and two aircraft in 2008. At the end of the lease period the Company only has the option of returning the aircraft to the lessor.
5. There are three A-321 aircraft leased under contracts with expiry dates ranging from 2013 to 2018. These contracts lay down the possibility of exercising the purchase option prior to the final expiry date (in 2012 for two of the aircraft, and 2013 for the remainder); in the event that they do not exercise the option upon the stipulated dates, the Company shall proceed to return the aircraft.
6. There is one A-320 aircraft leased from Cygnus Aviation, for which the contract expires in 2015. The lease contract stipulates a purchase option on the aircraft in 2014.
7. There are two A-321 aircraft, the lease agreements for which expire in 2016 and each of which each establishes particular purchase options in financial years 2012 and 2013.
8. There are two A-319, one A-320, and one A-321 aircraft, the lease agreements for which expire in 2019, with an option to purchase the aircraft in 2014 and an early termination option in 2015.
9. There is one A-321 aircraft, for which the contract expires in 2017, although there is a purchase option in 2014.

• MD-87

As at 31 December 2004, Iberia, Líneas Aéreas de España, S.A. is operating five MD-87 aircraft under operating lease arrangements. The contracts formalised have a duration of 96 months (with expiry in 2005) at the end of which the Company may exercise the purchase option indicated in the agreement, or return the aircraft.

• MD-88

As at 31 December 2004, the Company is operating one aircraft under an operating lease arrangement. This arrangement expires on 31 March 2005, on which date the Company will proceed to return the aircraft.

Lease costs

The revenues accrued in Financial Year 2004 through the operating lease contracts on aircraft amounted to € 319,926 thousand, and they are included in the heading "Other operating expenses" in the Profit and Loss Account (see Note 20-h). The approximate total amount to be disbursed on future payments deriving from the operating lease contracts for these aircraft, and in addition for information system equipment, are listed below, classified by year of expiry:

Financial Year	Millions of Euros
2005	334
2006	247
2007	195
2008	166
2009 a 2019	773
	1,715(*)

(*) The preceding figures include € 1,712 million which correspond to revenues denominated in US Dollars which have been converted to Euros by applying the official exchange rate at year end. Fluctuation in the exchange rates on these revenues is partially hedged using derivative products (see Note 18).

It was not the intention of the Administrators of the dominant Company at the moment these annual accounts were prepared to exercise the purchase options existing on the elements in the fleet which were being operated under operating lease arrangements as at 31 December 2004.

Later agreements concerning the fleet

At the end of February, the dominant Company signed an agreement with Airbus Industrie to acquire up to 79 aircraft in the A-320 family, with 30 aircraft firm and 49 aircraft under option, for the renovation of part of the Company's short and medium haul fleet. These aircraft will enter service during the period between 2006 and 2011.

Other tangible fixed assets

The buildings and installations constructed on land belonging to the Government, mostly on national airports, show a net book value of € 22,876 thousand as at 31 December 2004. The concessions relating to these assets expire between financial years 2005 and 2009.

On 26 February 2004, the dominant Company sold one building located in Barcelona for a sum of € 30,800 thousand. The capital gains generated, amounting to € 28,599 thousand, are recorded under the heading "Profit on disposal of intangible, tangible fixed assets and control portfolio" in the Consolidated Profit and Loss Account for financial year 2004, attached (see Note 20-c).

The addition of replacement spare parts for the aircraft fleet during 2004 gave rise to disposals from this part of the fixed assets to a net book value of € 58,255 thousand, which are assigned to in the Consolidated Profit and Loss Account, under the heading "Supplies" (see Note 20-f).

The movement in the "Fixed assets in progress" in the preceding breakdown includes retired parts to the value of € 9,475 thousand and relates to the outfitting of the interiors of aircraft operated under operating lease arrangements which have been recovered from the lessor.

Law on Asset Revaluation, Royal Decree-Law 7/1996, dated 7 June.

On 31 December 1996, the Company revalued its tangible fixed assets under the terms of Royal Decree-Law 7/1996, dated 7 June, with the payment of a single charge of 3%. Previously the Group had availed itself of other revaluation laws. The details of this heading of the Balance Sheet as at 31 December 2004 is as follows:

Thousands of Euros

	Capital gain as at 31-12-03	Provision 2004	Disposals of Fixed Assets	Balance as at 31-12-04
Fleet of aircraft	21,543	(1,233)	-	20,310
Property	700	-	(1)	699
Buildings and other construction	6,462	(422)	(664)	5,376
Machinery, fixtures and tools	220	(64)	(13)	143
Land transport items	2	-	(1)	1
Flight simulators	1	-	(1)	-
	28,928	**(1,719)**	**(680)**	**26,529**

The effect of the revaluation on depreciation for financial year 2004 amounted to approximately € 1,719 thousand, while in financial year 2005 it will show approximately € 1,682 thousand.

The capital gain resulting from the reappraisal, net of the single charge of 3%, was credited to the "Revaluation Reserve" account. As counterpart to the capital gain, the accounts relating to the revalued capital items were used, without modifying the value of the accumulated depreciation in the books. On 22 January 1998, the Tax Authorities checked and approved the balance of the revaluation reserve, and therefore, in accordance with existing legislation, it was agreed to apply this reserve to compensate losses in previous financial years.

Totally depreciated items

As at 31 December 2004, the cost of totally depreciated assets held by the Group in tangible fixed assets amounted to € 319,042 thousand, a shown in the following table:

	Thousands of Euros
Buildings	59,076
Machinery, fixtures, and tools	174,658
Furniture and fittings	9,028
Data processing equipment	39,143
Flight simulators	8,549
Land transport items	5,680
Fleet of aircraft	22,906
Other Assets	2
Total	**319,042**

Insurance Cover

The companies in the Group keep a number of different insurance policies on the items of tangible and intangible fixed assets, which offer sufficient cover for the net book value of these assets as at 31 December 2004. Furthermore, the Group keeps a number of different insurance policies on the aircraft fleet leased from third parties, under the terms and conditions established under each lease contract.

9. FINANCIAL FIXED ASSETS

Holdings in companies under consolidation by percentage equivalence

Movements relating to holdings in companies under percentage equivalence during Financial Year 2004 are shown below:

Thousands of Euros

	Balances at 31-12-03	Share in Earnings (Note 3)	Distribution of Dividends	Acquisitions	Transfers	Other	Balances at 31-12-04
Amadeus Group	134,957	39,485	(6,603)	-	-	4,357	172,196
Touroperador Viva Tours, S.A.	489	-	-	-	-	(489)	-
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	3,364	1,091	-	-	-	-	4,455
Multiservicios Aeroportuarios, S.A.	1,891	678	(136)	-	-	-	2,433
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A.	333	324	(324)	-	-	29	362
Empresa Logística de Carga Aérea, S.A.	164	96	-	-	-	(18)	242
Handling Guinea Ecuatorial, S.A.	891	549	(729)	-	-	1	712
Iber-América Aerospace LLC	640	110	(204)	-	-	(32)	514
Grupo Air Miles	-	(66)	-	100	-	-	34
Serpista, S.A.	-	(60)	-	1,292	-	-	1,232
Opodo, Ltd.	-	(1,521)		1,899	(19,246)	19,246	378
Total	**142,729**	**40,686**	**(7,996)**	**3,291**	**(19,246)**	**23,094**	**182,558**

Long-term securities portfolio

The details of the investments recorded under this heading in the Consolidated Balance Sheet as at 31 December 2004, attached, is as follows:

Thousands of Euros

	Holding at 31-12-04	Balance at 31-12-03	Acquisitions	Disposals	Transfers	Balance at 31-12-04
Fixed income securities:						
Iberbond PLC 1999	-	33,150	-	-	(1,170)	31,980
Treasury Debt	-	755	-	(513)	-	242
Equities:						
Venezolana Internacional de Aviación, S.A.	45.00	88,446	-	-	-	88,446
Interinvest, S.A.	0.14	30,244	-	-	-	30,244
Iberbus Companies	(a)	24,930	-	-	-	24,930
Opodo, Ltd. (Nota 3)	-	19,246	1,524	(1,524)	(19,246)	-
Adquira España, S.A. (c)	10.00	3,583	-	-	-	3,583
Cordiem	(b)	2,352	-	-	-	2,352
Servicios de Instrucción de Vuelo, S.L.	19.90	-	8,853	-	-	8,853
Other	-	997	-	(516)	-	481
Total cost		**203,703**	**10,377**	**(2,553)**	**(20,416)**	**191,111**
Provisions		**(142,208)**	**(1,053)**	**-**	**19,345**	**(123,916)**

(a) The percentage holdings in these companies vary between 40% and 45.45%.

(b) 1.86% of the capital of Cordiem LLC, and 2.07% of the capital of Cordiem, Inc. This investment is totally provisioned as at 31 December 2004.

(c) Investment provisioned to the value of € 2,769 thousand.

Fixed income securities

The bonds issued by Iberbond PLC and underwritten by Iberia, Líneas Aéreas de España, S.A. partially finance the acquisition by third parties of six A-320 aircraft which are being operated under a financial leasing arrangement by the dominant Company and accrue an interest rate of 5.90% per year, settled half-yearly. The capital sum is amortised annually, after a grace period of three years, at a rate of 3% of the capital sum, until final maturity, on 1 September 2007, when the remaining 85% will be amortised.

Interest accrued during financial year 2004 amounted to € 1,924 thousand and is recorded under the heading of "Other interest and similar revenues" in the Consolidated Profit and Loss Account, attached.

Equities

Venezolana Internacional de Aviación, S.A. is in the process of liquidation and it is for this reason that it is not consolidated. The cost of this holding has been totally provisioned.

The Company's holding in the capital of Interinvest, S.A. (majority shareholder in Aerolíneas Argentinas, S.A. has been fully provisioned.

Information relating to the Iberbus companies, companies which are the owners of the greater number of the A-340/300 aircraft operated by Iberia, Líneas Aéreas de España, S.A. (see Note 8) as at 31 December 2004, as obtained from their provisional financial statements, is as follows:

Thousands on Euros

Group companies and Associated	Adress	Holding Direct	Cost	Capital	Reserves	Ordinary Profit (Loss)
Iberbus Concha, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,029	5,033	(1,822)	(347)
Iberbus Rosalía, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,056	4,995	(3,275)	(334)
Iberbus Chacel, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,283	5,533	(5,094)	52
Iberbus Arenal, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,362	5,660	(7,627)	(588)
Iberbus Teresa, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,504	5,118	(1,765)	64
Iberbus Emilia, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,497	5,140	(1,877)	113
Iberbus Agustina, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,587	5,143	(359)	(58)
Iberbus Beatriz, Ltd.	George's Dock House, IFSC; Dublin	40.00	2,556	5,159	(252)	(105)
Iberbus Juana Inés, Ltd.	George's Dock House, IFSC; Dublin	45.45	1,896	3,077	(4,247)	(634)
Iberbus María de Molina, Ltd.	George's Dock House, IFSC; Dublin	45.45	1,983	3,236	(4,744)	(626)
Iberbus María Pita, Ltd.	George's Dock House, IFSC; Dublin	45.45	2,177	3,406	(4,647)	(638)
			24,930			

The majority shareholder in these companies, Airbus Industrie Financial Services, guarantees Iberia, Líneas Aéreas de España, S.A. recovery of the entire financial and loan investment made in the Iberbus companies, and it is for this reason that the value of the Group holdings in these companies is equal to the cost at which they were originally acquired and they are not included in the scope of consolidation.

Other credits

The details of the items making up this heading in the Consolidated Balance Sheet as at 31 December 2004 is as follows:

Thousands of Euros

	Balance at 31-12-03	Registrations	Differences in exchange rates (b)	Disposals/ Transfers	Balance at 31-12-04
Loans to Venezolana Internacional de Aviación, S.A. (a)	25,623	-	-	-	25,623
Loans to sociedades Iberbus	156,810	-	(11,410)	-	145,400
Loans to Aerolíneas Argentinas, S.A.	3,789	35,949		(2,928)	36,810
Other	7,998	8,510	-	(153)	16,355
Total cost	**194,220**	**44,459**	**(11,410)**	**(3,081)**	**224,188**
Provisions	**(33,380)**	**-**	**-**	**(36,810)**	**(70,190)**

(a) Loans granted to Venezolana Internacional de Aviación, S.A. (VIASA), which proceed from preceding financial years are fully provisioned as at December 31 2004.

(b) Recorded under the heading "Negative Exchange rate differences" in the Consolidated Profit and Loss Account and compensated by hedging operations (Note 18).

Iberia, Líneas Aéreas de España, S.A. has issued a loan to each of the Iberbus companies in which it is a shareholder. The capital sum varies, depending on the particular case, between US Dollars 11,049,000 and 22,101,000 These loans were made for a term equal to the duration of the operating lease agreement of each of the A-340/300 aircraft involved (see Note 8), at interest rates varying between 4% and 6% per year, with one single amortisation at maturity, which, depending on the particular case, will occur between 2006 and 2010.

The amount pending repayment under this heading, classified by the maturity years, is given below:

Thousands of Euros

Maturity in	
2006	8,112
2007	17,511
2008	60,837
2009	29,407
2010	29,533
Total	**145,400**

During financial year 2004, Iberia, Líneas Aéreas de España, S.A. cancelled 60% of the balances in their favour corresponding to the write-off agreed in the creditors' settlement of Aerolíneas Argentinas, S.A. against the provisions established. As at 31 December 2004, the remaining balances with Aerolíneas Argentinas, S.A. amounted to € 42,198 thousand, of which € 1,243 thousand correspond to loans, € 5,006 thousand to the net amount of the balances deriving from commercial operations and € 35,949 thousand to the subrogation of a mortgage-backed loan on two B-747 aircraft given by Banesto, S.A. to the value of US Dollars 43 million, the repayment of which was guaranteed by the Company.

In addition, Iberia, Líneas Aéreas de España, S.A. has backed a guarantee in US Dollars in relation to Aerolíneas Argentinas, S.A. amounting to US Dollars 6 million.

In order to provide for potential insolvencies and liabilities which may derive from the operations described above, the Group has established provisions to the value of € 45,502 thousand.

Long-term deposits and bonds

During financial year 2004, the movements of the items forming this heading of the Consolidated Balance Sheet were as follows:

Thousands of Euros

Item	Balance at 31-12-03	Acquisitions	Disposals	Transfers	Differences in Exchange rates	Balance at 31-12-04
Aerolíneas Argentinas, S.A. Deposit	48,030	-	(35,852)	-	(12,178)	-
Fleet acquisition deposit (Note 8)	307,367	143,988	(63,096)	(134,386)	(17,944)	235,929
Convertible Bond deposit (Note 17)	27,532	-	-	(9,178)	-	18,354
Exchange rate differences through hedging operations	-	-	-	17,653	-	17,653
Deposits and bonds for ILFC aircraft operations (Note 8)	9,897	798	-	-	(784)	9,911
Deposits and bonds for dry and wet lease aircraft operations (Note 8)	1,462	12,105	-	-	(1,192)	12,375
Other	3,886	780	(486)	-	(149)	4,031
	398,174	**157,671**	**(99,434)**	**(125,911)**	**(32,247)**	**298,253**

The sums included in "Deposits for fleet acquisitions" correspond to the sums paid on account for the acquisition of aircraft and are reimbursable.

The balance of the "Deposits for fleet acquisitions" account as at 31 December 2004 includes the following sums:

Thousands of Euros

Type of Aircraft	Firm Aircraft	Aircraft under option/rights
A-319	5,935	991
A-320	52,505	1,542
A-321	52,352	1,652
A-340	109,620	2,570
	220,412	**6,755**

This account also includes advances on account for the acquisition of engines to the value of € 8,762 thousand.

The "Transfers" column includes the following items:

Thousands of Euros

Transfers to tangible fixed assets (Note 8)	(119,853)
Transfers of assets in progress (Note 8)	2,392
Transfers to Temporary Financial Investments (a)	(16,925)
Total	**(134,386)**

(a) Corresponds to deposits for aircraft which, as at 31 December 2004, are operating under an "Interim Charter" agreement (Note 12).

Exchange rate differences for hedging operations correspond to the net balance arising from the valuation as at 31 December 2004 of the hedging operations on long-term equity positions (see Note 18).

10. OWN SHARES OF THE DOMINANT COMPANY

The movement for the financial year under the heading "Own shares of the dominant Company" in the Consolidated Balance Sheet as at 31 December 2004, attached, was as follows:

	Thousands of Euros
Balance at 31 December 2003	20,066
Acquisitions	25,263
Disposals	(13,368)
Balance at 31 December 2004	**31,961**

Own shares held by Iberia, Líneas Aéreas de España, S.A. as at 31 December 2004 represent 1.78% of the shareholders' capital and amount to 16,669,560 shares, of € 13,002 thousand overall nominal value, and a mean acquisition price of € 1.92 per share. The balance in the "Non-distributable reserves" account as at 31 December 2004 covers the entire net book value of the shares, to a total value of € 31,961 thousand.

The sale of own shares during 2004, the only item included in the section on disposals in the table above, gave rise to a profit to the value of € 8,991 thousand, which is recorded under the heading "Profit on operations with own shares" in the Consolidated Profit and Loss Account.

11. STOCKS

The details of this heading of the Consolidated Balance Sheet as at 31 December 2004 is as follows:

	Thousand of Euros
Raw Materials and other supplies	97,114
Commercial stocks	671
Product in progress and half-finished	6,139
Advances to suppliers	3,435
Provisions	(19,940)
Total	**87,419**

12. TEMPORARY FINANCIAL INVESTMENTS

The details of this heading of the Consolidated Balance Sheet as at 31 December 2004, attached, is as follows:

	Thousands of Euros
Financial assets, short-term	1,420,948
Deposits for aircraft under Interim Charter	65,862
Interest receivable not due	11,244
Convertible Bond deposits (Note 17)	9,178
Exchange rate differences through hedging operations	1,208
Iberbond Bonds (Note 9)	1,170
Loans to Aerolíneas Argentinas, S.A. (Note 9)	382
Other short-term deposits and bonds	6,805
Other temporary financial investments	8,051
	1,524,848

The mean yield on the sums placed in short-term financial assets, principally Euro-deposits, Euro-bonds, and fixed term deposits, was at 2.23% for financial year 2004.

Deposits for aircraft in "Interim Charter" correspond to the sums outlaid to the manufacturer of the aircraft for airplanes which are operating provisionally under an interim charter agreement (these aircraft were the property of the manufacturer as at 31 December 2004) and over the next few months will be operated under ownership or operating lease, and at that moment the dominant Company will recover the sums disbursed.

Exchange rate differences for hedge operations correspond to the net balance arising from the valuation of the hedging operations on short-term equity positions as at 31 December 2004 (see Note 18).

13. SHAREHOLDERS' FUNDS

Movements in the shareholders' funds accounts during Financial Year 2004 were as follows:

Thousands of Euros

	Capital	Share premium	Dif. arising through conversion of capital to Euros	Reserves of the dominant Company	Reserves in Com. consolid. by Global Integration	Reserves in Com. under consolidation by percentage equivalence	Conversion differ-ences	Profit for the year	Dividends
Balances as at 31 December 2003	716,833	98,937	1,201	312,358	76,235	83,894	(284)	143,586	-
Profit Distribution consolidated for the year 2003	-	-	-	78,469	8,375	29,449	-	(143,586)	27,293
Capital increases	14,392	7,564	-		-	-	-	-	-
Non-distributable reserves	-	-	-	-	-	-	-	-	-
Conversion differences	-	-	-	-	-	-	(60)	-	
Consolidated profit for the year									
2004 according to the Consolidated Profit and Loss Account, attached	-	-	-	-	-	-	-	218,402	-
Balances as at 31 December 2004	**731,225**	**106,501**	**1,201**	**390,827**	**84,610**	**113,343**	**(344)**	**218,402**	**-**

In any valuation of the equity of the IBERIA Group as at 31 December 2004, the values of the own shares should be discounted from the figure for shareholders' funds as shown in the Consolidated Balance Sheet.

Capital

Iberia, Líneas Aéreas de España, S.A. started an option plan for all of its employees during the year 2001. Under the conditions that were agreed, after the lapse of a waiver period, the number of options finally accepted stood at 25,291,842, for which the employees disbursed the sum of € 0.3 per share as payment on account. The exercise price for the option was set at € 1.19, and employees could swap 25% of the options taken, in the proportion of one for one, during financial year 2003, and the remaining 75% in equal parts on each of the following dates: 3 February 2004, 3 June 2004, and 3 October 2004. Upon reaching each of the exercise dates, the employees could opt to postpone and accumulate the exercise of their rights provided that the quoted value of the shares on that date was lower than the exercise price, otherwise they were lost.

In order to meet the commitments acquired with their employees in respect of the share option plan described, the parent Company of the Group proceeded to issue convertible bonds during financial year 2002.

In accordance with the determined exercise dates, the holders of the convertible bonds applied for conversion of 18,450,574 convertible bonds into 18,450,574 ordinary shares in the Company in the year 2004. Consequently, the dominant Company proceeded to increase its capital by the sum of € 14,392 thousand by issuing and distributing

18,450,574 ordinary shares with a nominal value of 0.78 and a premium of € 0.41 per share.

Further, the holders of 518,308 convertible bonds did not proceed to apply for conversion, and consequently the bonds issued were amortised early at the issue price (€ 1.19).

The share capital of the dominant Company as at 31 December 2004 was made up of 937,467,468 shares at € 0.78 nominal value each, fully issued and paid up represented by entries in account.

At 31 December 2004, the shareholders of the Company were as follows:

	Number of shares	%
BA & AA Holdings, B.V.	91,296,204	9.74
Caja de Ahorros y Monte de Piedad de Madrid	91,294,482	9.74
Banco Bilbao Vizcaya Argentaria, S.A.	69,209,157	7.38
Compañía de Distribución Integral Logista, S.A.	61,164,780	6.52
Sociedad Estatal de Participaciones Industriales	49,212,526	5.25
Corporación Financiera de Galicia, S.A.	32,404,254	3.46
El Corte Inglés, S.A.	27,387,215	2.92
Other, including staff	515,498,850	54.99
Total	**937,467,468**	**100.00**

On 6 June 2002, the General Shareholders' Meeting approved a new Share Option Plan for the Executive Administrators of the company, certain Managers, and other structural employees, to be realised in an issue of bonds convertible into shares in Iberia, Líneas Aéreas de España, S.A. In order to meet the commitments acquired in this new share option plan, the Company proceed to issue convertible bonds during financial year 2003; the exercise price for the options was set at € 1.62, in agreement with the conditions established by the General Shareholder's Meeting (Note 17). The 16,995,400 options issued may be exchanged on a number of dates lying between 26 April 2005 and 25 April 2008. In addition, the Company has approved a Plan for one million share plan for the Chairman of the Board.

Share premium

The Consolidated Text of the Law on Limited Companies expressly permits the use of the balance of the Share Premium account to increase the share capital and does not lay down any specific restriction with respect to the availability of such balance.

Difference arising through conversion of capital to Euros

As a consequence of the re-denomination of the company's capital into Euros approved by the Board of Directors in 1999, a difference arose due to rounding which made it necessary to reduce the share capital and to generate a non-distributable reserve in accordance with existing legislation.

Reserves of the dominant Company

Movements in the reserves of the dominant Company during Financial Year 2004 were as follows:

Thousands of Euros

	Legal Reserve	Merger reserve	Revaluation reserve	Non-distributable reserve	Voluntary reserves	Total
Balances as at 31 December 2003	75,671	165	38	20,066	216,418	312,358
Profit Distribution consolidated for the year 2003	10,576	-	-	-	67,893	78,469
Non-distributable reserves	-	-	-	11,895	(11,895)	-
Balances as at 31 December 2004	**86,247**	**165**	**38**	**31,961**	**272,416**	**390,827**

Legal Reserve

In compliance with the Consolidated Text of the Law on Limited Companies, it is required to devote a figure equal to 10% of the profit for the year to the legal reserve, until this reserve reaches a value of at least 20% of the paid-up share capital.

The legal reserve may be used to increase the share capital in that part of the balance which exceeds 10% of the share capital after increase. Other than for the purpose indicated above, and while the reserve does not exceed 20% of the share capital, it may only be used to compensate losses provided that there are no other reserves available which are sufficient for this end.

Reserves in Companies Consolidated by Global Integration and Percentage Equivalence

The details of the heading of "Reserves in companies consolidated by global integration" in the Consolidated Balance Sheet as at 31 December 2004, attached, is as follows:

	Thousands of Euros
Company	
Compañía Auxiliar al Cargo Exprés, S.A.	3.063
Campos Velázquez, S.A.	6.332
Cargosur, S.A.	(3.673)
Iber-Swiss Catering, S.A.	8.601
VIVA, Vuelos Internacionales de Vacaciones, S.A.	(77.026)
Sistemas Automatizados Agencias de Viajes, S.A.	23.851
Iberia Tecnología, S.A.	182
Auxiliar Logística Aeroportuaria, S.A	78
Total	(38.592)
Consolidation adjustments	123.202
Total	**84.610**

The consolidation adjustments break down as follows:

	Thousands of Euros
Net reserves corresponding to Aviación y Comercio, S.A.	65,473
Cancellation of provisions for permanent financial investments in Iberia, Líneas Aéreas de España, S.A. by dependent companies made during previous financial years	79,596
Cancellation of dividends received in previous years	(22,848)
Cancellation of capital gains on sales of fixed assets	1,917
Other	(936)
Total	**123,202**

The details of the heading of "Reserves in companies consolidated by percentage equivalence" in the Consolidated Balance Sheet as at 31 December 2004, attached, is as follows:

	Thousands of Euros
Company	
Amadeus Group	170,394
Touroperador Viva Tours, S.A.	(5,291)
Multiservicios Aeroportuarios, S.A.	384
Iber-América Aerospace LLC	322
Empresa Logística de Carga Aérea, S.A.	5
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A.	521
Handling Guinea Ecuatorial, S.A.	845
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	(674)
Total	166,506
Consolidation adjustments	(53,163)
Total	**113,343**

The consolidation adjustments break down as follows:

	Thousands of Euros
Cancellation of provisions for permanent financial investments in Iberia, Líneas Aéreas de España, S.A. by dependent companies made during previous financial years	5,262
Cancellation of dividends received in previous years	(66,542)
Net worth improvement net of tax proceeding from Amadeus	12,927
Cancellation of capital gains in sales of fixed assets	(6,950)
Reversion of negative consolidation difference	2,314
Other	(174)
Total	**(53,163)**

Other features

The restricted reserves of the companies in the Consolidated group as at 31 December 2004 amounted to € 771 thousand (€ 6 thousand for revaluation reserves and € 765 thousand for legal reserves).

Those companies which possess a holding equal to or greater than 10% in the capital of the most significant dependent companies as at 31 December 2004 are the following:

Company	Percentage Holding	Dependent company
Marítimas Reunidas, S.A.	25.00	Compañía Auxiliar al Cargo Exprés, S.A.
Amadeus Global Travel Distribution, S.A.	34.00	Sistemas Automatizados Agencias de Viaje, S.A.
Société Air France (a)	43.21	Amadeus Group
Amadeus Group	55.36	Opodo, Ltd.

(a) The financial rights of the holding amount to 23.36%.

14. EXTERNAL SHAREHOLDERS

Movements occurring under the heading "External shareholders" in the Consolidated Balance Sheet as at 31 December 2004, attached, classified by dependent company are as follows:

Thousands of Euros

	VIVA, Vuelos Internacionales de Vacaciones, S.A.	Iber-Swiss Catering, S.A.	Compañía Auxiliar al Cargo Exprés, S.A.	Sistemas Automatizados Agencias de Viaje, S.A.	Auxiliar Logística Aeroportuaria, S.A.	Total
Balance as at 31 December 2003	(71)	4.032	776	4.453	14	9.204
Dividends	-	-	(88)	(1.418)	-	(1.506)
Profit share for financial year 2004	-	-	205	1.377	4	1.586
Outgoings from scope of consolidation	-	(4.032)	-	-	-	(4.032)
Other	71	-	-	(4)	5	72
Balance as at 31 December 2004	**-**	**-**	**893**	**4.408**	**23**	**5.324**

The breakdown of the heading "External shareholders" as at 31 December 2004, for the principal companies, is as follows:

Thousands of Euros

	Capital	Reserves	Share in Earnings	Total
Compañía Auxiliar al Cargo-Exprés, S.A.	48	640	205	893
Sistemas Automatizados Agencias de Viaje, S.A.	84	2,947	1,377	4,408
Auxiliar Logística Aeroportuaria, S.A.	-	19	4	23
	132	**3,606**	**1,586**	**5,324**

15. PROVISIONS FOR CONTINGENCIES AND EXPENSES

This heading of the Consolidated Balance Sheet as at 31 December 2004, attached, is made up of the following items:

Thousands of Euros

	Balance as at 31-12-03	Acquisitions or provisions	Recoveries Applications	Disposals out of Scope	Transfers	Balance as at 31-12-04
Provisions for Pensions (Note 6-j)	36,395	3,744	(10,235)	-	1,001	30,905
Provisions for commitments to staff (Note 6-j)	487,585	67,731	(13,227)	-	(25,711)	516,378
Provision for major overhauls (Note 6-d)	105,068	24,582	(19,554)	-	(33,742)	76,354
Provision for liabilities (Note 6-l)	620,994	152,124	(140,758)	(582)	(13,494)	618,284
	1,250,042	**248,181**	**(183,774)**	**(582)**	**(71,946)**	**1,241,921**

The additions to the headings "Provisions for pensions" and "Provisions for commitments to staff" correspond to the 2004 accruals of the staff expenses and financial yields of the funds (see Note 6-j) and are recorded in the Consolidated Profit and Loss Account under the headings "Staff expenses" at values of € 1,946 thousand and € 50,667 thousand respectively, and "Financial expenses and similar" at values of € 1,798 thousand and € 17,064 thousand respectively.

The transfers in the "Provision for major overhauls" break down as follows:

	Thousands of Euros
Transfers to:	
Intangible fixed assets (Note 7)	7,939
Tangible fixed assets (Note 8)	25,803
Total	**33,742**

This balance of the heading "Provision for Liabilities" as at 31 December 2004 includes the sum of € 393,883 thousand corresponding to the estimated value of future payments, calculated according to actuarial studies carried out by independent experts, to meet the commitments acquired with early-retired staff under the conditions provided for in the staff rejuvenation plan put into practice in 2000 (788 persons as at 31 December 2004) and the voluntary workforce regulations plan approved in 2001 (3,919 staff).

The provisions made to cover the liabilities deriving from the extension of and updating of the Redundancy Plan during financial year 2004 amounted to € 105,752 thousand (see Note 20-i). 831 staff availed themselves of the Redundancy Plan during financial year 2004.

The remaining amount of contributions to provisions for liabilities during financial year 2004, which were also recorded as a debit to the heading "Extraordinary expenses" in the Consolidated Profit and Loss Account, attached (see Note 20-i), correspond to the sum forecast to meet unexpected overhauls of aircraft engines under operating lease arrangements (see Note 8), and other probable liabilities of various kinds.

Applications relate principally, among other items, to payments made during financial year 2004 deriving from the redundancy plans described above and other payments; recoveries derive principally from a number of actions in Court which were finally resolved in favour of the Group.

16. DEBTS WITH CREDIT INSTITUTIONS

The composition of the debts with credit institutions held by the Company as at 31 December 2004, relating to loans and financial leasing operations (see Note 7), listed according to maturity, is as follows:

Thousands of Euros

Debt	Currency	Debts with Maturity in: 2005	2006	2007	2008	2009	Years Following
In Euros:							
Principal		32,090	25,963	149,633	33,109	40,778	55,152
Interest		16,858	13,793	12,764	4,625	2,665	4,053
In foreign currency:							
Principal	US Dollar						27,079
Interest	US Dollar	45	53	53	53	53	9,227
		48,993	**39,809**	**162,450**	**37,787**	**43,496**	**95,511**

The Company has contracted credit lines with a limit amounting to € 261 million. The balance available as at 31 December 2004 amounted to € 259,904 thousand.

During financial year 2004, the mean weighted annual interest rates of the indicated loans indicated above were 4.45% for Euro denominated loans, and 3,88% for foreign currency denominated loans, and a number of them are tied to Euribor or Libor respectively.

17. ISSUE OF CONVERTIBLE BONDS

As was described in Note 13, in financial year 2003, the Parent Company of the Group proceeded to issue convertible bonds in the proportion of one for one, with a nominal value of € 1.62, to a total value of € 27,532 thousand, which were recorded under headings "Long-term Creditors-Issue of convertible bonds" and Short-term Creditors-issue of convertible bonds" depending on the exercise dates.

The principal characteristics of this bond issue are as follows:

1. Interest rate: 3-month Euribor plus a differential.
2. Exercise dates: 26 April 2005, 10 September 2005, 10 March 2006, 10 September 2006, 10 March 2007, 10 September 2007, 25 April 2008.
3. Guarantees: The Company has made a non-distributable deposit for a sum equal to the issue (see Notes 9 and 12).

18. MANAGEMENT OF FINANCIAL CONTINGENCIES

In order to control and reduce the potential negative impact on results of fluctuations in exchange rates, interest rates, and fuel prices, Iberia operates a programme of medium-term risk management, in line with the directives established and with the time horizon stipulated in the Master Plan.

Hedging of balance sheet positions as at 31 December 2004

Underlying risk	Currency	Amount (in '000,000 of Currency)	Type of hedge	Nominal (in '000,000 of Currency)
Loan to IBERBUS companies	USD	198	Cross Currency Swap	198
Advances on Engines and Fleet	USD	315	Cross Currency Swap	231
			Forward Fx	84
Bonds	USD	30	Cross Currency Swap	30
Interim Charter/Aircraft	USD	239	Forward Fx	239
Total	**USD**	**782**		**782**

Hedging of cash flows as at 31 December 2004

Underlying risk	Currency	Amount (in '000,000 of Currency)	Type of hedge	Nominal (in '000,000 of Currency)				
				2005	2006	2007	2008	2009
Foreign currency expenses	USD	(920)	Cross Currency Swaps	177	177	158	105	79
			Options:					
			USD Calls sold	(15)	-	-	-	-
			USD Calls purchased	40	-	-	-	-
			USD Puts sold	43	-	-	-	-
			Forward Fx	568	-	-	-	-
Income in foreign currency:	GBP	95	Options:					
			GBP Calls sold	(23)	-	-	-	-
			GBP Puts purchased	(18)	-	-	-	-
			GBP Puts sold	4	-	-	-	-
			Forward Fx	(19)	-	-	-	-
	CHF	104	Cross Currency Swaps	(12)	-	-	-	-
			Forward Fx	(34)	-	-	-	-
Fleet entry into service	USD	(352)	Options:					
			USD Calls sold	(40)	-	-	-	-
			USD Calls purchased	257	109	-	-	-
			USD Puts sold	277	109	-	-	-
			Forward Fx	75	-	-	-	-

Exchange Rate Risk

The mean prices of the flexible options structures are as follows: USD Puts sold 1.2518 USD/EUR, USD Calls purchased 1.1719 USD/EUR, and USD Calls sold 1.1690 USD/EUR. The mean price of the GBP Call options sold are 0.6596 GBP/EUR, of the GBP Puts purchased is 0.6885 GBP/EUR, and of the GBP Puts sold is 0.7165 GBP/EUR. The Forward Fx for purchase of USD are contracted at a mean exchange rate of 1.3045 USD/EUR, for sale of GBP at a mean rate of 0.6983 GBP/EUR, and for sale of CHF at a mean rate of 1.5106 CHF/EUR.

Interest Rate Risk

Hedging of balance sheet positions as at 31 December 2004

Amount (in '000 Currency) Instrument	IBERIA	IBERIA	Nominal at 31-12-04*	Nominal at 31-12-05*	Nominal at 31-12-06*	Nominal at 31-12-07*	Nominal at 31-12-08*
Cross Currency Swaps							
Floating to floating	Receives EUR	Pay USD	459,264	157,824	146,774	122,922	40,056

(*) The amounts are shown in the currency in which the Company pays.

Amount (in '000 Currency) Instrument	Currency	Nominal at 31-12-04	Nominal at 31-12-05	Nominal at 31-12-06
Interest Rate Swaps				
Fixed to floating (1)	EUR	56,282	51,261	49,141

(1) Iberia pays floating i and receives fixed i.

Hedging of cash flows as at 31 December 2004

Amount (in '000 Currency) Instrument	IBERIA	IBERIA	Nominal at 31-12-04*	Nominal at 31-12-05*	Nominal at 31-12-06*	Nominal at 31-12-07*	Nominal at 31-12-08*
Cross Currency Swaps:							
Fixed to floating	Receives USD	Pays EUR	57,636	-	-	-	-
Floating to fixed	Receives USD	Pays EUR	674,952	582,277	538,130	317,658	201,244
	Receives EUR	Pays CHF	90,621	-	-	-	-
Floting to floating	Receives USD	Pays EUR	856,024	597,368	473,641	332,747	162,636
	Receives USD	Pays CHF	113,043	-	-	-	-
	Receives EUR	Paga CHF	75,522	-	-	-	-
Fixed to fixed	Receives USD	Paga EUR	185,068	175,640	164,374	33,601	30,140

(*) The amounts are shown in the currency in which the IBERIA pays.

Amount (in '000 Currency) Instrument	Currency	Nominal at 31-12-04	Nominal at 31-12-05	Nominal at 31-12-06
Interest Rate Swaps:				
Floating to fixed (1)	USD	369,428	146,244	137,981
Fixed to floating (2)	EUR	154,241	-	-
Interest Rate Swap + Collar:				
Floating to floating	USD	96,120	87,840	-

(1) IBERIA pays fixed i and receives floating i.
(2) IBERIA pays floating i and receives fixed i.

The mean fixed interest rates of the interest rate hedges are: Euro 3.78%, Dollar 3.37%, and Swiss Franc 2.43%.

Further, the Group formalised interest rate exchange operations carried out within the internal structures of Japan Operating Leases (JOL) to a notional value of Dollars 578 million at 31 December 2004.

Urderlying risk	Commodity	Volume (Tm)	Hedge	Nominal (Tm)
Consumption of aviation fuel (Tm)	JET Kero CIF-NWE	2,237,309	Swaps	1,350,000

The Group has continued to today's date with the policy of hedging the price of kerosene directly, and for this purpose employs a combination of financial tools. Live hedges as at 31 December 2004 permit the Company to establish a mean price equivalent to Brent at Dollars 37.5 per barrel for the first half-year of 2005 and Dollars 42 per barrel for the second half of the year.

19. TAX SITUATION

The Corporation Tax expense for each company consolidated by global integration is calculated in terms of the financial or book results which do not necessarily have to coincide with the fiscal results, this being understood to be the tax assessment basis.

As from 1 January 2002, the Iberia, Líneas Aéreas de España, S.A. pays tax as the dominant company under the tax consolidation arrangement provided for in Chapter VII of Title VII of the Consolidated Corporation Tax Law (Royal Legislative Decree 2/2004, dated 5 March). The companies which for the tax consolidation group are those which are consolidated by the global integration method, except for Sistemas Automatizados Agencias de Viaje, S.A. and Binter Finance, BV, which do not meet the legally established requirements for form a part of that group.

The reconciliation of the consolidated financial results of the companies in the Consolidated Group for Financial Year 2004 with the tax assessment basis for Corporation Tax is shown below:

Thousands of Euros

	Increase	Decrease	Amount
Financial results for the year (before tax and after External shareholders)			281,646
Permanent differences	913	(1,267)	(354)
Temporary differences:			
arising during the year	207,435 (a)	(1,367)	206,068
arising during previous years	74	(227,346) (b)	(227,272)
Consolidation adjustments:			
Permanent differences	6,587	(35,702)	(29,115)
Compensation for negative assessment basis			
arising during previous years			(959)
Taxable revenue (fiscal results)			**230,014**

(a) This sum corresponds for the most part to contributions to provisions for pensions and other liabilities to the staff in addition to deferred profits for memorandum credits.

(b) This sum corresponds principally, to applications of provisions made in previous years for pensions and other liabilities to the staff, in addition to other provisions for contingencies and the application of profits for memorandum credits.

The sum recorded under the heading "Corporation Tax" in the Consolidated Profit and Loss Account for financial year 2004 corresponds to the sum of the Corporation Tax expense reported by each of the companies consolidated by global integration, and it breaks down as follows:

	Thousands of Euros
Application of tax rate of 35% to profits book adjusted for the various permanent differences	88,262
Plus/(Less):	
Deductions in tax payable	(27,804)
Corporation Tax regularisation for 2003	(7,504)
Other	10,290
Corporation Tax	**63,244**

The regularisations in Corporation Tax for financial year 2003 correspond principally to certain deductions not accounted for in the projected tax in the parent company of the Group. The heading of "Other" includes principally the adjustment of advance tax, the estimated recovery period of which exceeds 10 years in accordance with Spanish accounting standards.

The tax credits and debits were recorded, in line with their recovery date, in the "Debtors", "Long-term Debtors", "Other non-trading debts" and "Long-Term Creditors-Other Creditors" headings of the Consolidated Balance Sheet, attached, and the break-down is as follows:

Thousands of Euros

	Debtors			**Other Debts**		
	Short-term	**Long-term**	**Total debtors**	**Other Non-Trading Debts**	**Creditors Long-term**	**Total creditors**
Positive Tax Assessment Basis for the year	-	-	-	485	-	485
Temporary differences arising in the financial year	-	64,964	64,964	-	478	478
Temporary differences pending application, arising during previous years	37,193	215,025	252,218	-	2,205	2,205
Total	**37,193**	**279,989 (*)**	**317,182**	**485**	**2,683**	**3,168**

(*) Correspond principally to advance tax deriving from provisions made to meet commitments to staff and other provisions.

The estimated calendar for the application of long-term tax credits as at 31 December 2004 is as follows:

	Thousands of Euros
Year of recovery	
2006	42,300
2007	42,300
2008 and following	195,389
	279,989

The Directors of the companies in the Group estimate that the total value of these credits will be recovered within a period no greater than ten years.

The legislation in force in respect of Corporation Tax established various tax incentives in order to promote investment and contributions to mutual associations. The consolidated companies have availed themselves of various tax benefits for such items, and it is planned to apply deductions to the value of € 3,744 thousand in the Corporation Tax declaration for Financial Year 2004.

The IBERIA Group has planned to apply domestic and international double taxation deductions to the value of € 7,080 thousand in the Corporation Tax declaration for Financial Year 2004.

During Financial Year 2004, the Group reinvested € 124,869 thousand corresponding to the sum obtained from the sale of assets generating a deduction of € 16,980 thousand. Over recent financial years, the sums reinvested and the corresponding deductions are as follows:

	Thousands of Euros	
	Reinvestment	**Deduction**
2001	13,818	1,224
2002	72,794	4,423
2003	31,516	4,822
2004	124,869	16,980

As a consequence of a succession of inspections, the tax authorities opened a number of declarations signed in disagreement and appealed by the dominant Company, relating to years 1993 to 1997 (principally for Value Added Tax and withholdings on account for personal Income Tax).

Further, the dominant Company has appealed the declarations opened in relation to Customs Dues corresponding to 1998 (second half-year), 1999, and 2000 (first five months).

Similarly, in relation to Aviación y Comercio, S.A. (company absorbed by the dominant Company during financial year 2000) appeals lodged against declarations made by the Tax Inspectors in respect of the inspection of tax declarations presented in respect of specific taxes during financial years 1989 and 1990, 1993 and 1994, 1997 and 1998 are pending resolution.

The Directors of Iberia, Líneas Aéreas de España, S.A., do not expect that the resolution of the various appeals mentions above will give rise to additional liabilities over and beyond those recorded in the annual accounts for financial year 2004.

Further, in respect of the years subject to potential inspection, 2000 to 2004 for Corporation Tax, and 2001 to 2004 in respect of all other taxes applicable to the dominant Company and the remaining companies consolidated by global integration, the Directors of Iberia, Líneas Aéreas de España, S.A., do not expect that there will be a risk incurred with a significant impact on the annual accounts.

In compliance with the provisions of Article 93 of the Consolidated Corporation Tax Law (Royal Legislative Decree 4/2004, dated 5 March) it is hereby declared that the information relating to the merger of the dominant Company with Aviación y Comercio, S.A. is included in Note 22 of the Memorandum for financial year 2000. A non-financial contribution has been made to Servicios de Instrucción de Vuelo, S.L. during the present financial year, in respect of which, in compliance with Article 84 of the Consolidated Corporation Tax Law part of the fax benefits have been waived.

20. INCOME AND EXPENSES

a) Net value of turnover

The distribution of the net figure of the turnover corresponding to the business of the Consolidated Group during financial year 2004 is shown below:

By business activities	Thousands of Euros 2004
Revenues from passengers (a)	3,757,803
Revenues from cargo	261,629
Handling (aircraft despatch and airport services)	302,435
Technical assistance to airline companies	112,435
Other income	167,363
Total	**4,601,665**

(a) Includes other revenues (recovery of tickets pending use, trading agreements, etc.) to the value of € 325,663 thousand in 2004.

The dominant Company is the principle operator in handling services within Spain in virtue of the award of the contract by public tender opened by Aeropuertos Nacionales y Navegación Aérea. This contract expired in March 2003, and the new invitation to public tender by Aeropuertos Nacionales y Navegación Aérea remains pending.

The distribution of passenger revenues by network is as follows:

Network	Millions of Euros 2004
Domestic	1,262
Medium haul	1,063
Long haul	1,107
	3,432

b) Other trading income

The heading "Other operating revenues" in the Consolidated Profit and Loss Account, attached, breaks down as follows:

Item	Thousands of Euros 2004
Commission Income	111,407
Rental income	10,080
Other miscellaneous income	82,219
	203,706

Commission income cover principally the commission charged for the sale of tickets flown buy other airline companies, commissions arising from the franchise agreement with Air Nostrum, and the commissions obtained through agreements formalised with Mundicolor and Touroperador Viva Tours, S.A.

c) Profit arising from disposals of intangible assets, tangible assets, and control portfolio

The composition of heading "Profits arising from disposals of assets and control portfolio" in the Consolidated Profit and Loss Account for 2004, attached, is as follows:

	Thousands of Euros
Disposal of building in Barcelona (Note 8)	28,599
Disposal of Iber-Swiss Catering, S.A., and Touroperador Viva Tours, S.A. (Notes 2 and 3)	14,103
Disposal of Viva Tours trademark (Note 7)	15,000
Disposal of other tangible assets (flight simulators)	21,338
Other	24,178
	103,218

d) Extraordinary Income

The composition of the heading "Extraordinary Income" in the Consolidated Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
Application of income for distribution over various financial years (Note 6-i)	24,575
Recovery of provisions for liabilities (Note 15)	10,931
Recovery of Provision for Major Overhauls (Note 15)	6,500
Recovery of other Provisions	8,000
Other	10,223
	60,229

The "Recovery of other provisions" account includes the revenue deriving from adjusting liabilities arising from the valuation of the points in the Iberia Plus card pending redemption, as at 31 December 2004.

e) Income and profits from previous financial years

As a consequence of the forthcoming entry into service of new information systems for the management of tickets sold and pending use, the Dominant Company has made an estimate of the balances of client advances for tickets and travel documents which were pending regularisation for various reasons, and proceeded to recognise them as income in this heading of the Consolidated Profit and Loss Account together with other sums of lesser value.

f) Supplies

The composition of the heading "Supplies" in the Consolidated Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
	2004
Aviation fuel	653,518
Spare parts for aircraft fleet	154,932
Domestic materials	22,694
Other supplies	20,801
	851,945

The line "Spare parts for aircraft fleet" includes those which were initially recorded in assets which have been incorporated into the relevant aircraft in substitution for other spare parts during the financial year, and the net book value of which at the moment at which they were so incorporated is recognised as an expense under this heading in the Consolidated Profit and Loss Account.

The expense for aviation fuel during financial year 2004 amounted to € 730,030 thousand. Related futures operations reduced this expense by € 76,512 thousand.

g) Workforce and staff costs

The composition of the heading "Staff costs" in the Consolidated Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
	2004
Wages and salaries and similar	1,077,767
Social costs	345,556
	1,423,323

The number of employees in the Consolidated Group measured in terms of the average equivalent workforce during Financial Year 2004, by professional category, is detailed below:

	Number of Employees 2004
Landside:	
Higher Group of Managers and Technical staff	1,327
General Administrative group	6,661
Other	10,584
	18,572
Airside:	
Pilots	1,929
Technical Flight Officers	70
Cabin crew	4,422
	6,421
	24,993

h) Other operating expenses

The composition of this heading in the Consolidated Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
	2004
Sales expenses	342,499
Fleet of aircraft:	
Dry lease (a)	348,017
Wet lease (a)	15,525
Cargo	15,317
Other	5,545
Air traffic services	359,039
Stopover costs	41,162
Incident costs	15,610
Air navigation fees	270,533
Air fleet maintenance (b)	117,163
Other maintenance	35,983
Reservation system expenses	130,347
On-board services	68,967
Other rental (c)	78,348
Other (d)	298,182
	2,142,237

(a) The expense for fleet rental amounted to € 319,926 thousand during financial year 2004. The related interest rate and exchange rate hedging operations gave rise to an increase in this expense to the value of € 43,616 thousand.

b) Includes subcontracted maintenance expenses and the contribution to provisions for major overhauls.

(c) Includes hangar rental expense amounting to € 3,950 thousand.

(d) Fees relating to audit services provided to Iberia, Líneas Aéreas de España, S.A. and companies in the Group by the main auditor and by other entities linked to the principal auditor during financial year 2004, amounted to € 407 thousand.

Additionally, the fees relating to other professional services provided to Iberia, Líneas Aéreas de España, S.A. and companies in the Group by the main auditor and by other entities linked to the principal auditor during financial year 2004, amounted to € 230 thousand.

i) Extraordinary expenses

The composition of the heading "Extraordinary expenses" in the Consolidated Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
Provisions for extension of Redundancy Plan (see Note 15).	105,752
Provisions for fleet (Note 8)	16,099
Contribution to provision for liabilities (Note 15)	44,232
Other extraordinary expenses	5,657
	171,740

21. CONTRIBUTION BY THE COMPANIES IN THE GROUP AND ASSOCIATED COMPANIES TO THE CONSOLIDATED FINANCIAL RESULTS

The contribution made by the companies in the Group and Associated companies to the consolidated financial results for financial year 2004 are as follows:

	Thousands of Euros
Company	**Profit/(Loss) 2004**
Iberia, Líneas Aéreas de España, S.A.	168,063
Compañía Auxiliar al Cargo Exprés, S.A.	616
Campos Velázquez, S.A.	13
Cargosur, S.A.	74
VIVA, Vuelos Internacionales de Vacaciones, S.A.	919
Sistemas Automatizados Agencias de Viaje, S.A.	3,578
Auxiliar Logística Aeroportuaria, S.A.	34
Iberia Tecnología, S.A.	55
Consultores Hansa, S.A.	2
Binter Finance, B.V.	5
Amadeus Group	43,842
Multiservicios Aeroportuarios, S.A.	678
Handling Guinea Ecuatorial, S.A.(HANGESA)	549
Empresa Logística de Carga Aérea, S.A.(ELCA)	96
Empresa Hispanocubana de mantenimiento de Aeronaves Ibeca, S.A.	324
Sociedad Conjunta para la Emisión y gestión de Medios de Pago EFC, S.A. (IBERIA-CARDS)	1,091
Iber-América Aerospace LLC	110
Opodo, Ltd	(1,521)
Serpista, S.A.	(60)
Grupo Air Miles	(66)
Profit attributable to the dominant Company	**218,402**

The breakdown of the heading "Profit attributable to External shareholders" in the Consolidated Profit and Loss Account for Financial Year 2004, attached, is as follows:

	Thousands of Euros
Company	**Profit/(Loss) 2004**
Compañía Auxiliar al Cargo Exprés, S.A.	205
Auxiliar Logística Aeroportuaria, S.A.	4
Sistemas Automatizados Agencias de Viaje, S.A.	1,377
Profit attributable to External shareholders	**1,586**

22. REMUNERATION AND OTHER BENEFITS TO THE BOARD OF DIRECTORS

The sum for the remuneration accrued on all items during Financial Year 2004 by members of the Board of Directors of Iberia, Líneas Aéreas de España, S.A. breaks down as in the following detailed table:

	Thousands of Euros
Remuneration to the Board of Directors	
Fixed attribution	660
Financial compensation for attendance at Board Meetings	516
Compensation in kind	53
Total compensation	**1,229**

Further, Iberia, Líneas Aéreas de España, S.A. has incurred expenses relating to the performance of the functions of the non-executive directors to the value of € 10 thousand.

In addition, compensation of the Executive Directors during Financial Year 2004 was as follows:

	Thousands of Euros
Executive Directors	
Fixed remuneration	1,002
Variable remuneration	576
Compensation in kind	98

The sum corresponding to Social Security, insurance and other expenses recorded by Iberia, Líneas Aéreas de España, S.A. and deriving from the activities carried on by the Executive Directors amounted to € 464 thousand.

No advance or credit of any kind has been extended to any of the members of the Board of Directors of Iberia, Líneas Aéreas de España, S.A. during financial year 2004, and there are no commitments incurred with the Board in respect of pensions.

23. BREAKDOWN OF HOLDINGS IN COMPANIES WITH SIMILAR BUSINESS ACTIVITIES AND PERFORMANCE OF SIMILAR ACTIVITIES, WHETHER AS EMPLOYED OR FREE-LANCE STAFF, BY THE DIRECTORS

In compliance with the provisions of Article 127 Third. 4 of the Law on Limited Companies, introduced by Law 26/2003, dated 17 July, modifying Law 24/1988, dated 28 July, on the Stock Exchange, and the Consolidated Text of the Law on Limited Liability Companies, in order to reinforce transparency in quoted limited liability companies, the performance by the various members of the Board of Directors whether as employee or free-lance, of activities of the same, analogous, or complementary nature as that constituting the business purpose of Iberia, Líneas Aéreas de España, S.A. and dependent companies are listed below.

Name	Activity	Type of Modality	Company	Post/Function
Roger Maynard	Air transport	Employed	British Airways	Alliances and Investments Director
	Air transport	Employed	Britsh Airways Citiexpress	Chairman
Lord Garel-Jones	Handling	Employed	Acciona	Board Member
Pablo Isla	Distribution and logistics	Employed	Logista	Chairman

Further, in accordance with the text indicated above, it is declared that the only Board Members with a holding in companies with the same, analogous, or complementary nature as that constituting the company purpose of Iberia, Líneas Aéreas de España, S.A., and dependent companies are Mr Roger Maynard (4.545 shares in British Airways), and D. Pablo Isla (100 shares in Compañía de Distribución Logista, S.A.).

Finally, the members of the Board of Directors (or persons acting on their account) have not carried out, whether with Iberia, Líneas Aéreas de España, S.A. or with the other companies in the IBERIA Group, any transactions other than the ordinary business of the companies nor any transaction under conditions other than those prevailing in the market.

24. INFORMATION ABOUT THE ENVIRONMENT

Within the framework of its environmental policy, the Group has continued to develop various activities during 2004 with the intention of ensuring proper management of its principal impacts upon the environment deriving from the entire activity of air transport.

In the course of financial year 2004, the Company has incurred expenses of an environmental nature to the value of € 2,773 thousand, as shown in the following table:

	Thousands of Euros
Environmental repairs, conservation, and transport	1.041
Environmental technical services	550
Sponsorship, publications, and other environmental expenses	124
Staff costs associated with environmental management	869
Environmental taxes	189
Total	**2,773**

Further, the assets of an environmental nature including filtration plants, hazardous waste stores, systems for filtration and recharging gases, infrastructure for the recycling of water, among others, show an acquisition cost of € 50,622 thousand and accumulated depreciation of € 20,498 thousand as at 31 December 2004.

With reference to the fleet, the Company maintains a policy of fleet renovation in which the environment is a significant aspect to be borne in mind (reduction of acoustic and atmospheric impact to a minimum). In this respect, the Company continues to incorporate new models to reduce fuel consumption by around 20% in comparison with aircraft of earlier generations. Thus, during financial year 2004, three aircraft of the A-340/600 fleet were incorporated for long-haul flights, and two B-747 were retired; the remaining B-747s will cease to be operated in the course of the year 2005; and for medium haul, three A-321 and two A-319 were acquired and four B-757 were also retired.

In respect of land operations, the award of Environmental Management System Certification, ISO 140001:1996, to the aircraft maintenance activity carried out on the premises in Madrid is the principal news of the financial year.

As far as potential contingent liabilities in respect of the environment are concerned, the Company believes that such contingencies are sufficiently well-covered by civil liability insurance policies which have been contracted together with the provisions relating to probable or certain liabilities, court proceedings in progress, and indemnities or obligations which are pending with undetermined sums.

25. TRANSITION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In accordance with CE Regulation no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002, all companies which are regulated by the Law of a Member State of the European Union, and the shares of which are quoted in a regulated market of any of the States making up the Union, must present its consolidated accounts for financial years commencing 1 January 2005 in accordance with the International Financial Reporting Standards (IFRS) which have been recognised by the European Union. In compliance with the application of this Regulation, the IBERIA Group will be obliged to present its consolidated accounts for financial year 2005 in accordance with the IFRS recognised by the European Union. In our country, the obligation to present consolidated annual accounts under the IFRS approved by Europe ha also been regulated in the Final Provision Eleven of Law 62/2003, dated 30 December, on Tax, Administration, and Social Measures (BOE <official gazette> 31 December).

According to IFRS 1, on the Adoption of the International Financial Reporting Standards for the First Time, approved by CE Regulation 707/2004 of the Commission, dated 6 April (OJEU 17 April), although the first financial statements prepared in accordance with the IFRS will be, inn the case of the Group, those corresponding to the financial year closed on 31 December of financial year 2005, it will be necessary to include, for comparative purposes, the figures relating to the preceding year, 2004, prepared in compliance with the same bases as those used in the preparation of the figures for financial year 2005. This will require the preparation of a starting, or opening, Balance Sheet as the date of the transition to the IFRS accounting principles, 1 January of financial year 2004 in the case of the IBERIA Group also prepared in compliance with the IFRS standards in force as at 31 December of financial year 2005.

In order to comply with this requirement imposed by CE Regulation no. 1606/2002 and the provisions of Law 62/ 2993, the Group has prepared a plan for the transition to the IFRS, including among others, the following:

- An analysis of the differences between the criteria of the Spanish General Accounting Plan in force in Spain and those of the IFRS, and further the effects that such differences may have upon the determination of the necessary estimates in the preparation of the financial statements.
- Selection of criteria to be applied in those cases or issues in which there may exist potential alternative treatments under the IFRS.
- Evaluation and determination of the appropriate modifications and adaptations in operating procedures and systems employed in order to supply the necessary information for the preparation of such financial statements.
- Evaluation and determination of the necessary changes to planning and organisation of the process of collecting information, conversions and consolidation of the information on the companies in the group and associate companies
- Preparation of the consolidated opening financial statements as of the date of the transition, in compliance with the IFRS.

Currently the plan mentioned above is in its execution phase; in the course of financial year 2005, it will be finally closed, although it will not be possible to estimate in an integral, reliable manner and with all the relevant information on the potential impacts of the transition, bearing in mind that:

- In view of the requirements of IFRS 1, the final determination of the impacts remains subject to the International Financial Reporting Standards (IFRS) and their interpretations (IFRIC), which may finally be in force at the closing date of the first consolidated accounts which the Group will prepare in accordance with the indicated regulations, 31 December of financial year 2005 in the case of the Group.
- Finally, there are decisions in relation to the selection of the criteria to be applied in those situations in which there exist possible alternative treatments permitted under the IFRS which have still not been finally adopted by the Organisation.

Consolidated Management Report

MAIN AGGREGATES

IBERIA GROUP	2004	2003 (5)	% Var.
Income (millions of €)			
Operating revenues	4,805.4	4,619.3	4.0
EBITDAR	766.9	700.7	9.4
Operating income	203.3	160.7	26.5
Income before taxes	283.2	201.7	40.4
Consolidated net income for the year	220.0	145.9	50.8
Net income attributed to the Company	218.4	143.6	52.1
Net earnings per share (€ cents) (1)	23.30	15.62	49.2
Net earnings per share (€ cents) (1)	5.0	3.0	66.7
Passenger traffic: production and revenues			
ASK (millions)	61,058	56,145	8.8
RPK (millions)	45,924	42,100	9.1
Load factor (%)	75.2	75.0	0.2 p.
Passenger revenues (millions of €)	3,432.1	3,356.8	2.2
Average yield (€ cents)	7.47	7.97	(6.3)
Financial aggregates and ratios			
Shareholders' equity (millions of €)	1,645.8	1,432.8	14.9
Net debt (millions of €) (2)	(1,162.3)	(938.5)	23.8
EBITDAR margin (%)	16.0	15.2	0.8 p.
Operating income margin (%)	4.2	3.5	0.7 p.
Consolidated income margin (%)	4.6	3.2	1.4 p.
ROE (%) (3)	13.3	10.1	3.2 p.
Resources			
Equivalent average no. of full-time employees (4)	24,993	24,748	1.0
Operating aircraft on December 31	154	149	3.4
Usage of Company aircraft (B.H. per aircraft per day)	9.10	8.78	3.6

(1) Number of shares as of December 31: 937,467,468 in 2004; 919,016,894 in 2003.
(2) Negative figure means cash and cash equivalents exceed interest-bearing debt (excluding interest on financial lease contracts).
(3) Return on Equity. Consolidated income / (Shareholders' equity + Minority shareholders)
(4) Includes employees of IBERIA, CACESA, ALAER, SAVIA and BINTER FINANCE
(5) Historical data (per consolidated group at December 31, 2003).

1. 2004 HIGHLIGHTS

IBERIA generated consolidated income of € 220 million in 2004, an increase of 50.8% compared to earnings for the prior year. The EBITDAR margin was 16%, 0.8 points up on the prior year.

In parallel with an intense cost cutting program, the company continued with the implementation of actions aimed at enhancing customer service including key investments to renew the IBERIA fleet and the design of the new Business Plus class for long-haul flights. Meanwhile, IBERIA was admitted to the Dow Jones Stoxx Sustainability Index in 2004, in clear recognition of its strong social, economic and environmental commitment.

The world air transport industry saw generalized traffic growth in 2004, which was particularly high in the case of Middle and Far Eastern airlines. According to data published by the International Civil Aviation Organization (ICAO), revenue passenger kilometers (RPK) on scheduled flights worldwide increased by 14% compared to the prior year, although this growth was partly due to the recovery of demand following the contraction experienced in 2003 because of the Iraq war and the SARS epidemic. The increase in traffic achieved by European network airlines was somewhat less, 9% up on 2003 according to data published by the Association of European Airlines (AEA), due to sluggish growth in the main European economies and stiff competition from US, Asian and, above, all low-cost European carriers.

Notwithstanding growth in demand, the air transport industry as a whole incurred total losses worldwide of around US$ 4.8 billion 2004 according to the latest estimates of the International Air Transport Association (IATA). The main reason for these new losses in the industry was the sharp rise in the price of oil, which could not be offset by the 2.5% cut in aggregate unit costs, excluding fuel. Moreover, average revenues per passenger again fell across the industry due to strong competition, repeating the trend of recent years.

Despite this difficult background, however, IBERIA was able to make significant progress with the implementation of the measures envisaged in the 2003/05 Master Plan in 2004, and as a result the company succeeded in raising consolidated net income after taxes by 75% to a total of € 185.1 million.

In 2004, IBERIA again achieved a significant increase in productivity following the necessary parenthesis of the previous two years due to the crisis in the air transport industry. Available seat kilometers (ASK) rose by 8.8% compared to the prior year to over 61,000 million, breaking the record set in 2001. In RPK terms, traffic grew by 9.1% relative to 2003 (in line with the AEA as a whole) resulting in a passenger load factor of 75.2%, slightly higher than in the prior year. The company carried nearly 26.7 million passengers in 2004.

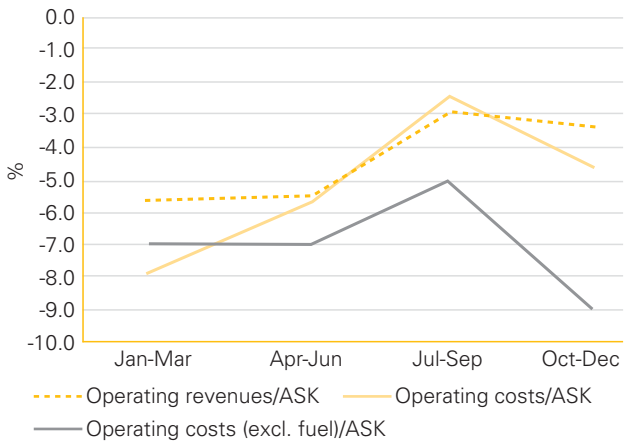
The IBERIA Group increased its operating revenues by 4.0% compared to 2003. However, the increase in revenue generated by significant growth in traffic and the strong performance of the handling and maintenance businesses was partially offset by the fall in average revenues both for passengers and cargos. In particular, the average yield slipped by 6.3% compared to 2003 as a consequence of strong competition within the sector, especially in Europe, and the depreciation of the US dollar against the euro.

The sharp rise in the price of aviation kerosene, which reached record highs in the last quarter of 2004, was the main reason for the 17.4% increase in the company's fuel costs, even though the impact was largely cushioned by the hedging policy and the depreciation of the US dollar, which also benefited other costs. Nevertheless, the increase in operating expenses was held down to 3.2% over the prior year,

mainly thanks to the implementation of the measures established in the Master Plan. In particular, the new distribution model in Spain and the redesign of in-flight services made a major contribution to results.

IBERIA succeeded in reducing its unit operating cost (per ASK) by 5.1% with respect to 2003, staying ahead of the 4.3% drop in unit operating revenue. The unit operating cost excluding fuel fell be 7.0% compared to the prior year, and the evolution was positive throughout the year thanks to the progressive implementation of the measures contained in the Master Plan. The following chart shows that the biggest drop in the unit cost excluding fuel was achieved in the last quarter (9.0%). In the second half of the year, meanwhile, the company succeeded in narrowing the year-on-year difference in unit operating revenue, representing an improvement on the decline experienced in the first six months.

Quarterly change 2004/2003
IBERIA unit revenue and costs



To sum up, the IBERIA Group earned total operating income of € 203.3 million in 2004, an improvement of 26.5% compared to income for 2003, while at the same time strengthening its already sound financial position. On December 31, 2004 shareholders' equity was almost 15% higher than at the close of the prior year, while net debt remained negative with cash and cash equivalents exceeding interest-bearing debt (excluding interest on financial lease contracts) by over € 1.162 billion, an increase of almost 24% in relation to the 2003 balance.

Risk management

IBERIA has continued with the development of a global non operating risk management program aimed at limiting the possible impact of exchange rate, interest rate and aviation fuel price fluctuations on the Company's earnings.

The year was marked by a sharp rise in oil prices, which several times climbed to historic highs both for crude and refined products, such as aviation kerosene.

In early 2004 prices were around US$ 30 per barrel ($/bbl), but they soon rose, particularly from May onwards, reaching over US$ 45/bbl in August and a record high of more than US$ 52/bbl in October. This was followed by a correction, and prices had fallen back to around US$ 40/bbl by the end of the year.

IBERIA's hedging policy proved especially effective in this environment of historically high prices, to a great extent cushioning the impact of the rise in kerosene prices. Over the twelve months of 2004, the fuel price hedges arranged by IBERIA produced accumulated savings of close to € 81 million in fuel costs.

IBERIA had hedged 60% of fuel purchases at prices that were significantly lower than market in the first half of the year and 80% in the second half. Together with a favorable exchange rate, these hedges ensured that the impact on fuel costs was significantly reduced and enabled the company to maintain one of the lowest unit fuel costs per ASK of all European airlines.

Implementation of the Master Plan

The objective of the 2003/05 Master Plan is to reduce operating costs and raise asset usage, providing the company with flexible instruments to tackle the ever fiercer competition in its markets. In the first half of 2003 IBERIA revised the Plan, which was originally prepared in 2002, with the aim of reinforcing the strategic measures by bringing forward the implementation of certain initiatives. Significant progress was made with the execution of certain key measures envisaged in the Master Plan in 2004.

On January 1, 2004 the "New System for Remunerating Travel Agencies in Spain" came into effect. This system provides for a scaled reduction in the basic commission IBERIA pays to Spanish travel agencies to 1% from July 2005 onwards. As a result, IBERIA paid a basic commission of 3% in the first half of 2004 and 2% in the second half, compared to a commission of 6.5% in 2003. The saving in commercial expenses obtained from the application of the New Model in Spain already represents over two thirds of the total savings expected to be gained from this measure by 2005 in accordance with the Master Plan.

This low commissions model has also been taken abroad, and IBERIA has succeeded in reducing the basic commission paid to travel agents in several countries, including the United Kingdom, Ireland, Germany, Portugal and the Central American nations. Meanwhile, a new inter-airline agreement between the companies forming part of **one**world came into force in September 2004, reducing commissions on sales made by members of the alliance. In addition, sales made through IBERIA's new channels (Iberia.com and Serviberia) have continued to grow.

As a result of the above, the ratio of net commercial expenses (including advertising and less commission revenues) to IBERIA's traffic revenues fell by 2.5% to 5.8%.

Another key initiative of the Master Plan is the change in the model for in-flight service on short and medium haul flights. On March 1, 2004, a new "à la carte" pay service was launched in tourist class on all domestic flights and the segment of medium haul international flights with a duration of less than three hours (the implementation date for links with the Canary Islands was June 1).

The new in-flight service model in tourist class has resulted in a significant reduction in the cost of food and catering materials and handling, as well as simplifying the service and cutting the number of cabin crew members required to serve passengers.

IBERIA implemented various initiatives to increase asset usage, another of the strategic measures contained in the Master Plan. In the long haul fleet, the number of block hours per aircraft day was increased by 7.3% compared to 2003, and the process of replacing Boeing B-747s was speeded up. In the short and medium haul fleet, usage (measured in block hours) rose by 2.5% work began to increase the number of seats per aircraft while maintaining the difference between them. This initiative affected the A-320 (8% more seats than in the previous configuration), A-321 (4.3%), A-319 (4.8%) and MD-87 (6.4%) models. By the end of 2004, a total of 50 aircraft had been densified. Work will continue during the first half of 2005 in line with the maintenance and overhaul schedule until seating plans have been optimized on all of the Airbuses forming part of the IBERIA fleet.

As regards employee productivity, ASK per employee were 7.7% up on the prior year in 2004, despite an increase of only 1% in equivalent full-time employees of IBERIA. This was achieved basically by taking on staff in the handling area in order to meet the increase in activity for third parties. Excluding handling staff, the increase in ground employees' productivity was 11.8% compared to 2003.

The company has commenced the negotiation of new collective labor agreements with its employees. Management of IBERIA considers employee productivity gains to be a key objective and priority for the coming years.

The 2003/05 Master Plan envisages a range of actions in other areas with the aim of achieving additional savings of between € 110 and 120 million in 2005. In this regard, insurance costs were cut by 28% in 2004 compared to the prior year. At the same time, significant progress was made in the area of maintenance as a result of agreements reached with regard to flexible working practices, productivity and new procedures for dispatching aircraft.

The objective of the Master Plan is to achieve a diminution in the 2002 unit operating cost of between 10% and 12% by 2005. Nevertheless, this reduction was estimated on the basis of an oil price of US$ 24.5 per barrel. IBERIA's unit cost in 2004 was €c 7.46 per ASK, a reduction of 6.2% in relation to 2002, or 8.1% excluding the cost of fuel in both periods.

Quality improvement

The two priority objectives established in the 2003/05 Master Plan are to maintain adequate returns and to improve quality. This commitment takes the form of a Global Service Quality Improvement Plan, which provides for action in the two vital areas of customer service and punctuality.

In this regard, 2004 was a key year for the implementation and operational roll-out of the CRM (Customer Relationship Management) philosophy in IBERIA. The main achievement of the CRM project is to provide IBERIA employees in real time with the resources and information necessary for them to recognize the value of each customer at every point of contact with the company. This has made it possible to improve the service provided with the consequent positive impact on profitability. The operational roll-out of CRM was accompanied by a training plan aimed at almost 9,000 employees of the company who have direct relations with customers.

IBERIA has also implemented other measures with the aim of improving customer service. These include centralized management of all communications with customers via the Customer Service Center; the inclusion of new functionalities and services on the company's commercial website (Iberia.com) and in the information hotline (Serviberia); expansion of electronic ticketing to new destinations and in itineraries combining IBERIA flights with those of other partners in the **one**world alliance; and self-service check-in machines at airports.

In particular, the IBERIA Group has continued to strengthen relations with "high value" customers. IBERIA has launched its new Business Plus class on intercontinental routes, in which it intends to invest € 100 million to significantly improve all elements of in-flight service. The company has also taken steps to enhance Business class service in the medium haul sector. In March 2004 improvements were made to meals (which are still provided free of charge and are of recognized quality), and at end of the year the company ceased to sell the central seat in each row in order to offer customers greater comfort and more space.

Meanwhile, IBERIA included new companies in its Iberia Plus loyalty program, which had over 2,026,000 cardholders at the end of 2004, an increase of over 20% on the prior year.

The punctuality of flights is one of the factors that most affects the level of customer satisfaction. In view of this, IBERIA created a Punctuality Committee in early 2003, the members of which represent all of the areas involved in operations, in order to seek ways of preventing delays, identify their causes and take the necessary corrective action. In 2004, the Committee has continued ongoing monitoring of compliance with the program in accordance with the planned schedule. At the same time, the company initiated an Integral Punctuality Improvement Plan which envisages over forty projects involving the review of all procedures and factors that could affect the common objective of improving punctuality. As a result of these actions, the company was able to maintain high levels of punctuality in 2004 (82.2%).

The IBERIA Group's commitment to improving quality is oriented towards all of its activities, and with this aim in mind ISO 9001:2000 Quality management systems have been implemented in

various divisions (specifically Cargo, Systems, Material, Operations) and at airports (passenger and ramp handling) where an integrated quality and environmental management system is in place with ISO 9001 and ISO 14001 certification. In the course of 2004, these divisions successfully completed the internal and external audit necessary to maintain the relevant certificates. The company has also continued to work to complete the certification of all key activities.

Rationalization of flight networks

One of the most important events of 2004 was the closure of the Miami traffic distribution center, which was used by IBERIA pursuant to the Fifth Liberty agreements entered into by Spain and the United States.

Until last September, IBERIA operated two daily flights with wide-body aircraft on the transatlantic Madrid-Miami route. It also had four smaller aircraft (Airbus A-319) based in Miami with their respective crews to distribute traffic to the countries of Central America and pick up inbound traffic from those destinations.

The strict security controls implemented at US airports following the September 11 terrorist attacks, such as the requirement for a visa to enter the United States either as a destination or in transit, and the cost of these measures, had seriously affected customers' perception of the product, especially among those outbound from Central American countries. This situation was the main reason for the closure of the Miami hub. However, the company also felt there was sufficient demand to increase the number of direct links between Europe and Central America, while the decision was compatible with IBERIA's strategic interest in these markets and its firm commitment to quality.

On October 1, 2004, IBERIA commenced direct flights from Madrid to Guatemala, San José de Costa Rica and Panama using A-340 aircraft to replace the connecting flights via Miami it had operated using the fleet of A-319s. At the same time, links with other Central American destinations (Cancún, Managua, San Pedro Sula and San Salvador) began to be operated by carriers in the region (Mexicana de Aviación and TACA) with which IBERIA has entered into code sharing agreements. The Spanish maintains one daily direct flight from Madrid to Miami, from where customers can link to other destinations in North America by connecting with American Airlines flights.

This restructuring improves customer service, provides direct flights to three of the main cities of Central America and offers easier and more numerous connections to other destinations, thereby substantially improving on the alternatives previously available in the market. It will also enable IBERIA to optimize results in the region.

In the medium haul sector, IBERIA increased its routes to Africa and the Middle East, still a minority market for the company, by 45% with the aim of diversifying production and growing in markets that are less mature than Europe.

In the course of 2004, IBERIA also redistributed its domestic routes with the aim of improving the profitability of the network, gradually raising capacity in flights within the Iberian Peninsula and slowing the growth of links with the Canary Islands, where competitors had created increasing overcapacity.

At the end of 2004, the IBERIA commercial network, including flights operated by the franchisee Air Nostrum, covered a total of 98 destinations in 38 countries.

Agreement with British Airways

In December 2004 IBERIA and British Airways entered into an agreement for the joint development of routes between London Heathrow, Madrid and Barcelona. This agreement provides for the joint operation of these trunk routes as from January 1, 2005 with profits to be shared.

The agreement is covered by the anti-trust exemption already granted to the alliance between the two airlines by the European Commission, allowing them to carry out plans for the joint

development of the network, coordination of capacities and joint prices, sales and operating accounts.

The customers of both airlines will enjoy greater choice and flexibility of schedules and services, as well as benefiting from improved connections at the airports concerned, facilitating access to more destinations. IBERIA and British Airways, both members of the oneworld alliance, expect to be able to rationalize services and costs. This agreement represents a further step in the creation of closer relations between the two airlines, which will continue to examine new avenues for cooperation to respond effectively to the challenges of the future.

Finally, IBERIA and British Airways have expanded their code sharing agreements, which covered a total of 65 routes (including those operated by franchisees) at the end of 2004.

Other commercial agreements

IBERIA also has code sharing agreements with other partners of the oneworld alliance. These are American Airlines, Lan Chile, Finnair and, since July 2004, Cathay Pacific Airways. This new agreement covers routes connecting Hong Kong with Madrid and Barcelona via Amsterdam and London Heathrow.

In addition, IBERIA has Frequent Flyer Agreements with all of the airlines forming part of oneworld.

IBERIA customers can also benefit from commercial agreements made with other carriers that are not part of oneworld. For example, IBERIA and Mexicana de Aviación entered into a code sharing agreement and a frequent flyer agreement in January 2004, both of which came into effect on April 15, 2004. As a result of these agreements, both companies have been able to expand destinations, while passengers who are members of their respective loyalty programs can obtain and redeem points on the services operated by either airline. These agreements have also helped to strengthen IBERIA's positioning with regard to traffic between Europe and Central America.

In accordance with the code sharing agreement, links between Mexico City and Monterrey, Guadalajara, Puerto Vallarta, Veracruz, Cancún and Acapulco operated by Mexicana are marketed with the Iberia code. Since October 2003 Mexicana has also operated the route between Miami and Cancún with the Iberia code. In return, ten routes operated by IBERIA (links between the airports of Madrid and Barcelona, Bilbao, Oviedo, Seville, Valencia, Vigo, Paris, Milan, Rome and Mexico City) include the Mexicana code.

In August 2004 IBERIA and TACA (Transportes Aéreos de Centroamerica) entered into an important code sharing and traffic distribution agreement. This agreement, which came into effect on October 1, allows the Spanish company to distribute and capture traffic at various destinations in Central America to which it does not fly directly but has links via flights operated by the Central American carrier with an appropriate number of seats.

Specifically, IBERIA operates three direct flights to the region, which arrive daily at San José de Costa Rica and three times per week at Guatemala and Panama. From San José and Guatemala, travelers can connect with the TACA flights commercialized with the Iberia code to continue their journey to the cities of Managua (Nicaragua), San Pedro Sula (Honduras) and San Salvador (El Salvador). The agreement also covers flights linking these Central American destinations with Miami and Havana. This new program therefore multiplies connections and offers IBERIA customers the possibility of flying between Europe and the main cities of Central America every day of the week.

In 2004 IBERIA made new code sharing agreements with other companies and expanded the number of destinations covered by existing ones. These include the agreement made with the Colombian airline Avianca, which commenced in September, and the significant expansion of routes covered by the existing agreement with Royal Air Maroc, also as from September.

During 2004 IBERIA and the regional carrier Air Nostrum continued developing the franchising

agreement that has linked them commercially since 1997. Thus, Iberia Regional Air Nostrum further expanded its European service, increasing the frequency of flights and opening new routes, such as the links between Oviedo and Brussels and Paris, between Vigo and Valladolid and Paris and the Mallorca-Nice and Madrid-Manchester routes. New routes were also set up in the domestic market. These are Barcelona-Albacete, Barcelona-Badajoz, Albacete-Mallorca, Málaga-Oviedo, Vigo-Sevilla, Oviedo-Sevilla and Málaga-Santiago de Compostela. In October 2004 the European Regions Airline Association (ERA) bestowed its Golden Palm on Air Nostrum. This is a major honor awarded in recognition of the airline's capacity to sustain excellence over time.

New technologies

The IBERIA Group continues to apply new technologies to its business in order to improve service and reduce costs.

IBERIA has redoubled its efforts to foster the use of electronic tickets or "cybertickets", an initiative that is intended to improve customer comfort. In this type of ticket, flight coupons consist of an electronic entry kept in a data base, replacing the classic paper ticket. A physical ticket is thus no longer necessary, and tickets can therefore be booked and issued simultaneously in a telephone call, while tickets can be changed without any need to leave home or the office and there is no risk of loss. Cybertickets are widely used by the customers of Iberia.com and Serviberia.

The company has extended the option of using electronic tickets to a number of new international destinations (Montevideo, Dublin, Tel Aviv and Zurich among others) in 2004. By the end of the year, then, cybertickets could be used on all domestic routes (except the Madrid-Barcelona shuttle), and on all IBERIA flights from any point in Spain to destinations in thirty-four countries. Over five 5,800,000 electronic tickets were issued in 2004, an increase of 72% on the prior year, and they now represent 36.3% of total tickets issued. In sales originating in Spain in 2004, cybertickets accounted for 40% of the total tickets issued.

Achieving optimum use of the Internet is another strategic priority pursued by the IBERIA Group on an ongoing basis.

Customers can obtain information on flights, fares and available seats through Iberia.com, the company's website, as well as making their own bookings and buying tickets with the option of asking for an electronic ticket. The company has added various new functionalities to the website in 2004, supplementing the flights offered with other non-air-transport products (e.g. hotel rooms, travel insurance and car hire) through marketing agreements. Iberia.com ticket sales in 2004 totaled € 206.5 million, almost 32% higher than in 2003.

Users of Iberia.com can also access the IBERIA corporate website, a new version of which was launched in 2004 with the aim of enhancing transparency on all matters concerning the firm. The new corporate website provides wide-ranging information about the IBERIA Group (key figures, history, fleet and so on), a page on the firm's social commitments and another on Job Opportunities, as well as the latest press items related with the airline. It also provides access to a page specifically designed for investors and shareholders, which has also been fully upgraded. The new version provides more information, which is clearly set out and organized, and has an attractive design to facilitate navigation by users.

Other examples of IBERIA's use of new technologies include the self-service check-in machines installed for passengers traveling without luggage; the Air Shuttle check-in system and control system which directly provides the customer with both ticket and boarding card in the same document; air-ground satellite communication services; and the SMS text messaging system for cell phones.

Fleet Renewal Plan

The Group has pressed ahead with the Fleet Renewal Plan, which is designed to create a more modern and uniform fleet, thereby improving the quality of the service provided to customers, reducing operating costs and ensuring that aircraft are quieter and cleaner.

In January 2003, the Board of directors of the company approved the replacement of the fleet of Boeing B-747s with new A-340/600 aircraft. This four-engine model has a range of 13,900 kilometers and is the longest jet in the A-340 family. In its current configuration it has capacity for 342 seats compared to 249 on board the A-340/300 version, 18 units of which are in service in IBERIA.

At December 31, 2004 the IBERIA Group was already operating six A-340/600 aircraft, three of which were brought into service in the last quarter of the year. The fleet renewal process has been brought forward, with the result that the retirement of the B-747 will be completed in 2005, when IBERIA will have a long haul fleet using a single aircraft, the Airbus A-340. This will facilitate efforts to raise aircraft usage and the productivity of crews. In accordance with the contracts made with International Lease Finance Corporation (ILFC) and Airbus, the company expects to receive four A-340/600 aircraft in the course of 2005 (one aircraft was brought into service on January 27) and a further three in 2006.

IBERIA has been operating with only three types of fleet (A-320 family, MD-87/88 and B-757) on short and medium haul flights since June 2003, compared to seven aircraft types before the commencement of the Renewal Plan in 1998. At the end of 2004, the IBERIA Group operated a total of 125 short and medium haul aircraft, 74 of which belong to the Airbus A-320 family. Over the course of the year, the company added nine new aircraft (four A-320s, three A-321s and two A-319s) to this fleet.

IBERIA has commenced negotiations with the aircraft manufacturers Boeing and Airbus with a view to reaching agreement for an extensive renewal of its short and medium haul fleet. In the coming months, a decision will be made with regard to the addition of over 70 new aircraft to replace the Boeing B-757 and McDonnell Douglas MD-87 and MD-88 fleets, as well as the "older" units of the Airbus A-320 model, which were acquired at the beginning of the 1990s. As a result of this renewal, IBERIA will soon have one of the most modern and efficient fleets in the market.

Actions in affiliates

IBERIA has continued to actively manage its portfolio in line with the strategy defined in the 2003/05 Master Plan, the objective of which is to sell investments in companies that are not directly related with its core air transport business and are not considered to be strategic for the development of the Group, and to outsource certain functions in order to improve efficiency in the use of resources.

During the fourth quarter of 2004 IBERIA, Air France and Lufthansa, the main shareholders of Amadeus Global Travel Distribution, S.A. (Amadeus GTD) received various bids from financial investors interested in acquiring an interest in the share capital of this multinational concern, which manages one of the world's leading bookings distribution systems. The three shareholders of Amadeus GTD undertook a selection process, which culminated in early 2005 with the decision to negotiate exclusively with the consortium formed by the venture capital firms BC Partners and Cinven, which had presented a proposal to bid for 100% of the Class A shares of Amadeus GTD at a price of € 7.35 per share via a newly created company. The three shareholders opened negotiations with BC Partners and Cinven on January 12 with a view to agreeing the terms and conditions of the bid.

At December 31, 2004 IBERIA held 18.28% of the Class A shares of Amadeus GTD. The operation proposed would generate financial gains in the first half of 2005 upon the approval and completion of the bid, while at the same time allowing the company to maintain a significant interest in the capital of the new company.

In addition, the Board of directors of IBERIA resolved at the meeting held on January 27, 2005 to commence negotiations and, where appropriate, to sell 66% of the subsidiary Sistemas Automatizados Agencias de Viajes, S.A. (SAVIA) to Amadeus GTD for a price of € 82.5 million, which would be adjusted on the basis of net debt and working capital at the date of the operation, subject to compliance with legal requirements and the relevant official authorization. IBERIA does not consider its investment in this subsidiary to be strategic, whereas the policy of Amadeus GTD, which already owns 34% of SAVIA, is to acquire 100% ownership of its national marketing companies. Similar deals were already carried out in prior years for the equivalent companies to Savia in the French and German markets, among others.

In February 2004, IBERIA and CAE, a company specializing in the manufacture of advanced simulation and control technologies and integrated training services, jointly incorporated a flight training firm under the name Sociedad de Instrucción de Vuelo, S.L. (SIV) in accordance with an earlier agreement made in October 2003. IBERIA holds a little less than 20% of the share capital of SIV, while CAE, which manages the new company, owns the remaining 80%. IBERIA and CAE contributed the assets held at their respective flight schools at La Muñoza and Alcalá de Henares. Via SIV, IBERIA will at all times have access to the cutting edge technology necessary to maintain its leading position with regard to the preparation and training of its crews, at the same time as improving the profitability and efficiency of the assets concerned.

In April 2004, the Antitrust Office of the Spanish Ministry of Economy and Finance authorized the acquisition by Gate Gourmet International of the 70% interest held by IBERIA in Iber-Swiss Catering, S.A. IBERIA and Gate Gourmet (owner of the remaining 30% of Iber-Swiss' share capital) had already agreed to carry out this transaction at a price of € 23.4 million in December 2003. This agreement provides for both the sale of the aforementioned shares and the formalization of a service contract whereby Gate Gourmet International will provide IBERIA with general catering services worldwide for seven years. In particular, the agreement provides for cooperation between the two companies in all activities associated with the development of the new in-flight pay catering service IBERIA has introduced on certain short and medium haul flights since March 2004.

In February 2004 Antitrust Office also authorized the sale by IBERIA of its investment in Touroperador Viva Tours, S.A. and the "Viva Tours" brand to Iberojet in accordance with the agreement reached between the two companies. The price of this sale was € 16.9 million.

New Terminal Area

At an extraordinary meeting held on November 2, 2004, the Board of directors of Aeropuertos Españoles y Navegación Aérea (AENA) resolved to locate IBERIA and its partners in the oneworld alliance in the New Terminal Area (NTA) at Madrid-Barajas airport formed by Terminal Building T-4 and the Satellite Building T-4S. Air Nostrum (an IBERIA franchisee) and certain other carriers that do not form part of any alliance will also be located at the new installations.

The agreed allocation of airport space by terminals is based on technical criteria such as the market share of each airline at the airport, as well as commercial relations between companies.

AENA has sought a balance in the initial utilization of capacity at each of the airport's terminals and to reserve adequate space to permit growth in the operations of all carriers in the coming years, as well as the expansion of their alliances. Other objectives are to to foster the development of hub operations both at terminals 1, 2 and 3 (Star Alliance and SkyTeam) and at NTA (oneworld), to minimize connections between terminal areas and connection times by ensuring that the main airlines operate in the same area as allied carriers; and to guarantee appropriate and equal service quality at both Terminal Areas.

The allocation of the NTA to IBERIA and its oneworld partners will allow them to carry out their growth strategies without constraints, providing adequate space and resources for them to operate efficiently and offer quality services from 2006 onwards.

IAS / IFRS Transition Project

The Extraordinary Summit of the Heads of State of the European Union held in Lisbon in March 2000 resolved to establish a financial reporting framework to provide greater transparency, facilitate comparison between companies and favor the development of an integrated EU capital market. This objective culminated in the promulgation of Regulations 1606/2002 of the European Parliament and the Council and 1725/2003 of the Commission, which require all groups of companies traded on European capital markets to present their consolidated financial statements in accordance with the new common regulatory framework from 2005 onwards. The new regulatory framework is formed initially by International Accounting Standards (IAS) and by the International Financial Reporting Standards (IFRS), the name applied to the new standards issued by the International Accounting Standards Board since November 2003.

As a consequence, the IBERIA Group is required to present its consolidated financial statements as at and for the year ended December 31, 2005 in accordance with the new regulations. It is also required to present interim financial information in accordance with IFRS as from June 30, 2005. Since the application of IFRS to the individual accounts will be established in accordance with national regulations, the individual accounts will be prepared under the Spanish General Chart of Accounts and the consolidated accounts under IFRS from 2005 onwards, despite the existence of certain differences of criteria between the two standards.

IBERIA commenced the IFRS Transition Project in July 2002 in order to ensure that it would be able to comply with EU regulations within the periods established and reduce the impact of the implementation of the new standard by bringing forward certain actions.

Significant milestones in this Project, which is now close to completion, are as follows: identification of all differences existing between IFRS and the Spanish General Chart of Accounts, and monitoring and updating of standards (which have been continually revised over time); advance estimation of the impact of applying IFRS on the IBERIA Group's financial statements and net worth; significant decision making processes in those areas where IFRS provides a choice of options with the aim of harmonizing IFRS and Spanish accounting criteria to the full extent possible; identification of needs for the adaptation of information systems; and implementation of a specific IFRS training plan aimed at all employees of the Group who may be directly or indirectly affected by this change.

Work has intensified since March 2004, when a multi-division team (the IFRS Committee) was created to ensure the performance of the planned actions in accordance with the timetable established. The relevant changes to have been made to information systems, and new reports have been prepared. In addition, as IFRS require that the financial statements also include comparative figures for at least one accounting period, it was necessary to set the commencement date for the transition at January 1, 2004 with the result that all monthly closes in 2004 have been carried out in accordance with both IFRS and the Spanish General Chart of Accounts.

Corporate Responsibility

The IBERIA Group is deeply committed to environmental protection and social action with the framework established in the Corporate Responsibility Policy.

IBERIA's social action strategy is based on support for organizations carrying out social assistance projects through the provision of its usual services. The company undertakes actions in collaboration with its employees, among which the work performed by the NGO Mano a Mano, the Asociación de Empleados Padres de Minusválido (APMIB) and the Fundación Tutelar APMIB stand out. It also supports organizations through sponsorship agreements and promotes the involvement of customers, as well as receiving the collaboration of suppliers.

The IBERIA Group maintains a policy of global environmental management, which covers all activities on the ground and in the air. In the air transport industry, fleet renewals are a basic instrument to minimize environmental impacts. In 2004, IBERIA has continued replacing its B-757 aircraft with new Airbus jets for medium haul flights. It has also retired three B-747 aircraft and acquired three new Airbus A-340/600s. These aircraft include the latest technological advances and will therefore reduce both fuel consumption and noise.

In 2004, IBERIA was admitted to the Dow Jones Stoxx sustainability index, which comprises 167 European companies applying best practice in the financial, social and environmental fields.

The matters outlined in this section are discussed in more detail in the Corporate Governance Report.

2. EVOLUTION OF THE BUSINESS

2.1. IBERIA passenger transport

The IBERIA Group's main activity is passenger air transport. In 2004 and 2003 the only Group company to conduct this activity was Iberia, Líneas Aéreas de España, S.A. (hereinafter IBERIA) following the sale of Binter Canarias in 2002.

The following pages present data on IBERIA passenger transport services, traffic and revenues broken down into three commercial sectors, comprising domestic services, reflecting links between Spanish airports; medium haul services, covering international routes linking Spain with destinations in Europe, the Middle East, and North and Central Africa; and long haul services, which comprise links with America and other long haul international routes.

Section "2.1. Transport" of the IBERIA Management Report provides more detailed information on the evolution of operational statistics for passenger transport.

2.1.1. Service and traffic

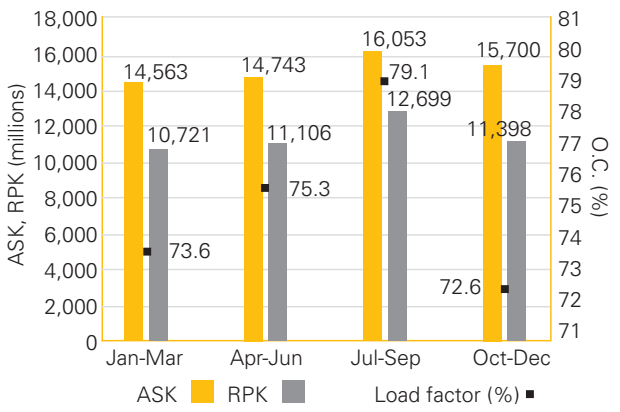
World air traffic grew strongly in 2004, confirming the trend that had commenced in the later months of the prior year and exceeding the levels achieved in 2000. According to the data published by the International Air Transport Association (IATA), international passenger demand in 2004 rose by 15.3% compared to the prior year. Weakness in the base period, which was severely affected by the Iraq war and the effects of the SARS epidemic (Sever Acute Respiratory Syndrome) explains approximately one third of this strong year-on-year increase in traffic, which was stimulated by economic growth and, in many markets, by falling prices.

Growth in the activity of European airlines was somewhat lower than that achieved by North American and Asian companies. According to data of the Association of European Airlines (AEA), the schedule international traffic of all members rose by 9.8% in relation to 2003. If domestic traffic, which contributed only 0.9%, is included, the increment in total revenue passenger kilometers (RPK) for the AEA was around 9.0% in 2004.

In 2004 IBERIA's traffic increased by 9.1% compared to the prior year, with an 8.8% rise in capacity measured in terms of available seat kilometers (ASK). The company was thus able to improve the passenger load factor by 0.2 percentage points to 75.2%. The performance of international traffic was excellent, especially on intercontinental flights, which grew by 11.3% overall.

The company recorded the greatest increases in services and demand in the first quarter of the year with growth of 10.4% and 13.4% respectively over the prior year in terms of the aggregate volume for the network as a whole. In the following quarters, growth rates were more moderate, partly because of the gradual recovery of traffic in the course of 2003. Nevertheless, in July and August 2004 IBERIA successively broke its all-time monthly records for the volume of services and demand.

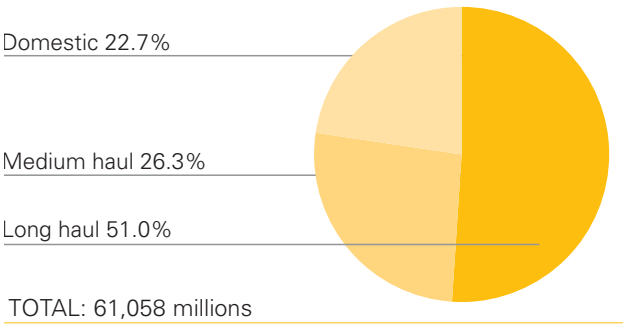
Passenger traffic. Quarterly evolution in 2004



Throughout 2004 the company adjusted its service to the evolution of demand in the various markets. On a cumulative basis for the year, the company exceeded 61,000 million ASK for its operations as a whole, increasing the service in relation to 2003, as shown in the following chart:

ASK (millions)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Domestic	13,831	13,323	508	3.8
Medium haul	16,059	14,622	1,437	9.8
Long haul	31,168	28,200	2,968	10.5
Total	**61,058**	**56,145**	**4,913**	**8.8**

Breakdown of ASK in 2004



In absolute terms, over half of the total increase in demand was related to Latin American routes. A particularly significant increase in capacity (19.5%) was achieved in South America, where IBERIA launched a new direct flight between Spain and Uruguay in July. Services to destinations in Central America also increased significantly (9.3%).

Commencing October 1, IBERIA restructured its operations in Central America with the objective of improving customer service and the company's results in the region. As a consequence, IBERIA ceased operating its own flights between its distribution center in Miami and the various Central American countries, replacing these with direct flights from Madrid to Guatemala, San José de Costa Rica and Panama and connecting these three airports with other destinations in the region through flights operated by other carriers under shared codes.

As a result of this restructuring and the sharp increase in South Atlantic capacity in 2004 the average passenger haul in the long range sector grew by 4.5% compared with the prior year. Furthermore, faster growth in intercontinental flights led to a 4.7% rise in the average passenger haul for the network as a whole to reach 1,720 kilometers.

Flights between Spain and other European Union countries, a market characterized by strong competition and the fast growth of low cost carriers, accounted for over 84% of IBERIA's service in the medium haul international sector in 2004. On these routes, services increased by 6.7%, mainly due to the greater frequency of flights to destinations such as Berlin, Brussels, Paris, Rome and Milan. The company also launched direct flights between Barcelona and Lisbon and Malaga and Milan. The densification of some of the aircraft forming the medium haul fleet over the course of 2004 also generated a small percentage rise in service capacity in this sector.

The company increased its service by 45% in flights to the Middle East and North and Central Africa, an area that accounts for only a relatively small share of traffic within the network as a whole. IBERIA began operating a number of new links (e.g. Madrid - Marrakech, Madrid-Lagos, Madrid-Cairo (direct flight)

and Barcelona-Casablanca) and increased the frequency of flights to other destinations. The aim of this increase in capacity was to diversify production and grow in emerging markets which had suffered from the effects of the Iraq war in 2003.

In the domestic sector, IBERIA increased capacity mainly on routes linking Madrid and Barcelona with other destinations in mainland Spain. The company also raised capacity in the service to the Balearic Islands, mainly in the summer season. Links with Oviedo, Palma de Mallorca, Malaga, Seville and Valencia were strengthened, and operations began on the new Vigo-Valencia route.

Increases in capacity between mainland Spain and the Canary Islands in relation to the prior year were progressively reduced in the course of 2004, and a decline of 5.9% in ASK was finally recorded in the last quarter. The objective of this redistribution was to optimize the profitability of the network following the sharp increase in the services of competitors on routes to the Canaries and the resulting tensions for unit revenues.

IBERIA and the regional carrier Air Nostrum continued developing the franchising agreement that has linked them commercially since 1997. Thus, Iberia Regional Air Nostrum continued to expand its domestic and European services by increasing frequencies and launching new routes, such as the Nice-Mallorca, Oviedo-Paris, Manchester-Madrid, Barcelona-Albacete and Barcelona-Badajoz links.

By the end of 2004, IBERIA's commercial network covered thirty-five domestic destinations, forty-two medium haul international routes and twenty-one long haul routes including flights operated by the franchisee Air Nostrum. Also, in 2004 IBERIA continued to implement the code sharing agreements entered into previously with other companies (among others British Airways, GB Airways, SN Brussels and Royal Air Maroc), enabling it to increase the number of destinations offered to customers. New code sharing agreements were also made with Avianca, Mexicana de Aviación and TACA, among other airlines.

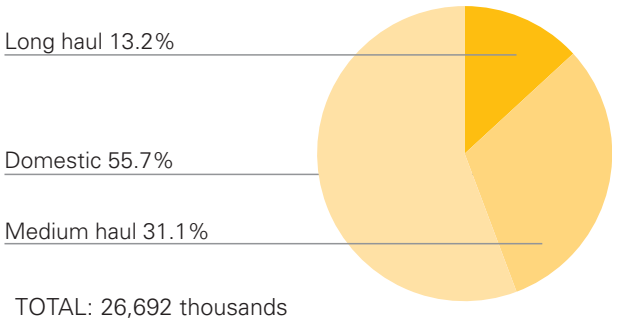
The IBERIA Group's production measured in block hours was 6.5% higher than in 2003. In this regard, the company took the important step of returning to the use of wet lease aircraft in order to achieve flexibility of production where necessary.

Passenger Aircraft Block Hours	**2004**	**2003**	**Var. 04/03**	**% Var.**
Iberia-owned aircraft	499,069	472,855	26,214	5.5
Wet lease	4,389	-	4,389	-
Other lease trans.	5	12	(7)	(58.3)
Total	**503,463**	**472,867**	**30,596**	**6.5**

The distribution of passengers transported by IBERIA was as follows:

Passengers (thousands)	**2004**	**2003**	**Var. 04/03**	**% Var.**
Domestic	14,874	14,581	293	2.0
Mediun haul	8,307	7,756	551	7.1
Long haul	3,511	3,276	235	7.2
Total	**26,692**	**25,613**	**1,079**	**4.2**

Breakdown of passengers in 2004



TOTAL: 26,692 thousands

The number of passengers carried by the IBERIA Group within the network as a whole rose by 4.2% in relation to 2003. This increase is lower than that recorded for the number of RPK due to growth in the average passenger haul. This increased by as much as 7.1% on international flights, but only 2.0% on domestic flights.

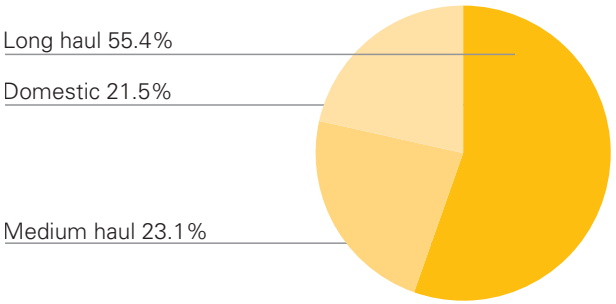
The total number of passenger transported under the IB code, which includes those carried on

flights operated by the franchisee Iberia Regional Air Nostrum, totaled 30.1 million in 2004.

A breakdown of the RPK is as follows:

RPK (millions)	**2004**	**2003**	**Var. 04/03**	**% Var.**
Domestic	9,883	9,718	165	1.7
Medium haul	10,595	9,655	940	9.7
Long haul	25,446	22,727	2,719	12.0
Total	**45,924**	**42,100**	**3,824**	**9.1**

Breakdown of RPK in 2004



TOTAL: 45,924 millions

RPK for international flights as a whole increased by 11.3% compared to 2003. In the domestic sector, however, the increment was 1.7%, somewhat lower than the rise in passenger numbers due to slower growth in links to the Canary Islands, which have a longer average haul.

In the long haul sector, demand held up well, growing by 12.0% while the mix of classes improved. The response of traffic to increases in the service was especially positive in South America, where it grew by 20.9%. IBERIA also achieved significant increases in demand in Central America, Africa and the Middle East, as well as destinations in non EU countries in Europe.

IBERIA's average passenger load factor of 75.2% for all the flights operated in 2004 was more than 0.2 percentage points higher than in 2003 and represented the highest load factor ever achieved by the Company. On the aggregate for international flights, the load factor improved by 0.7 points to reach 76.3%.

The following chart shows load factor evolution broken down by sector:

Load factor (%)	**2004**	**2003**	**Var. (*) 04/03**
Domestic	71.5	72.9	(1.5)
Medium haul	66.0	66.0	(0.1)
Long haul	81.6	80.6	1.0
Total	**75.2**	**75.0**	**0.2**

(*)The differences in terms of percentages appear not to add up as a result of the rounding-off effect.

The load factor in the long haul sector showed the best performance in 2004, improving by one percentage point over the prior year to 81.6%. In the medium haul sector, the load factor performed better than in 2003 only in the later months of the year, surpassing the levels recorded in the prior year in November and December, with the result that virtually the same cumulative annual factor was achieved (66%).

The load factor in the domestic sector, however, followed a downward trend throughout 2004. The main reasons were strong competition and the gradual implementation of a more selective revenue management policy aimed primarily at improving the average yield. Moreover, the restructuring of the service carried out by IBERIA to reduce the share of routes to the Canary Island, which have a higher load factor than flights in mainland Spain, affected declining load factors in the domestic sector as a whole.

2.1.2. Traffic revenues

In recent years, airlines have suffered an ongoing decline in unit revenues, particularly in Europe and North America, due to the strong competition in most markets.

In this context, IBERIA's yield declined by 6.3% in 2004 compared to the prior year. This fall was mainly a consequence of strong competitive pressures in the domestic and medium haul sectors; the appreciation of the euro against the US dollar, which significantly depressed revenues in the long haul sector; and the increase in the average passenger haul affecting the whole of the network due to the faster growth in services on long haul routes.

In the first two quarters of the year, the yield fell by 8.7%, but performance progressively improved during the second half of 2004 with the result that the decline was limited to 3.6% in the last quarter.

In the second quarter of 2004 IBERIA implemented a more selective revenue management policy in the domestic sector, which gradually succeeded in correcting the fall in the yield in relation to 2003, despite a decline in the load factor. As a result of this policy and the changes made to the service, the yield in the domestic sector actually increased in November and December in relation to the prior year's levels.

In the medium haul sector, IBERIA expanded various services and launched promotional campaigns to combat strong competitive pressures in Europe, due in particular to the rapid penetration of low cost carriers in Spain, and to stimulate demand on the new routes opened.

A detail of the average yield by commercial sector in 2004 and 2003 is as follows:

Yield (€ cents/RPK)	**2004**	**2003**	**Var. 04/03**	**% Var.**
Domestic	12.77	13.12	(0.35)	(2.7)
Medium haul	10.03	10.91	(0.88)	(8.1)
Long haul	4.35	4.52	(0.17)	(3.8)
Total	**7.47**	**7.97**	**(0.50)**	**(6.3)**

The average revenue per ASK for the company's network as a whole fell by 6.0% compared to 2003, mainly due to the decline in the yield. A detail of average revenues per ASK by segment is as follows:

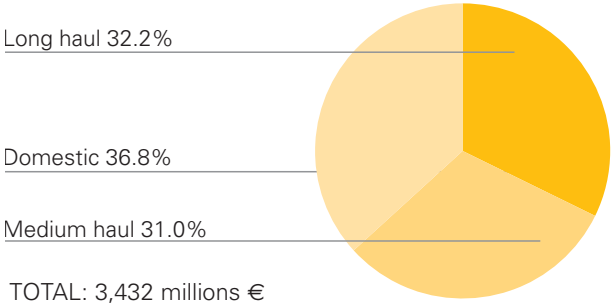
Revenues per ASK (€ cents)	**2004**	**2003**	**Var. 04/03**	**% Var.**
Domestic	9.13	9.57	(0.44)	(4.6)
Medium haul	6.62	7.20	(0.58)	(8.1)
Long haul	3.55	3.65	(0.10)	(2.7)
Total	**5.62**	**5.98**	**(0.36)**	**(6.0)**

IBERIA's passenger revenues increased by 2.2% with respect to the prior year in 2004. Passenger revenues rose by 7.7% and 0.9% respectively in the long and medium haul sectors, but declined by 1.0% in the domestic sector.

The IBERIA Group's passenger revenues totaled over € 3,432 million, of which 37% represented revenues from domestic flights and around 31% revenues from international medium haul flights and long haul routes. The following chart reflects the evolution of passenger revenues broken down by sectors:

Passenger revenues (millions of Euros)	**2004**	**2003**	**Var. 04/03**	**% Var.**
Domestic	1,262.2	1,275.3	(13.1)	(1.0)
Medium haul	1,063.0	1,053.4	9.6	0.9
Long haul	1,106.9	1,028.1	78.8	7.7
Total IBERIA	**3,432.1**	**3,356.8**	**75.3**	**2.2**

Breakdown of revenues in 2004



2.2. SAVIA

The mission of Sistemas Automatizados Agencias de Viaje, S.A. (SAVIA) is to distribute the Amadeus Global Booking System in the Spanish market. Consequently, it is responsible for the commercialization and localization of the System, the development and distribution of local products and services. It also provides travel agents with support, technological infrastructure, training, consultancy services and customer services.

SAVIA continued to expand its presence in the Spanish market, where it is the leading distributor of tourist bookings, in 2004. At the year end, it had a total of 8,051 client travel agents, an increase of 7.4% compared to December 2003, and over 23,800 terminals connected with Spanish agencies following a 9.4% rise in the total during 2004.

SAVIA also maintains a presence in the Portuguese market, where it had connected 160 offices at the end of 2004.

Bookings made through the system increased by 3.3% in relation to the prior year to reach a total of 32.2 million in 2004. Of this total, approximately 97.1% were flight bookings, while the remainder represent hotel bookings and car hire. The Spanish market accounted for 99% of the total bookings.

The operating revenues of SAVIA for 2004 totaled € 58.9 million, 1.5% up on the prior year, while income before taxes was € 7.6 million.

The following charts reflect the evolution of SAVIA's key production and financial aggregates:

Production	**2004**	**2003**	**Variation 04/03**	**% Variation**
Total bookings (thousand)	32,204	31,177	1,027	3.3
Total terminals	24,388	22,227	2,161	9.7
Total offices	8,211	7,624	587	7.7
Equivalent full-time employees	116	119	(3)	(2.5)

Results (thousands of €)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Operating income	8,278	9,153	(875)	(9.6)
Operating revenues	58,896	58,024	872	1.5
Operating expenses	50,618	48,871	1,747	3.6
Financial income	77	126	(49)	(38.9)
Extraordinary losses	(798)	(1,386)	588	42.4
Income before taxes	7,557	7,893	(336)	(4.3)
Net income after taxes	4,955	5,106	(151)	(3.0)

Balance sheet (thousands of €)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Net fixed assets	10,102	8,045	2,057	25.6
Deferred expenses	209	123	86	69.9
Current assets	22,258	21,292	966	4.5
Total assets	**32,569**	**29,460**	**3,109**	**10.6**
Shareholders' equity	15,864	16,015	(151)	(0.9)
Provisions for contingencies and expenses	960	1,743	(783)	(44.9)
Long term creditors	3,945	4,136	(191)	(4.6)
Current liabilities	11,800	7,566	4,234	56.0
Total liabilities	**32,569**	**29,460**	**3,109**	**10.6**

At the meeting held on January 27, 2005, the Board of directors of IBERIA resolved to commence negotiations with Amadeus GTD and, where appropriate, to sell the 66% interest the company owns in the share capital of SAVIA.

2.3. CACESA

The main activity of Compañía Auxiliar al Cargo Express, S.A. (CACESA), in which IBERIA holds a 75% interest, is goods transport. It operates as a cargo and transit agent.

CACESA earned total operating revenues of € 42.6 million in 2004, an increase of 7.6% compared to 2003. During the year, CACESA continued with the transfer of a part of its activities to the subsidiary ALAER, and the growth of its remaining products (Ibexpress, Ibertras and Customs) was therefore even greater, reaching 8.5%.

Sales of the express transport product (Ibexpress) totaled € 18.9 million, up 10.8% on the prior year. This growth was achieved due to the development of the cargo business, helped by new weight control procedures (implemented at the end of 2003) and, above all, by the development of the international product, which consolidated the strong growth of recent years and continued to increase at a good rate.

Work in 2004 focused on strengthening the international network with the aim of maintaining the present growth rates over the coming years. A study was carried out to assess the viability of setting up establishments at various Latin American airports, as well as creating a reliable European network in order to offer this area as a destination on a large scale and to access the market for Europe-America traffic.

Domestic traffic picked up slightly in 2004 thanks to commercial action, following a profound restructuring of Ibexpress sales staff.

Sales of the Transit product (Ibertras) totaled € 20.4 million in 2004, an increase of 4.3% compared to 2003, as a result of growth in imports of perishable goods, particularly in the later months of the year and the continued strong performance of the Canaries product. Exports, however, declined in relation to 2003 as a consequence of the fall in production of key accounts, probably because of the strength of the euro, although this effect was partially offset by vegetable export campaigns. Also, the downward trend in domestic traffic continued.

CACESA's operating expenses totaled € 41.4 million in 2004, an increase of 7.5% in relation to the prior year. This was mainly due to the increase in the production of the company and the effort made for the commercialization of the Ibexpress product. Growth in personnel expenses was contained (4.1%) despite a 3.0% increase in the headcount compared to the average for 2003 to reach 145 equivalent full-time employees.

CACESA generated operating income close to € 1.2 million in 2004, up 10.9% on 2003. Income before taxes was increased by 16.2%.

Since January 2004, CACESA has been working on the parametization and implementation of the B-First application, which is based on a new technology platform and will support integrated management of all areas of the company.

In March 2004, CACESA successfully passed a quality certification audit performed in accordance with the UNE-EN-ISO 9001:2000 Standard at the facilities operated by the concessionary MARESA. The first general review audit of the System is expected to take place early in 2005. Finally, CACESA has implemented an important new IT tool for quality document management.

The evolution of key aggregates from the annual accounts of CACESA (individual financial statements without consolidation with ALAER) was as follows:

Results (thousands of Euros)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Operating income	1,182	1,066	116	10.9
Operating revenues	42,601	39,608	2,993	7.6
Operating expenses	41,419	38,542	2,877	7.5
Financial income	98	58	40	69.0
Extraordinary losses	(17)	(37)	20	54.1
Income before taxes	1,263	1,087	176	16.2
Net income after taxes	821	707	114	16.1

Balance sheet (thousands of Euros)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Net fixed assets	1,712	1,472	240	16.3
Net inventory	0	13	(13)	(100.0)
Net receivables	8,073	6,917	1,156	16.7
Cash and cash equivalents	6,093	4,772	1,321	27.7
Total assets	**15,878**	**13,174**	**2,704**	**20.5**
Shareholders' equity	3,570	3,103	467	15.1
Long term creditors	30	21	9	42.9
Current liabilities	12,278	10,050	2,228	22.2
Total liabilities	**15,878**	**13,174**	**2,704**	**20.5**

2.4. ALAER

CACESA incorporated Auxiliar Logística Aeroportuaria, S.A. (ALAER) in June 2002 to handle all ancillary logistic services. IBERIA indirectly owns 75% of ALAER through CACESA, and both companies are fully consolidated within the IBERIA Group.

During 2004 CACESA continued with the transfer of activities to its subsidiary (a process commenced in 2003), which is the reason for the significant increase in the operating revenues and expenses of this company. Sales grew in all areas of the business. The increase in deliveries of delayed luggage was particularly significant following the addition of Las Palmas and Alicante airports.

ALAER has entered into a five-year framework agreement with IBERIA which establishes price increases over that term, as well as a 2% volume discount for IBERIA on all activities. The stability provided by this agreement will allow ALAER to expand areas of mutual collaboration and generate possible synergies between activities in order to optimize costs.

The average headcount totaled 51 equivalent full-time employees in 2004, four more than in 2003 representing an 8.5% increase, which was due to the transfer of activities and the hiring of employees formerly contracted through temporary employment agencies.

As regards information systems, a new application was developed in 2004 for the management of delayed luggage deliveries in order to integrate all of the participants in the operational processes of this activity, thereby achieving significant savings in administration expenses.

The evolution of ALAER's key aggregates was as follows:

Results (thousands of Euros)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Operating income	97	90	7	7.8
Operating revenues	3,475	2,727	748	27.4
Operating expenses	3,378	2,637	741	28.1
Financial expense	(1)	0	(1)	n.s.
Extraordinary losses	(27)	(4)	(23)	n.s.
Income before taxes	69	86	(17)	(19.8)
Net income after taxes	45	56	(11)	(19.6)

n.s. Not significant. The measure is applied only when the variation exceeds +/- 300%.

Balance sheet (thousands of Euros)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Net fixed assets	5	6	(1)	(16.7)
Net receivables	1,142	714	428	59.9
Cash and cash equivalents	17	217	(200)	(92.2)
Total assets	**1,164**	**937**	**227**	**24.2**
Shareholders' equity	273	256	17	6.6
Current liabilities	891	681	210	30.8
Total liabilities	**1,164**	**937**	**227**	**24.2**

2.5. Binter Finance

Binter Finance, B.V. (hereinafter "Binter") is resident for tax and legal purposes in the Netherlands. It is 100% owned by IBERIA and performs the international cash pooling functions of IBERIA through its Permanent Establishment (P.E.) in Spain.

The company commenced its operations in November 1991. The P.E. has been operating for eight years, having been set up on January 1, 1997, and 2004 is the first year in which it has been included in the consolidation of the IBERIA Group.

The activity of the P.E. centers on two functions. Binter Finance manages and optimizes cash flows in foreign currencies, including non resident euros, generated by IBERIA as a consequence of its international activity. It also advises on IBERIA's exchange and interest rate hedging operations, which it executes in the financial markets.

The main aggregates of the profit and loss account and balance sheet of Binter Finance on December 31, 2004 are as follows:

Thousands of Euros

Results	**2004**
Operating income	18
Operating revenues	272
Operating expenses	254
Financial income	0
Extraordinary income	0
Income before taxes	18
Net income after taxes	5

Balance sheet	**2004**
Net receivables	(2,212)
Cash and cash equivalents	6,946
Total assets	**4,734**
Shareholders' equity	549
Current liabilities	4,185
Total liabilities	**4,734**

2.6. Iberia Cards

Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (hereinafter "Iberia Cards) is a Financial Credit Establishment incorporated by IBERIA, which owns 40% of its capital stock, and the banking institutions Caja Madrid, BBVA and Banco Popular Group in April 2003.

Iberia Cards has issued the Iberia Visa card since late 2002, the main attraction of which is participation in the Iberia Plus loyalty program. At the end of 2004 a total 387,771 cards had been issued after the company's success in increasing the number by almost one hundred thousand during the year, an increase of nearly 35% compared to 2003.

As regards the volume of billings, Iberia Cards customers made purchases for over € 1.933 billion in 2004, an increase of 76% in relation to the prior year. In particular, customers bough IBERIA tickets for a value of close to € 224.5 million. Meanwhile, Iberia Cards purchased Iberia Plus points from IBERIA for an amount of over € 10 million.

In 2004 Iberia Cards became the leading entity within the payment instruments system in Spain by volume of billings on company cards.

The net income after taxes of Iberia Cards for the year ended December 31, 2004 was € 4.2 million, significantly higher than its budget forecasts.

The main aggregates of the profit and loss account and balance sheet of Iberia Cards at December 31, 2004 and 2003 are as follows:

Profit and loss (thousands of Euros)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Revenues	40,430	23,639	16,791	71.0
Expenses	36,246	23,528	12,718	54.0
Income before taxes	4,184	111	4,073	n.s.
Net income after taxes	2,727	72	2,655	n.s.

Balance sheet (thousands of Euros)	**2004**	**2003**	**Variation 04/03**	**% Variation**
Cash and banks	2,721	1,709	1,012	59.2
Loans	10,405	5,890	4,515	76.6
Securities portfolio	93	122	(29)	(23.8)
Net assets	187	176	11	6.3
Sundry accounts	1,578	920	658	71.5
Interest and other accrued receivables	4,245	4,773	(528)	(11.1)
Prior years' losses	1,686	1,757	(71)	(4.0)
Total assets	**20,915**	**15,347**	**5,568**	**36.3**
Due to banks	4	19	(15)	(78.9)
Sundry accounts	2,292	515	1,777	n.s.
Accruals	5,322	4,355	967	22.2
Special reserves	476	292	184	63.0
Shareholders' equity	10,094	10,094	0	0.0
Profit for the year	2,727	72	2,655	n.s.
Total liabilities	**20,915**	**15,347**	**5,568**	**36.3**

3. RESOURCES

3.1. Flota

Details of the passenger aircraft operated by the IBERIA Group as of December 31, 2004, are as follows:

Aircraft type	Owned	Financial lease	Operating lease	Wet lease	Total operated
A-340/300			18		18
A-340/600	1		5		6
B-747 (a)	1		2	2	5
Long haul	**2**		**25**	**2**	**29**
A-319			6		6
A-320 (b)	13	10	35		58
A-321 (b)		2	8		10
B-757	1		12		13
MD-87	19		5		24
MD-88	13		1		14
Short/medium haul	**46**	**12**	**67**		**125**
TOTAL (a)	**48**	**12**	**92**	**2**	**154**

(a) Not including inactive aircraft.
(b) Two aircraft operated under interim charters at December 31 have been classified in accordance with their definitive status, one A-320 to be owned and one A-321 under an operating lease.

At December 31, 2003, the Company had 149 available passenger aircraft. The following list shows the additions and retirements in 2004, explaining the net increase of five aircraft in service:

Additions
- Four A-320: two owned, one operating lease and one interim charter.
- Three A-321: two operating lease and one interim charter.
- Three A-340/600: one owned and two operating lease.
- Two A-319 under operating lease
- Two B-747 under wet lease.

Retirements
- Two A-320 under operating lease
- Four B-757 aircraft under operating lease
- Three B-747 owned (inactive at December 31)

The Group has continued with the implementation of its fleet renewal and expansion plan, the objective of which is to acquire modern aircraft providing better performance and lower fuel consumption, as well as to improve the uniformity of aircraft types in order to optimize the utilization of assets.

As regards the long haul fleet, the company has continued to replace Boeing B-747s with new Airbus A-340/600 aircraft in accordance with the resolution adopted by the company's Board of directors in January 2003. The A-340/600 aircraft consume less fuel, are more efficient, have larger holds and are quieter and more comfortable than the B-747 aircraft. In 2004, three new A-340/600 aircraft were added to the long haul fleet, one in October and two in November. Following these additions, the company now has six aircraft of this model.

The three A-340/600 aircraft acquired in 2004 are equipped with the full configuration for the new Business Plus class in the intercontinental fleet, including exclusive ergonomic seats and advanced communication and entertainment systems for passengers. The aircraft are fitted with a new satellite communication system providing worldwide cover, allowing crew members to access full data and voice services from the cockpit, which is equipped with electronic flight controls and flight instruments using cathode ray screens.

The replacement of the Boeing 747 aircraft owned by IBERIA will be completed in the course of 2005. Thereafter, the IBERIA Group will use a single model, the Airbus A-340 versions 600 and 300 on long haul flights, which are currently configured with 342 and 249 seats respectively.

Two B-747 aircraft owned by Air Atlanta have operated for IBERIA under a wet lease (i.e. aircraft and crew) since July 2004. Contracting aircraft under wet leases provides the company with greater flexibility to adjust capacity to the evolution of the market.

IBERIA added three new A-321s in January, May and December 2004; four A-320s in March (two), June and July; and two A-319s in August and December. Following these nine additions, and taking into consideration that the company returned two A-320 aircraft upon the termination of lease contracts, the fleet operated on the short and medium haul routes of the IBERIA Group included a total of 74 Airbuses at the year end. These models, which share the same type certification, operate the medium haul international and domestic routes best suited to their seating configuration.

During the second half of 2004, the company retired four Boeing B-757 aircraft operated under operating leases. These aircraft were returned in accordance with the fleet renewal plan, which envisages the retirement of this model.

IBERIA has undertaken densification work in the short and medium haul fleet in 2004 with the aim of optimizing the utilization of assets in accordance with the 2003/05 Master Plan. At December 31, 2004, the number of seats had been increased in a total of 50 aircraft, distributed among the A-319 (126 to 132 seats), A-320 (150 to 162), A-321 (186 to 194) and MD-87 (109 to 116) fleets. Densification work on Airbus aircraft will be completed in the course of 2005.

The average usage of the passenger fleet as a whole measured in block hours per aircraft day was 9.12 hours, 3.9% up on usage in 2003.

BH/aircraft/day	2004	2003
Average short and medium haul aircraft utilization (a)	8.10	7.90
Average long haul aircraft utilization	13.79	12.85
Average utilization of own fleet (a)	**9.10**	**8.78**
Average utilization of wet lease fleet (b)	11.71	-
Total average aircraft utilization (a)	**9.12**	**8.78**

(a) Including 900 hours operation by the IBERIA A-320 fleet under wet lease for British Airways.
(b) In 2004 two Air Atlanta aircraft operated under a wet lease regime for IBERIA.

3.2. Personnel

3.2.1. Headcount

The following chart shows total headcount for the fully consolidated companies forming part of the Group measured in terms of average equivalent full-time employees in 2004 and 2003. In order to facilitate comparison, the employees of Iber-Swiss Catering, which ceased to form part of the Group at the beginning of 2004, have not been included.

	Ground		Flight		Total	
	2004	2003	2004	2003	2004	2003
IBERIA	18,256	18,063	6,421	6,378	24,677	24,441
CACESA	145	141	-	-	145	141
ALAER	51	47	-	-	51	47
SAVIA	116	119	-	-	116	119
BINTER FINANCE	4	-	-	-	4	-
IBERIA Group	**18,572**	**18,370**	**6,421**	**6,378**	**24,993**	**24,748**
Variation 2004 / 2003 (%)	1.1		0.7		1.0	

In harmonized terms, the IBERIA Group's average headcount increased by 1.0% in 2004 to 24,993 equivalent full-time employees. As regards flight personnel, the number of cabin crew members rose by 1.3%, while technical crew members decreased overall by 0.8% due to the reduction in the number of flight technicians resulting from the retirement of the B-747 fleet. Ground staff increased by 1.1%, mainly as a result of the 5.4% rise in the number of IBERIA Handling employees, hired mainly under appropriate contracts to fit production rates in order to cover growth in third party handling. Disregarding the handling employees, the number of the Group's ground employees was 2.6% lower in 2004 than in 2003.

In the course of 2004 a total of 831 employees accepted the conditions set out in the IBERIA Labor Force Reduction Plan. The majority of these redundancies took the form of early retirement, accepted by 599 employees. The aforementioned figure also includes 72 cases of contract novation (this involves a 50% reduction in working hours), and the Plan therefore resulted in a reduction of 759 equivalent full-time employees. Also, 27 employees abroad left the Company.

On December 16, 2004 the Directorate General of Employment authorized an extension of the Labor Force Reduction Plan until December 31, 2007 for IBERIA ground personnel, cabin crew, and flight engineers, whose representatives and Management had already reached agreement. The terms and conditions of the Plan will remain unchanged, and the consent of both the company and the employee will be required for acceptance. The Plan will be immediately applied to flight engineers as a result of the advanced stage reached in the process of retiring the B-747 fleet.

3.2.2. Productivity

Following the sale of Binter Canarias in July 2002, IBERIA is the only Group company engaged in air transport. For this reason, and to avoid distortion resulting from changes in the companies forming the consolidated group, the evolution of productivity measured in terms of block hours per crew member and available seat kilometers per employee is more appropriately analyzed for the case of the Group's parent company alone.

The productivity of IBERIA's total staff improved by 7.7% in relation to the prior year, reaching 2.47 million ASK per employee in 2004. The increase was similar in the case of ground staff (7.6%), although productivity gains rose as high as 11.8% if handling employees are excluded, an area where growth was linked mainly to the increase in activity for third parties which does not contribute to ASK. In terms of block hours per crew member, productivity increased by 5.4% in the case of pilots and 5.8% for cabin crew members.

The variations in 2004 in the productivity of the various groups of employees were as follows.

Productivity of IBERIA staff	2004	2003	% Variation
Total personnel (thousands of ASK per employee)	2,474	2,297	7.7
Ground personnel (thousands of ASK per employee)	3,345	3,108	7.6
Ground staff excluding Handling employees (thousands of ASK per employee)	6,582	5,885	11.8
Technical crew (BH per crew member)	263.7	250.1	5.4
Cabin crew (BH per crew member)	116.5	110.1	5.8

The agreements reached at the end of 2003 between Management and the representatives of aircraft maintenance employees came into force in 2004, resulting in productivity gains and greater flexibility of human resources in the area of maintenance.

The terms of the IBERIA collective labor agreements and the resolutions of the conciliation committee issued within the framework of the 2001 arbitration ruling for technical crews ended on December 31, 2004. Accordingly, Management of the company and the representatives of ground staff, technical crews and cabin crews have commenced negotiations in recent months. Management's priority in this negotiation process is to achieve a significant increase in productivity and establish measures to favor flexibility and efficiency covering all employees.

4. FINANCIAL PERFORMANCE

At December 31, 2004, the consolidated IBERIA Group differed in some respects from its configuration at the end of 2003, in particular as a result of the exclusion of Iber-Swiss Catering, which was fully consolidated until 2003. This change does not cause any major distortion in comparisons between 2004 and 2003 at the level of results, but it does significantly influence variations in certain items. Accordingly, the consolidated accounts discussed in the following sections exclude Iber-Swiss Catering from the Group in 2003 in order to harmonize the basis for both periods and provide a more appropriate comparative analysis.

The impact of changes in companies consolidated using the equity method and the full consolidation for the first time of Binter Finance on the annual accounts of the IBERIA Group is minimal.

Historical data for 2003 and differences with 2004 are presented in the section of this Consolidated Management Report entitled "Main Aggregates".

4.1. Operating results

The IBERIA Group earned operating income of € 203.3 million in the year ended December 31, 2004, € 46.6 million more than in 2003 (in harmonized terms as explained above). This operating income represents a margin of 4.2% on operating revenues, up 0.8 points on 2003.

The IBERIA Group generated operating income before amortization, depreciation and aircraft lease expenses (EBITDAR) of € 766.9 million in 2004, € 73 million more than in the prior year, representing an increase of 10.5%. As a percentage of revenues, the EBITDAR margin was 16.0%, compared to 15.1% recorded in 2003.

A detail by company of the IBERIA Group's operation income for 2004 and 2003 is as follows:

	Thousands of Euros	
Operating income	**2004**	**2003 (b)**
IBERIA	186,592	139,170
SAVIA	8,278	9,153
CACESA	1,182	1,066
ALAER	97	90
BINTER FINANCE	18	-
IBERIA Group (a)	**203,304**	**156,681**

(a) Totals for the IBERIA Group include consolidation adjustments.
(b) Pro forma data excluding Iber-Swiss Catering from the IBERIA Group.

The following chart presents the IBERIA Group's operating income statements for management accounting purposes. This statement differs from the audited profit and loss account because different revenue and expense items are aggregated in accordance with management criteria. As explained above, 2003 figures have been adjusted to reflect approximately the composition of the Group at December 31, 2004.

IBERIA Group (millions of Euros)	**2004**	**2003 (a)**	**Variation 04/03**	**% Variation**
Operating revenues				
Passenger revenues	3,711.7	3,587.4	124.3	3.5
Cargo	265.1	254.6	10.5	4.1
Handling	302.4	271.1	31.3	11.5
Maintenance revenues	112.4	104.0	8.4	8.1
Commercial revenues	111.4	120.9	(9.5)	(7.9)
Other operating revenues (b)	302.4	272.8	29.6	10.9
Operating revenues	**4,805.4**	**4,610.8**	**194.6**	**4.2**
Operating expenses				
Personnel expenses	1,423.3	1,366.2	57.1	4.2
Fuel	653.5	556.8	96.7	17.4
Traffic service costs	415.8	384.4	31.4	8.2
Aircraft lease expenses (c)	384.4	369.2	15.2	4.1
Commercial expenses	342.5	437.8	(95.3)	(21.8)
Aircraft maintenance	272.1	235.5	36.6	15.5
Navigation charges	270.5	257.6	12.9	5.0
Depreciation and amortization	179.2	168.1	11.1	6.6
Booking systems	130.4	128.2	2.2	1.7
In-flight services	87.0	115.8	(28.8)	(24.9)
Insurance	36.6	50.8	(14.2)	(28.0)
Other operating expenses (c)	406.8	383.7	23.1	6.0
Operating expenses	**4,602.1**	**4,454.1**	**148.0**	**3.3**
Operating income	**203.3**	**156.7**	**46.6**	**29.7**

(a) Pro forma data excluding Iber-Swiss Catering from the IBERIA Group.
(b) Catering sales are included in other operating revenues.
(c) In 2004 cargo hold leases have been included in other operating expenses. For the purposes of harmonizing criteria, the expense incurred in 2003 (e 4.5 million) formerly reflected in "Aircraft lease expenses" has been transferred to other operating expenses.

4.1.1. Operating revenues

The IBERIA Group generated operating revenues of € 4,805.4 million in 2004, an increase of 4.2% in relation to 2003 due to growth in air traffic and the strong performance of revenues obtained from other activities, especially third party handling services. Passenger revenues were € 3,711.7 million, representing 77.2% of total operating revenues and an increase of 3.5% compared to 2003. In aggregate, the remaining operating revenues amounted to € 1,093.7 million in 2004, an increase of 6.9%.

Passenger revenues

The difference between the passenger revenues reflected in the management operating income statement and the amount shown in "Main Aggregates" and "Traffic Revenues" (section 2.1.2.) is due to the fact that the latter relates directly to the actual production for each year and does not reflect accounting adjustments and revaluations or the revenues derived from the unused ticket recovery process, which are included in the operating income statement.

Total passenger revenues for 2004 were € 124.3 million higher than in the prior year. A detail of this increase broken down by sector is as follows:

Millions of Euros

	Var. pass. revenue 04/03	Reasons for variation			Other	Var. acc. revenue 04/03
		Price	Volume	Exchage rate		
Domestic	(13.1)	(32.5)	21.9	(2.5)		
Medium haul	9.6	(90.1)	104.4	(4.7)		
Long haul	78.8	(10.1)	123.1	(34.2)		
Total network	**75.3**	**(132.7)**	**249.4**	**(41.4)**	**49.0**	**124.3**

Passenger revenues in respect of tickets used in 2004 increased by € 75.3 million in relation to the prior year to reach a total of € 3,432.1 million. Growth in the volume of traffic (9.1%) generated an increase of € 249.4, which was partially offset by the 6.3% fall in the yield resulting in a negative impact of € 174.1 million for the network as a whole. This decline in the yield was mainly due to strong competitive pressures in the domestic and medium haul markets, as well as the 4.7% increase in the average passenger haul resulting from faster growth in the service offered on international routes. Variations in exchange rates also had a negative impact, reducing passenger revenues by € 41.4 million, basically due to the depreciation of the US dollar against the euro.

The depreciation of the dollar had the greatest impact in the long haul sector. Nevertheless, revenues increased by € 78.8 million in this network, 7.7% higher than in 2003 due to general growth in demand, which responded favorably to the increase in capacity achieved by the company.

In the medium haul sector, the increase in passenger revenues arising from growth in traffic was partially offset by the decline in the yield. The strong competitive pressure exercised by European network airlines and the fast growth of low cost carriers in the Spain-Europe market continued to affect prices.

Competition also intensified in the domestic market, where IBERIA implemented a policy aimed at improving yield in the second quarter of 2004, although this would make it difficult to maintain the high load factor achieved in 2003. At the same time, the company increased the number of flights offered in mainland Spain. The difference between the domestic sector yield in 2004 and that of the prior year was gradually reduced in the course of the year, and an increase of 3.6% was finally recorded in the last quarter.

The aggregate of other passenger revenues (not related with the activity) totaled € 279.6 million in 2004, an increase of € 49.0 million compared to 2003. This was mainly due to the rise in revenues from the recovery of unused tickets and fees earned on direct sales and other services related with tickets issued in Spain.

Cargo

The IBERIA Group's cargo revenues totaled € 265.1 million in 2004, € 10.5 million more than in 2003. This represents an increase of 4.1%, mainly due to the significant increase in the volume of cargos carried by IBERIA (19.0% in terms of revenue cargo kilometers). Like passenger revenues, unit cargo revenues were negatively affected by the depreciation of the dollar, the increase in the average cargo haul and competitive pressures.

The amounts reflected in the management income statement include revenues generated on the Group's cargo and mail transport activities, excess baggage revenues and certain other small items, but not the caption "Adjustment of traffic revenues not allocable to passenger routes", which is subsumed in other operating revenues.

Handling

Airport handling revenues were € 31.3 million higher than in 2003, an increase of 11.5% due to growth in activities carried out for third party airlines (7.9% in terms of weighted planes handled), the provision of new supplementary services and the rise in the unit price.

Maintenance revenues

Revenues from maintenance services provided to third parties were € 8.4 million higher than in 2003, an increase of 8.1%. Growth in engine overhauls for third parties was particularly notable in this area.

Commercial revenues

Commissions decreased by € 9.5 million compared to 2003, mainly as a consequence of the new system for remunerating travel agencies in Spain and the cut in the inter-airline commission paid by members of the **one**world alliance.

Other operating revenues

Aggregate other operating revenues totaled € 302.4 million in 2004, € 29.6 million more than in 2003.

The main items included under this heading comprise revenues from billings for the use of the various booking systems, which were over € 80 million in 2004; revenues from cargo services (handling at terminals, security and fuel charges, and other services), which totaled € 59.9 million in 2004 representing significant growth compared to the prior year; other traffic revenues generated mainly in respect of commercial agreements entered into with other airlines, most of which were members of the **one**world alliance, for a total of € 36.4 million in 2004; own work on fixed assets, which generated € 13.3 million in 2004; amounts recognized in respect of the reversal of provisions made for major aircraft overhauls totaling € 13.1 million; and revenues from leases and in-flight sales, which amounted to approximately € 10 million in 2004.

"Other operating revenues" include "Adjustment of traffic revenues not allocable to passenger routes" and "Other traffic revenues", which are included under "Passenger revenues" in the notes to financial statements. Aggregate other operating revenues totaled € 46.1 million in 2004 and € 28.1 million in 2003. This caption also includes the "Adjustment of traffic revenues not allocable to cargo routes" account, which are included in "Cargo revenues" in the notes to financial statements. These amounts were -€ 3.5 million in 2004 and € 0.3 million in 2003.

4.1.2. Operating expenses

Operating expenses totaled € 4,602.1 million in 2004, an increase of 3.3% million compared to 2003 (in harmonized terms).

The factors giving rise to the biggest changes in these expenses were, in the first place, the sharp rise in fuel prices; growth in the air transport activity (8.8% measured in ASK); growth in third party aircraft maintenance and, in particular, third party handling activities, which made it necessary to increase staff at airports; and increases in certain airport taxes. The impact of these items was partially offset by the implementation of the measures established in the Master Plan, especially those designed to raise the productivity of employees, the modification of tourist class in-flight services on short and medium haul flights, the fall in air transport insurance premiums and, above all, the cut in commissions payable to travel agents. The depreciation of the US dollar and falling interest rates also had a favorable impact.

The IBERIA Group's unit operating cost was €c. 7.54 per ASK, a reduction of 5.0% in relation to 2003. Excluding fuel expenses in both years, the decrease in the unit cost was 6.8%.

Personnel expenses

Personnel expenses increased by 4.2% in relation to 2003 to € 1,423.3 million. Of this amount, € 1,077.8 million represent wages, salaries and similar expenses, and the remaining € 345.5 million represent Social Security charges, contributions to employee funds and other social charges.

The main reasons for the increase in personnel expenses were the increase in salaries in line with the rise in the CPI for 2004, "Profit-Sharing Due to the Improvement in Earnings in 2004", consolidation in 2004 of the payment due to the improvement in earnings in 2003, the effect of promotions and the increase in the total headcount of the Group. The

increase produced by these items was, however, partially offset by other factors, including the improvement in the "salary mix" obtained from the application of the IBERIA Labor Force Reduction Plan.

Fuel

The fuel expense increased by € 96.7 million (17.4%) with respect to 2003 to reach € 653.5 million in 2004. This amount represents 14.2% of the IBERIA Group's total operating expenses compared to 12.5% in the prior year.

A detail of the factors involved in the increase in the fuel expense is as follows:

	Millions of Euros
Causes for the variation in fuel expense:	
Price	194.4
Volume	50.8
Exchange rate	(83.0)
Efficiency	(20.5)
Total variation 2004/03	**96.7**

The prices of crude oil and refined products, such as aviation kerosene, rose sharply in 2004, reaching a record high in October. In the case of the IBERIA Group, the average annual price of kerosene in US dollars before hedging rose by over 30% in relation to 200

The company applies active risk management policies in the form of fuel price hedges to control the cost of aviation fuel. In 2004, these hedges enabled the company to reduce the impact of rising oil prices in international markets by € 80.7 million

In addition to the effect of hedging operations, the depreciation of the US dollar and lower unit fuel consumption helped offset a part of the increase in the expense caused by the higher oil price and growth in the air transport activity. As a result, the unit cost of fuel was €c. 1.07 per ASK, 7.9% higher than in 2003.

Traffic service costs

Traffic service costs amounted to € 415.8 million in 2004, € 31.4 million more than in 2003 representing an increase of 8.2%. The cost of items included under this caption is related with variations in the air transport activity. Thus, the unit cost of traffic service was €c. 0.68 per ASK decreased slightly (0.5%) compared to 2003.

The cost incurred in respect of landing charges increased by 6.0% in Spain with respect to 2003 (takeoffs rose by 4.0%) to reach a total of € 124.5 million. Meanwhile, aircraft dispatching costs amounted to € 100.3 million, an increase of 17.2% which was mainly due to the sharp rises in AENA's H1 and H2 tariffs resulting from the criteria followed for the application of the charge in accordance with the regulation under which it was created. The cost of other airport services (walkways, parking, etc.) was € 52.8 million in 2004, while the expense incurred in aircraft cleaning and catering equipment was € 61.4 million. Finally, the flight personnel accommodation cost and the remaining items included under the heading "Traffic service costs" totaled € 76.8 million in 2004.

Aircraft lease expenses

The cost of aircraft leases increased by € 15.2 million (4.1%) compared to 2003 to reach € 384.4 million. This amount relates mainly to passenger aircraft leases, which totaled € 369.1 million in 2004, 4.5% up on 2003, due to the addition of new aircraft and the wet lease contract. The cost of cargo aircraft leases was € 15.3 million in 2004, a decrease of € 0.7 million with regard to 2003.

Commercial expenses

Commercial expenses amounted to € 342.5 million in 2004, down 21.8% from 2003.

Commissions, sales bonuses and other business development and promotion expenses totaled € 303.9 million, 89 million less than 2003 representing a reduction of 22.7%. The significant cut in these expenses was achieved through the implementation of the new remuneration system for travel agents in Spain; the gradual extension of the policy of reducing commissions to other countries, which has generally cut basic commissions and optimized the bonus system; the inter-airline agreement between the oneworld partners; and the growth of new direct sales systems such as Iberia.com and Serviberia.

Advertising and promotion expenses amounted to € 38.6 million in 2004, down 6.3 million compared to 2003.

Net commercial costs (commercial expenses net of commercial revenues) fell by 27.1% in 2003. Once again, net commercial costs as a percentage of traffic revenues improved in 2004 to 5.8% following a decrease of 2.4 percentage points from 2003.

Aircraft maintenance

Aircraft maintenance expenses, which include the cost of aircraft spare parts used, maintenance outsourcing costs and the provision recorded for major repairs, amounted to € 272.1 million in 2004, an increase of € 36.6 with respect to 2003. A part of this increase (€ 10.9 million) is due to the inclusion under this heading of Boeing B-747/300 maintenance reserves payable to the lessor, which were included in aircraft leases in 2003. The cost of work related with the return of aircraft within the framework of the fleet renewal plan and the increase in third party activities also affected the rise in aircraft maintenance expenses.

Navigation charges

Air traffic control expenses, such as in-flight navigation assistance and airport approach expenses, rose by a total of € 12.9 million with regard to 2003, representing an increase of 5.0% which was mainly due to growth in the company's production.

Navigation charges rose by € 8.8 million, up 4.3% on 2003. Approach charges rose by € 4.1 million, an increase of 8.1% compared with 2003. These charges increased by 3% at Spanish airports in 2004.

Depreciation and amortization

The depreciation and amortization expense for 2004 amounted to € 179.2 million, up € 6.6 million on 2003. The highest increases related to the depreciation of aircraft and engines, rotating and repairable parts, and computer hardware and software.

Booking systems

Despite a 3.4% increase in bookings, the expense in this regard increased by only 1.7% compared to 2003 thanks to the control measures implemented. As consequence, the total expense amounted to € 130.4 million in 2004, representing a decrease of 1.6% in the average cost per booking in relation to the prior year.

In-flight services

The in-flight service expense, which includes the cost of catering materials, decreased by € 28.8 million with respect to 2003, a fall of 24.9%. The reduction in the average cost per passenger was even greater (28.0%) and was achieved mainly through the implementation of the new à la carte service on domestic and medium haul international flights (except those with a flight time of over three hours). The application of the global catering contract made with Gate Gourmet and the renegotiation of other supply contracts also contributed to the reduction of the expense. These savings were achieved in 2004 on top of those already made in 2003, mainly as a result of the simplification of tourist class service on short and medium haul flights.

Insurance

Following the terrorist attacks of September 11, 2001, aircraft and passenger insurance costs soared, but the aviation market has revised its charges downward in the last two years, helped by a moderate level of claims. In this context, the Group succeeded in reducing its insurance cost by 28.0% in relation to 2003 by renegotiating premiums. As a result, the annual insurance expense decreased to € 36.6 million in 2004.

Other operating expenses

On aggregate, other operating expenses totaled € 406.8 million in 2004, € 23.1 million more than in 2003 representing an increase of 6.0%. The caption "Other operating expenses" includes a wide range of different items such as leases (equipment, property, cargo holds, etc.), external services (repairs and maintenance, security and surveillance, other ancillary services, etc.), transport, commissions, materials, severance costs, travel expenses and mechanization expenses, among others.

4.2. Financial and extraordinary results

The IBERIA Group earned income before taxes totaling € 283.2 million in 2004, over 42% higher than income for 2003 (in harmonized terms). Both financial results and the net balance of the share in profits (losses) of equity accounted companies improved compared to 2003, contributing to the overall income obtained by the Group, as shown in the following chart:

IBERIA Group (millions of Euros)	**2004**	**2003 (*)**	**Variation 04/03**	**% Variation**
Operating income	**203.3**	**156.7**	**46.6**	**29.7**
Financial revenues	42.1	53.7	(11.6)	(21.6)
Financial expense	36.7	50.2	(13.5)	(26.9)
Exchange gains (losses)	15.4	(6.7)	22.1	n.s.
Financial income (loss)	**20.8**	**(3.2)**	**24.0**	**n.s.**
Share in profits of equity accounted companies	40.7	33.9	6.8	20.1
Reversal of neg. Consolidation diffs.	1.6	0.0	1.6	n.a.
Amortization of goodwill	(6.6)	(6.6)	0.0	0.0
Income on ordinary activities	**259.8**	**180.8**	**79.0**	**43.7**
Extraordinary revenues	214.4	102.5	111.9	109.2
Extraordinary expenses	191.0	84.2	106.8	126.8
Extraordinary income	**23.4**	**18.3**	**5.1**	**27.9**
Income before taxes	**283.2**	**199.1**	**84.1**	**42.2**
Taxes	(63.2)	(54.7)	(8.5)	15.5
Consolidated income for the year	**220.0**	**144.4**	**75.6**	**52.4**
Income attributed to minority interests	1.6	1.6	0.0	0.0
Income attributed to the parent company	**218.4**	**142.8**	**75.6**	**52.9**

(*) Pro forma data excluding Iber-Swiss Catering from the IBERIA Group.
n.s. not significant; n.a.: not applicable

Net financial income for 2004 totaled € 20.8 million, € 24.0 million more than in 2003. This result was mainly due to the improvement in the net balance of exchange differences resulting in part from the exchange gains generated on the realization of hedging operations at the end of 2004.

Financial revenues declined by 21.6% compared to 2003, while financial expenses fell even faster by 27%. In both cases, the non recurring items recorded in 2003 had a significant effect. These comprised a gross capital gain of € 11.5 million recorded as financial revenues in respect of the sale of IBERIA's investment in Tiempo Libre and the Mundicolor brands, and provisions of € 16.2 million set aside in respect of the investments held by IBERIA in Opodo and Cordiem, which were booked as financial expenses.

The net balance of the share in profits (losses) of equity accounted companies amounted to € 40.7 million in 2004, up € 6.8 million on 2003. The companies Serpista, Opodo, Noamar Air Handling and Air Miles were consolidated as part of the IBERIA Group for the first time in 2004. IBERIA also sold its investment in Touroperador Viva Tours, S.A., which was consolidated until 2003. Nevertheless, these companies had only a minor impact on the aggregate profits of equity accounted companies, because the majority of the profits recorded in 2003 and 2004 were related with the investment in the Amadeus Group, which again increased its income in the latter year.

Extraordinary income for 2004 totaled € 23.4 million, slightly more than the amount recorded in 2003.

Extraordinary revenues amounted to € 214.4 million, and included the following main items. Over € 34 million were generated on the sale of various buildings and premises. The sale of the investments in Iber-Swiss Catering and Viva Tours, together with the Viva Tours brand, generated profits of over € 34.9 million. Around € 22.6 million were obtained from the sale of flight simulators to "Servicios de Instrucción Vuelo". Deferred income amounting to almost € 25 million was recovered and, finally, € 40 million were obtained from the recovery of unused tickets.

Extraordinary expenses, which exceeded € 188 million in 2004, include the appropriation of almost € 106 million made to update the provisions made in respect of the Iberia Labor Force Reduction Plan and the extension thereof in 2004. This caption also includes other expenses and write-downs related with the fleet renewal plan (mainly in connection with the return of B-757 aircraft and the retirement of the B-747 fleet).

The IBERIA Group recorded net income after taxes of € 220 million 2004, an increase of € 75.6 million in relation to the prior year. Income attributed to the parent company amounted to € 218.4 million, almost 53% more than in 2003.

4.3. Investments

The net investment (less disinvestments) made by the IBERIA Group amounted to a total of almost € 232 million in 2004.

The main investments in tangible and intangible fixed assets were related with purchases of aircraft spare parts for over € 101 million; the addition of two A-320 and one A-340/600 and their respective engines; modifications made to aircraft forming part of the MD-87/88, B-747, B-757, A-320, A-321 and A-340 fleets; the purchase of parts (BFEs) for the Airbus fleets; and the acquisition of data processing equipment and software applications.

Significant disinvestments in tangible and intangible assets included the sale of various properties owned by IBERIA in Madrid, Barcelona, Santander, Tarragona and Quito; the retirement of simulators contributed to Servicios de Instrucción de Vuelo (SIV); and the retirement of aircraft spare parts

and components. Because Iber-Swiss Catering was not consolidated in 2004 due to the sale of the investment, its assets, which totaled € 15 million in 2003, are not included in the fixed assets of the IBERIA Group.

With regard to long term investments, certain significant changes have occurred in the consolidated group. Firstly, Serpista, a company in which IBERIA owns a 39% interest, has been accounted for under the equity method for the first time and, secondly, the sale of the investments in the share capital of Viva Tours (49%) and Iber-Swiss Catering (70%) was formalized. The acquisition of a 19.9% interest in the aforementioned company SIV for a total of € 8.9 million has been recorded in the long term securities portfolio.

The main disposals of financial investments relate to long term deposits in respect of advances on aircraft as a result of the addition of A-320, A-321 and A-319 aircraft to Iberia's operational fleet.

4.4. Balance sheet

The following chart shows the main captions of the consolidated balance sheet at December 31, 2004 and 2003. The figures for 2003 do not coincide with those reflected in the audited balance sheet because they have been adjusted to exclude Iber-Swiss Catering from the IBERIA Group in order to establish a harmonized basis for comparison.

IBERIA Group (millions of Euros)	**2004**	**2003 (*)**	**Variation 04/03**	**% Variation**
Net assets	2,396.3	2,418.0	(21.7)	(0.9)
Goodwill on consolidation	91.5	98.1	(6.6)	(6.7)
Deferred expenses	69.4	85.2	(15.8)	(18.5)
Receivables and other current assets	740.7	702.7	38.0	5.4
Cash and cash equivalents	1,555.7	1,375.9	179.8	13.1
Total assets	**4,853.6**	**4,679.9**	**173.7**	**3.7**
Shareholders' equity	1,645.8	1,423.2	222.6	15.6
Minority shareholders	5.3	8.5	(3.2)	(37.6)
Negative consolidation differences	1.0	1.5	(0.5)	(33.3)
Deferred income	25.7	56.8	(31.1)	(54.7)
Provisions for contingencies and expenses	1,241.9	1,249.5	(7.6)	(0.6)
Long term debt	397.4	446.1	(48.7)	(10.9)
Other long term creditors	16.7	20.5	(3.8)	(18.5)
Short term debt	58.2	69.0	(10.8)	(15.6)
Other current liabilities	1,461.6	1,404.8	56.8	4.0
Total liabilities	**4,853.6**	**4,679.9**	**173.7**	**3.7**

(*) Pro forma data excluding Iber-Swiss Catering from the IBERIA Group.

The shareholders equity of the IBERIA Group totaled € 1,645.8 million at December 31, 2004, € 222.6 million more (in harmonized terms) than at December 31, 2003. This was the result of increases in all reserves, the increase in income for the year compared to 2003 and, to a lesser extent, the increase in the capital stock of IBERIA due to successive share issues related with the employee stock options plan.

In 2004 IBERIA paid its shareholders a dividend of € 0.03 per share out of income for 2003. The total disbursed in respect of dividends was € 27.8 million.

The balance of long term provisions for contingencies and expenses was € 1,241.9 million at December 31, 2004, a reduction of 0.6% compared to 2003. This figure comprises € 76.3 million in respect of provisions for major aircraft repairs, € 547.3 million in provisions for obligations to personnel and € 618.3 in provisions for third party liability. The last item includes an amount of € 393.9 million set aside for the IBERIA Labor Force Reduction Plan. In 2004 the company provided € 106 million for the extension of the plan, while € 82 million were applied to the plan.

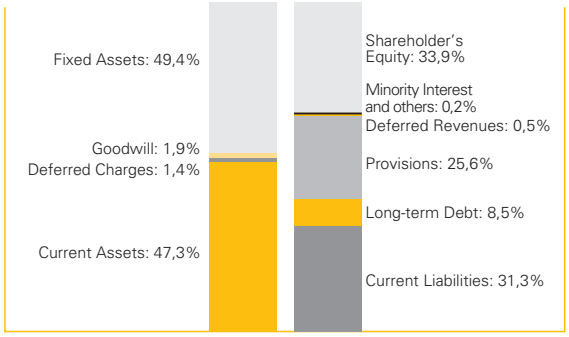
Total interest-bearing debt (short and long term, including interest on financial leases) amounted to € 455.6 million at December 31, 2004, a reduction of 11.6% compared to the prior year. Excluding interest payable in respect of financial leases (€ 62.1 million), the balance of interest-bearing debt amounts to € 393.5, which is € 42.8 million less than at December 31, 2003.

The net debt of the IBERIA Group decreased significantly from -€ 939.6 million at December 31, 2003 to -€ -1,162.3 at December 31, 2004 in harmonized terms. In both cases, the balance of cash and cash equivalents reflected in current assets exceeds amounts payable to credit institutions, excluding interest on financial lease transactions.

Current assets increased by € 217.8 million compared to the balance at December 31, 2003, mainly due to the € 179.8 million increase in cash and cash equivalents (i.e. short term financial investments and cash), the balance of which amounts to € 1,555.7 million at December 31, 2004.

The net fixed assets of the Group amount to € 2,396.3 million at December 31, 2004.

Balance Sheet Structure (%) December 31, 2004



TOTAL IBERIA GROUP € 4,854 millions

4.5. Outlook

The latest forecasts for 2005 published by IATA suggest that international air traffic will continue to rise, although at a slower rate than in 2004, partly as a result of more moderate growth in the world economy. Consequently, an average increase of 5.8% in RPK is expected. IATA foresees a similar increase in the volume of services, and the industry should therefore maintain similar load factors to those of 2004. Nevertheless, growth in the industry's revenues will again be constrained by falling unit revenues due to the strong competition existing, which is likely to remain especially intense in Europe because of the fragmentation of the market and the fast growth of low cost carriers.

With regard to costs, the opinion of the majority of experts is that the high fuel prices seen at the end of 2004 (over US$·40 per barrel) represent a fundamental structural change, and that they are unlikely to fall significantly in the coming months. Also, airlines will now be subject to more stringent regulations with regard to indemnities payable to passengers as a result of incidents.

In this difficult, but not unforeseen, scenario the IBERIA Group will continue to implement the strategic measures established in the 2003/05 Master Plan, which anticipated the specific threats the company will face in the coming months including the rapid penetration of low cost carriers in Spain and competitive tendering for third party handling licenses at Spanish airports.

In 2005, IBERIA will increase the services offered in the network as a whole by between 7% and 10% compared to 2004. This range reflects the company's capacity to adapt production to the evolution of the markets. The service will expand basically on intercontinental routes, while capacity will be maintained in the domestic market.

Cost cutting and productivity gains will remain priorities in the management of the Group, which will supplement the actions established in the Master Plan in order to adapt the business to the new competitive environment. Also, it will be necessary to implement new measures in 2005 to offset the rising unit cost of fuel in relation to the average cost in 2004, when the company's hedging policy succeeded in large part in cushioning the impact of the jump in the price of kerosene. IBERIA has entered into new hedging contracts for 2005 covering around 90% of expected fuel consumption in the six months and a substantially lower percentage in the second half of the year, but considering a higher price band.

In the current negotiations for the new collective labor agreements of IBERIA (the former agreements terminated in December 2004), Management seeks a significant increase in the productivity of all employees and greater flexibility, which are basic, unavoidable requirements for continued growth.

Another strategic priority for the Group is continuous improvement of the quality of service and the segmentation of customers in order to consolidate its competitive advantage over other

carriers. The Fleet Renewal Plan will contribute to success in this area. In 2005, IBERIA will complete the replacement of all B-747 and will commence the commercialization of a new Business Plus class in the long haul network. The company will also sign a major contract for the renewal of approximately 60% of its short and medium haul aircraft.

IBERIA and its partners in oneworld will be able to operate efficiently from the New Terminal Area at Madrid-Barajas airport as from the first quarter of 2006, which will present an opportunity to provide customers with a quality service. In this regard, IBERIA has planned the necessary investments and has designed its plan for the transition and the transfer to the new facilities.

In the medium term, the IBERIA Group will be able to utilize its financial strength, its excellent positioning in the Europe – Latin America market and the development of its relations with British Airways to make the most of the opportunities offered by the considerable increase in the capacity of the Madrid and Barcelona airports and the growth of markets in Latin America.

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