First Quarter Results

January-March 2005

Main Figures (not audited) (a)

IBERIA GROUP	1st Quarter (Jan – Mar)		
€ thousand	**2005**	**2004**	**%**
Revenues from operating activities	1.184.551	1.128.213	5,0
Costs from operating activities	1.215.759	1.154.571	5,3
Profit/loss from operating activities	-31.208	-26.358	-18,4
EBITDAR	169.529	116.656	45,3
Operating Income EBIT	-31.124	-35.866	13,2
Consolidated income after taxes	-16.097	-10.143	-58,7
Total shareholders' equity (b)	1.684.966	1.755.311	-4,0
In-balance sheet net debt (b)	-1.460.573	-1.171.184	24,7
Adjusted net debt x 8 (b)	1.655.968	1.678.916	-1,4
ASK (million)	15.261	14.563	4,8
RPK (million)	11.421	10.721	6,5
Load factor (%)	74,8	73,6	1,2 p.
Passenger revenues	810.854	772.868	4,9
Yield (€ cent)	7,10	7,21	-1,5
Operating revenue/ASK (€ cent)	7,32	7,43	-1,4
Operating expense/ASK (€ cent)	7,53	7,68	-1,9
Operating expense (exc fuel)/ASK (€ cent)	6,37	6,74	-5,6

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 2005. On application of IAS 39 for the first time, the above figures could vary slightly.
(b) March 2005 v December 2004. (See notes page 3).
Number of shares as at 31-March-2005 and 31-December-2004: 937,467,468

Highlights

- The operating income for the quarter was up 13.2% year on year, in spite of the 30.6% hike in fuel costs.
- Iberia posted a net loss of €16.1 million, 58.7% worse than last year, due mainly to the "non-recurrent" income recorded in 2004 (€9.5 million).
- The load factor rose to 74.8%, an improvement of 1.2 percentage points, with an unprecedented occupation on long-haul flights (85.2%, up 3 percentage points).
- For the first time in several quarters, passenger revenues per ASK remained at the same levels as last year despite the negative effect of the exchange rate (0.8%) and the longer average stage length (5.7%).
- The unit cost (excluding fuel) is down 5.6%, achieved through continued cost-cutting measures.
- Further improvements were achieved in productivity, by 1% in fleet utilisation and 5.9% in staff productivity.

Consolidated Statements of Income (not audited) (a)

€ thousand	1st Quarter (Jan – Mar)		
	2005	**2004**	**%**
Profit/loss from operations (b)	**-31.208**	**-26.358**	**-18,4**
Revenues from operating activities	**1.184.551**	**1.128.213**	**5,0**
Net sales	**1.076.473**	**1.035.241**	**4,0**
Passenger revenues (c)	872.839	848.484	2,9
Cargo revenues	74.953	64.662	15,9
Handling	68.399	59.202	15,5
Technical assistance to airlines	38.400	23.320	64,7
Other revenues	21.881	39.572	-44,7
Other operating revenues	**108.078**	**92.972**	**16,2**
Net gain on sales of non-current assets	66.034	45.131	46,3
Sundry revenues	41.374	46.750	-11,5
Other non recurrent revenues	670	1.091	-38,5
Costs from operating activities	**1.215.759**	**1.154.571**	**5,3**
Procurements	**227.546**	**180.985**	**25,7**
Aircraft fuel	177.309	135.771	30,6
Aircraft spare parts	39.606	35.145	12,7
Catering materials	5.715	5.891	-3,0
Other purchases	4.915	4.178	17,6
Personnel expenses	**363.396**	**373.392**	**-2,7**
of which: non recurrent	5.000	20.000	-75,0
Depreciation and amortization	**106.462**	**48.200**	**120,9**
of which: Accelerated fleet depreciation	61.700	4.000	n.m.
Variation in operating provisions	**2.502**	**2.376**	**5,3**
Other operating costs	**515.854**	**549.619**	**-6,1**
Aircraft leases	94.275	94.815	-0,6
Operating leases	85.361	90.551	-5,7
Wet leases	5.382	0	n.a.
Cargo wet leases	3.531	4.264	-17,2
Other rent	18.569	17.508	6,1
Fleet maintenance (subcontracts)	36.124	29.933	20,7
Commercial expenses	62.744	91.519	-31,4
Air traffic levies and charges	102.268	99.366	2,9
Navigation-other communication aids	67.749	65.583	3,3
In flight services	14.926	20.048	-25,6
Booking systems	38.069	36.610	4,0
Insurance	7.831	9.026	-13,2
Other expenses	73.300	85.212	-14,0
of which: Non recurrent costs	89	12.714	-99,3

n.a.: not applicable; n.m.: not meaningful

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 2005. On application of IAS 39 for the first time, the above figures could vary slightly.
(b) Profit/loss from operations includes operating income as well as non recurrent revenues and costs.
(c) Passenger revenues include issued but unused tickets, previously accounted in current liabilities as customer advances, together with other minor adjustments.

€ thousand	1st Quarter (Jan – Mar)		
	2005	**2004**	**%**
Financial results	**825**	**193**	**n.m.**
Financial revenues	9.502	9.174	3,6
Financial expenses	10.535	9.610	9,6
Exchange gains/losses	2.382	630	278,4
Results from ineffective hedging instruments	-523	-	n.a.
Income from investments accounted for using the equity method	**7.017**	**11.373**	**-38,3**
Consolidated income before taxes	**-23.366**	**-14.793**	**-58,0**
Taxes	7.269	4.649	56,3
Consolidated income after taxes	**-16.097**	**-10.143**	**-58,7**
Minorities	29	639	-95,4
Attributed income for the period	-16.126	-10.782	-49,6

n.a.: not applicable; n.m.: not meaningful

Adjusted Net Debt: In Balance-Sheet Net Debt + Capitalised aircraft leases – (Iberbond loans + Iberbus bonds).

In Balance-Sheet Net Debt: (Convertible debentures + Payable to credit entities) – (Short term financial investments + Cash and cash equivalents).

Capitalized leases: The concept aircraft leases is used to calculate capitalized leases. It includes the amount of operating leases (excluding the value of non efficient hedging) + 50% of wet leases + 50% cargo wet leases. 2004 Annual Leases expenses amounted to €368,984 thousand. To get an approximation of the annual value of aircraft rentals in 2005, leases expenses for the first quarter (€100,646 thousand) must be multiplied by 4, this is €402,585 thousand. The result is multiplied by 8 to get the capitalized operating leases.

The financial investments in lessor companies created by Iberia to acquire fleet under operating or financial leasing (Iberbus and Iberbond) must be deducted from the total adjusted debt in order to avoid duplicities, as they are already computed as debt.

Iberbond bonds. Long-term financial investment in the Iberbond 99 bond issue that has to be netted with the equivalent liability in the balance sheet.
Iberbus loans. Long-term loans to Iberbus companies. These loans bear 6% interest that Iberia receives and also pays as a part of aircraft rentals. The capitalised debt corresponding to this element of the aircraft rental must be deducted from the off-balance sheet debt (Aircraft rentals x 8).
For March 2005: 6% of 152.770 MM/ € x 8 = € 73.330 million
For December 2004: 6% of 145.400 MM/ € x 8 = € 69.792 million

Consolidated Balance Sheet (not audited) (a)

€ thousand	**Mar–2005**	**Dec–2004**
ASSETS	**5.016.195**	**4.861.337**
Fixed assets	**2.307.517**	**2.531.179**
Intangible assets	42.880	45.440
Property, plant and equipment	1.125.589	1.368.633
Long term financial investments	714.467	704.266
Iberbus loans	*152.770*	*145.400*
Iberbond bonds	*30.810*	*31.980*
Other	*530.887*	*526.886*
Long-term receivables	424.581	412.840
Consolidation goodwill	**0**	**98.098**
Deferred charges	**4.877**	**4.796**
Current assets	**2.703.781**	**2.227.264**
Inventories	94.245	87.420
Accounts receivable	696.846	551.798
Short term financial investments	1.185.759	1.000.632
Cash and cash equivalents	702.426	566.460
Accrual accounts	24.525	20.954
LIABILITIES	**5.016.195**	**4.861.337**
Shareholders´ equity	**1.684.966**	**1.755.311**
Capital stock	731.225	731.226
Stock premium	106.501	106.501
Reserves of the parent company	721.980	516.369
Reserves at consolidated companies	140.771	197.951
Translation differences	-329	-344
Income attributable to the parent company	-16.127	198.285
Minorities	945	5.323
Deferred revenues	**22.687**	**22.675**
Provisions for contingencies and expenses	**1.172.685**	**1.211.160**
Long-term debt	**417.155**	**362.912**
Convertible debentures	16.831	16.649
Payable to credit entities	317.515	331.627
Other accounts payable	82.809	14.636
Current liabilities	**1.718.702**	**1.509.279**
Convertible debentures	8.416	8.324
Payable to credit entities	84.850	39.308
Other accounts payable	1.615.963	1.458.376
Accrual accounts	9.473	3.271

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Consolidated Cash Flow Statement (not audited) (a)

€ thousand	1st Quarter (Jan – Mar)	
	2005	**2004**
Income before taxes	**-23.366**	**-14.793**
Depreciation	106.462	59.200
Variation in provisions	25.295	38.293
Income from investments accounted for using the equity method	-7.017	-11.372
Adjustment of deferred revenues and charges	-909	-4.215
Application of provisions	-62.814	-21.474
Other cash flow adjustments	-71.941	-24.396
Cash Flow from operating activities	**-34.290**	**21.243**
Net capital expenditures on tangible and intangible fixed assets	177.132	-58.791
Net capital expenditures on financial and other non current assets	68.225	-10.903
Current financial assets and other	-105.177	25.071
Cash Flow from investing activities	**140.180**	**-44.623**
Dividends paid	0	0
Capital increase	0	5.448
Movement in financial debt	30.076	7.342
Cash Flow from financing activities	**30.076**	**12.790**
Net Cash Flow	**135.966**	**-10.590**
Cash and cash equivalents at the beginning of period	566.460	660.503
Cash and cash equivalents at the end of period	702.426	649.913

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Operating Statistics

IBERIA GROUP (a)	**1st Quarter (Jan – Mar)**		
	2005	**2004**	**%**
SCHEDULED TRAFFIC			
Passengers (thousand)	**6.181**	**6.136**	**0,7**
Domestic	3.467	3.521	-1,5
Medium Haul	1.844	1.759	4,8
Europe	1.733	1.676	3,4
Africa & Middle East	111	83	34,0
Long Haul	871	856	1,7
ASK (million)	**15.261**	**14.563**	**4,8**
Domestic	3.408	3.338	2,1
Medium Haul	3.946	3.766	4,8
Europe	3.548	3.468	2,3
Africa & Middle East	399	298	34,0
Long Haul	7.907	7.459	6,0
RPK (million)	**11.421**	**10.721**	**6,5**
Domestic	2.285	2.354	-2,9
Medium Haul	2.395	2.234	7,2
Europe	2.130	2.045	4,1
Africa & Middle East	265	189	40,2
Long Haul	6.740	6.133	9,9
Load factor (%)	**74,8**	**73,6**	**1,2 p.**
Domestic	67,1	70,5	-3,4 p.
Medium Haul	60,7	59,3	1,4 p.
Europe	60,0	59,0	1,1 p.
Africa & Middle East	66,4	63,5	2,9 p.
Long Haul	85,2	82,2	3,0 p.
CARGO			
Cargo Tones	58.869	57.897	1,7
ATK (million)	380	340	11,6
RTK (million)	263	245	7,2
Load factor (%)	69,3	72,1	-2,9 p.
PASSENGER REVENUES			
Revenues (€ thousand)	810.854	772.868	4,9
Revenue / ASK (€ cent)	5,31	5,31	0,1
Revenue / RPK (€ cent)	7,10	7,21	-1,5

(a) Iberia L.A.E. traffic
ASK: Available Seat Kilometer; RPK: Revenue Passenger Kilometer; ATK: Available Ton Kilometer; RTK: Revenue Ton Kilometer.
Year on year variation in Load factor expressed in percentage points.
Passenger revenues include only those revenues generated during the period. Therefore, revenues from the cancellation of customer advances as well as other minor accounting regularizations are excluded.

KPI (not audited) (a)

IBERIA GROUP	1st Quarter (Jan – Mar)		
	2005	**2004**	**%**
Unit Ratios (€ cent/ASK)			
OPERATING REVENUE	7,32	7,43	-1,4
OPERATING COST	7,53	7,68	-1,9
Fuel	1,16	0,93	24,6
Fleet Maintenance	0,50	0,45	11,0
Spare parts	0,26	0,24	7,5
Maintenance (subcontracts)	0,24	0,21	15,2
Personnel	2,35	2,43	-3,2
Aircraft Leases	0,62	0,65	-5,1
Commercial	0,41	0,63	-34,6
Air Traffic Levies and charges	0,67	0,68	-1,8
Navigation aids	0,44	0,45	-1,4
In-flight services and catering materials	0,14	0,18	-24,1
Rest	1,24	1,28	-2,8
Net fleet maintenance (b)	0,37	0,38	-2,6
Net commercial cost / traffic passenger and cargo revenue (%) (c)	4,5	7,1	-2,7 p.
Productivity			
Average fleet utilization (block hours/aircraft/ day)	8,97	8,89	0,9
Annual average headcount	24.044	24.302	-1,1
ASK / Employee	635	599	5,9
Ground	864	818	5,7
Ground (without handling)	1.662	1.523	9,1
Block hours / Technical crew	64,6	63,9	1,1
Block hours / Flight attendant	28,7	27,5	4,2

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 2005. On application of IAS 39 for the first time, the above figures could vary slightly.
(b) Unit fleet maintenance cost lowered by third parties maintenance revenues (€ cents per ASK).
(c) Commercial expenses lowered by commission revenues (variation in percentage points).

Operating Fleet

IBERIA GROUP (a)	March 2005	December 2004	March 2004
Long Haul	**31**	**29**	**26**
Owned	1	2	3
Financial lease	0	0	0
Operating lease	28	25	23
Wet lease	2	2	0
Short and Medium Haul	**123**	**125**	**125**
Owned	44	46	45
Financial lease	12	12	12
Operating lease	67	67	68
Wet lease	0	0	0
Total	**154**	**154**	**151**
Owned	45	48	48
Financial lease	12	12	12
Operating lease	95	92	91
Wet lease	2	2	0

(a) End of period.

Operational and Financial Performance

Iberia Group Results

A loss of €16.1 million was the income attributed to the parent company in the first quarter of 2005, €5.3 million worse than the €10.8 million loss recorded in the same period of last year, both calculated in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 1 January 2005.

Operating income improved by €4.7 million (13.2%) year on year, showing a cumulative loss in the first three months of 2005 of €31.1 million. Apart from the increased capacity, the slight improvement in the revenue per ASK and the cost-cutting measures helped to offset the effect of the hike in fuel prices. Unit operating revenues dropped 1.4% year on year, to €7.32 euro cents/ASK, suffering the effects of the appreciation of the euro against the dollar and growth of the average stage length throughout the network. While the unit operating cost was 7.53 euro cents/ASK, 1.9% down on last year. If the fuel expense is excluded in both years, the unit operating cost is down 5.6%.

Loss from operations, including non-recurrent revenues and expenses, amounted to €31.2 million, compared to the €26.4 million loss recorded in the same period of 2004, i.e. a worsening of 18.4%. Iberia recorded a consolidated loss before taxes of €23.4 million in the first three months of this year, €8.6 million more than the loss recorded in the same quarter of last year.

Capacity and demand

RPKs increased by 6.5% year on year across the network, slightly outperforming the average recorded by the European network companies (6.0% according to figures published by the Association of European Airlines-AEA). With a 4.8% increase in capacity (more than two points of which is due to fleet densification), the load factor improved by 1.2 percentage points year on year, to 74.8%. The greatest increases in capacity and demand were recorded on intercontinental flights. This, together with the 8.1% growth in the average stage length on long-haul flights, explains why the increase in the number of passengers (0.7%) is rather smaller than the increase in RPKs.

The largest year-on-year increases in traffic and load factor over the quarter were recorded in March, partly favoured by the dates of Easter (it was in April last year). In the same month, the company started flying to two new destinations: Moscow and Beirut.

The load factor on long-haul flights rose by 85.2%, up three points year on year, while traffic grew by almost 10%, against a 6% increase in available seat kilometres (ASK) with an improved mix. The load factor on South Atlantic flights was an impressive 88%, despite the significant increase in capacity, up 23.7% on the first quarter of 2004. The change in design of Central American operations as from October 2004 (closing of the Miami hub and improved product, increasing direct flights from Spain) produced a positive balance in the first quarter of 2005. If the North and Middle Atlantic traffic is added (to avoid the distortion caused by the aforesaid restructuring when comparing the two sectors separately) traffic grew by 5.1%, against a 1.1% slide in ASKs, producing a five-point improvement in the load factor, which rose to 83.9%.

International medium-haul traffic grew by 7.2% year on year, with a 4.8% increase in available capacity; the load factor improved by 1.4 points to 60.7%. RPKs rose by 4.1% on European flights, affected by the continued expansion of low-cost carriers. On Middle East and African routes, the good response of traffic to the significant increase in capacity continued (up 40.2% and 34%, respectively), leading to a 2.9 percentage point improvement in the load factor year on year, to 66.4%.

On domestic flights, where competitors have greatly increased their capacity, Iberia has maintained the strategy it established in the second half of 2004, based on a redeployment of capacity and a commercial policy focusing primarily on improving yields, to enhance the network profitability. So in the first quarter of 2005, ASKs dropped by 3.6% on flights between the mainland and the Canary Islands and rose by 5.5% on other flights, the overall result being a moderate growth (2.1%) on the domestic market.

Traffic and the load factor slid in the first two months of 2005, due partly to the reduced weight in the domestic network of Canaries routes, which have a higher load factor than mainland flights, and partly to the afore-mentioned selective revenue management, which is less stimulating for traffic. The load factor improved in March due to the growth in traffic and the programme adjustments made during the Easter holiday period. RPKs dropped by 2.9% over the three months, giving a load factor of 67.1%, 3.4 percentage points down on last year.

In cargo, the revenue tonne kilometres (RTKs) rose 7.2% while the load factor slipped 2.9 points year on year, this comparison being adversely affected by the different dates of Easter. Of the total RTKs, €263 million, 94% were carried in the bellies of passenger aircraft, 81% on Atlantic routes.

Revenues from operating activities

Revenues from operating activities rose 5.0% year on year to €1,184.6 million in the first quarter of 2005. Of this sum, €947.8 million (80% of the total) corresponded to passenger and cargo revenues, which grew by 3.2% year on year, mainly due to the increased traffic. The remaining operating revenues (generated mainly on handling and technical assistance to third parties and on commissions) totalled €170.1 million, 4.1% more than the €168.8 million recorded in the first quarter 2004. The aforesaid year-on-year increases have been calculated using the same grouping criteria as in previous years, while on the profit and loss account, the items "fuel and safety levies" were included in "other revenues on sales and services" in 2004, but in "cargo revenues" as from the first quarter of 2005.

Revenues from operating activities also include the net revenues on asset sales and disposals and other non-recurrent revenues, an aggregate €66.7 million during the first quarter of 2005, mainly corresponding to the gain obtained on the sale of SAVIA (€73.9 million), compared to the €46.2 million recorded in the same period of 2004, which mostly corresponded to the gains obtained on the sales of a building (€28.5 million) and of Viva Tours (€16 million).

Passenger revenues totalled €872.8 million, €24.4 million (2.9%) more than last year. Of this sum, €810.9 million correspond to revenue on tickets actually flown during the period, up €38 million year on year. It should be borne in mind that since January 2005 this item includes fees for direct sales in Spain, generating a cumulative sum of around €7.5 million during the quarter. The aggregate sum of other passenger revenues (cancellation of advance payments from customers for issued but unused tickets, revenues from frequent flyer programmes, leasing of seats to other carriers and other regularisations) totalled €62 million, €13.6 million down on the first three months of 2004, mainly due to the aforesaid cancellation of advance payments.

Passenger revenues from tickets actually flown in the first quarter of 2005 grew by 4.9% year on year, pushed up by the increase in traffic (6.5%). In the network overall, the yield (average revenue per RPK) dropped 1.5% year on year, brought down by the increase of the average stage length (5.7%) and the depreciation of the dollar against the euro (4.7%); in spite of these factors, average revenue per ASK remained on a par with last year. With constant exchange rates, the yield would have dropped by 0.8% and unit revenue per ASK would have risen by 0.9% year on year.

On the domestic market, passenger revenues were 1.6% higher than in the first quarter of last year, totalling €290.5 million, boosted by a 4.7% increase in yield, which continued the positive trend recorded during the second half of 2004, due to the development of a more selective revenue management. On long-haul flights, passenger revenues increased by 10.9% to €284.7 million, due largely to the growth in traffic, which responded very favourably to the increase in capacity. The yield improved by 0.9% over the three-month period, despite the appreciation of the euro and the longer average stage length, rising steadily over the quarter. On international medium-haul traffic, the yield dropped by 4.6% due to the fierce competition on the European markets and the longer average stage length (2.3%). This drop was offset by the growth in traffic, such that revenues rose by 2.3% year on year to €235.6 million.

Cargo revenues rose by €75 million in the first quarter of 2005, which includes revenues from fuel and safety fees. If the same grouping criteria in the two years is applied (in the first quarter of 2004 adding the amount of these fees, totalling €5,5 million, in "other revenues"), the increase in cargo revenues is 6.9%. Yield was 9.7% down on last year, affected by the growth of the average stage length and the depreciation of the dollar, but it was offset by the growth in volume of freight carried (7.2%) and the rise in extra charges (or fees) to compensate the increase in fuel prices.

Revenues generated on handling services at airports totalled €68.4 million, up 15.5% year on year, due to the growth in activity for third parties (9.1% in terms of weighted aircraft handled) and the improvement in unit revenues. Just as in the last quarter of 2004, there was a sharp increase in technical assistance revenues (64.7%), which totalled €38.4 million in the first quarter of 2005. "Other revenues" dropped 35.9% compared to the previous year (after homogenising the grouping criteria of cargo-related fees), mainly owing to the disappearance of the SAVIA revenues.

Costs from operating activities

Costs from operating activities totalled €1,215.8 million in the first quarter of 2005, up €61.2 million (5.3%) year on year, mainly as a result of the fuel price hike and the increase in non-recurrent expenses. The aggregate sum of these items was €30.1 million more than that recorded in the first three months of 2004, totalling €66.8 million, including an extraordinary item of €61.7 million set aside for the accelerated depreciation of the McDonnell Douglas (MD-87/88) aircraft, with the aim of adjusting the book value of this fleet to its market value.

If we exclude the non-recurrent items, operating expenses rose by 2.8% over last year to €1,149 million. The increased expenses deriving from the rise in market kerosene prices and the increased capacity were partly offset by the fuel hedging policy, development of the new model of remuneration for travel agencies, reduction of in-flight services expenses, improved staff productivity and the favourable effect of the depreciation of the dollar.

Fuel costs rose by €177.3 million in the first quarter of 2005, up €41.5 million on the cost recorded in the same period of 2004, representing a 30.6% increase. The dollar price of aviation kerosene (before hedging) remained well above last year's levels throughout the quarter and the average market price was more than 40% up on last year. This price rise was partially toned down by the hedging in place: approximately 90% of its consumption at a price of 37.5 dollars/barrel, enabling it to curb the increase in this cost by €16.6 million over the quarter. The increase in expenses caused by the fuel price hike and, to a lesser extent, by the increased capacity, was also partly offset by the reduction of unit consumption, thanks to the greater efficiency of the fleet, the increase of the average stage length, the depreciation of the dollar and the effect of exchange rate hedging. Consequently, the fuel unit cost was 1.16 euro cents per ASK, 24.6% more than last year.

The cost of fleet maintenance (spare parts, maintenance subcontracts and provision for large repairs) totalled €75.7 million, 16.4% up on the first quarter of 2004, due mainly to the increase in work done for third parties carriers. If technical assistance revenues are excluded, the net maintenance expense was down 10.6% year on year to €37.3 million.

Personnel expenses amounted to €363.4 million in the first quarter of 2005, including a provision of €5 million for the extension in the cargo area of the redundancy plan. A provision of €20 million was made for the redundancy plan in the same period of 2004. Excluding these non-recurrent costs, personnel expenses increased by 1.4%. The 1.1% reduction of the Group's equivalent headcount, together with the improved salary mix achieved through the redundancy proceedings, offset part of the increased expense generated by application of the pay rises deriving from the consolidation in 2005 of the rises corresponding to the Share in Improved Results 2004 and 2003, and by the effect of "slippages". Management and union representatives have begun the collective bargaining process with a view to establishing new Collective Agreements, applicable with effect from 1 January 2005.

The unit personnel expense was 3.2% down on the first quarter of 2004, thanks to increased productivity. The average cabin crew headcount was brought down by 1.6% while productivity (block hours per equivalent employee) of pilots and cabin crew rose by 1.1% and 4.2%, respectively. The average ground headcount was down 0.9%. Excluding handling staff, the equivalent headcount for the remaining ground staff was down 4.0% on last year, while their productivity (measured in ASK/employee) was up 9.1%.

Aircraft leasing costs totalled €94.3 million in the first quarter of 2005, slightly less than in the same period of last year, in spite of the increase in number of aircraft leased (5.3 aircraft more on average), which was partly offset by the favourable effect of the exchange rate hedging and depreciation of the dollar. Moreover, in application of IAS 39 in 2005, operating leases have been reduced this year by €10.8 million, corresponding to the difference in opening and closing values of "non-effective" hedges (according to IFRS terminology) linked to aircraft leasing for the quarter (see section "Principal effects of applying the IFRS).

In the first quarter of 2005, there was a further cutback in commercial expenses to €62.7 million, €28.8 million (31.4%) down year on year. This was achieved mainly through application of the next phase contemplated in the model of remuneration for travel agencies in Spain, lowering the basic commission paid by Iberia to the agencies to 1.5% as from January 2005 (compared to 3% paid in the first quarter of 2004). The gradual extension of the commission reduction policy to other countries, the interline agreement among **one**world companies and the checking of advertising expenses has also helped to bring down commercial costs. The ratio of net commercial expenses (lowered by commission revenues) to traffic revenues was 4.5%, down 2.7 percentage points on the first quarter of 2004; while the unit commercial cost (per ASK) fell by 34.6% year on year.

The aggregate cost of "In-flight services" and "Catering materials" was €20.6 million in the first quarter 2005, a year-on-year drop of 20.4%, achieved mainly as a result of the new in-flight "à *la carte*" service introduced in March 2004. The unit cost (per ASK) of these items was down 24.1%.

"Other expenses" totalled €73.3 million in the first quarter of 2005, down €11.9 million on the previous year. Excluding non-recurrent items, which last year included extraordinary expenses of €12,7 million (deriving mainly from the early return of aircraft), these expenses rose by 1% between the two periods. Among the different items included in this account, compensation expenses totalled €9.0 million in the first three months of 2005, up almost 35% on last year, due to the entry into force of the EU Regulation 261/2004 of 17 February 2005, which raised the compensations and assistance to be given to travellers in the event of overbooking and extended the compensations to passengers suffering delays, flight cancellations and loss of baggage.

Financial and Other Non-Operating Results

In the first quarter of 2005, Iberia recorded a financial result of €0.8 million, €0.6 million more than in the same period of last year, due essentially to an improvement of €1.8 million in the net balance of exchange differences, with a gain of €2.4 million this year, compared to €0.6 million last year. Results from non effective hedging instruments showed a net loss of €0.5 million in the first quarter of this year, by application of IAS 39.

The net balance of Iberia's income from investments accounted for using the equity method was €7.0 million in the first quarter of 2005, €4.4 million less than last year, as a result of the new percentage stake to be held by Iberia in Amadeus on conclusion of the sale currently in process (see section "Actions concerning subsidiaries").

Net Debt to Equity

During the first quarter of 2005, three aircraft (one A-340/600 and two A-320) owned by the company were written off in assets through a sale and leaseback operation. This was the main reason for the reduced balance of "Property, plant and equipment", at the same time producing an increase in available cash.

The in-balance sheet net debt improved considerably to -€1,460.6 million at 31 March 2005, compared to -€1,171.2 million at year-end 2004. In both cases, the balance of the financial accounts in current assets exceeded the aggregate balance of interest-paying debt. At the end of the first quarter 2005, liquid assets (short-term financial investments and cash, plus other equivalent liquid means) totalled €1,888.2 million, €321.1 million up on the closing balance for 2004, primarily as a result of the sale and lease back operations and the sale of Savia. Interest-paying debt (issuance of debentures and payable to credit entities) totalled €427.6 million at 31 March 2005, up €31.7 million on the closing balance at 31 December 2004.

The adjusted net debt, which includes the capitalisation of operating leases, was slightly down (-1.4%) on the close of last year, at €1,656 million. Most of the reduction of the in-balance sheet net debt was offset by the increase in the capitalised amount of aircraft leasing (excluding the difference in the valuation of "non-effective" hedges). Leverage, measured as adjusted net debt over total resources, was up 0.7 percentage points from 31 December 2004, at 49.6%.

At 31 March 2005, Iberia had a shareholders' equity of €1,685 million, €70.3 million less than at the close of the previous year, largely due to the quarterly results and the reduction of reserves at consolidated companies following the sale of SAVIA.

Operating Fleet and Variations

On 31 March 2005, Iberia's operating fleet consisted of 154 aircraft, used for passenger and cargo carriage, 45 of which were owned, 12 held on financial leases, 95 on operating leases and 2 on a wet lease. The short and medium-haul fleet consisted of 123 aircraft, and the long-haul fleet of 31 aircraft.

In January and February, the company added two A-340/600 to its long-haul fleet, under operating leases. In February it also added an A-319 and an A-321 under operating lease to its short and medium haul fleet. During the quarter, two B-757, one MD-88 and one A-320 were retired.

In February 2005, Iberia reached an agreement with Airbus to renew its short and medium haul fleet. The new contract contemplates 30 firm purchase commitments and 49 options, incorporating the aircraft between 2006 and 2011. The total value of the aircraft contracted by Iberia is over $4,500 million. The new aircraft are from the A-320 family and will replace 19 MD-87, 13 MD-88, 7 Boeing 757 and the oldest Airbus A320 in the fleet, thus furthering the homogenisation of the company's fleet.

Actions concerning subsidiaries

On 27 January 2005, the Board of Directors of Iberia resolved to enter into negotiations with Amadeus GTD, S.A. (Amadeus) with a view to selling the 66% stake held by Iberia in Sistemas Automatizados Agencias de Viajes, S.A. (SAVIA). These negotiations concluded in March and the sale generated a net gain of €73.9 million.

In January 2005, the firms BC Partners Limited and Cinven Limited submitted a proposal to the reference shareholders in Amadeus (Societé Air France, Iberia Líneas Aéreas de España, S.A. and Deutsche Lufthansa AG) to jointly launch a takeover bid over the A shares, negotiating the terms and conditions of the transactions and reaching an agreement in March. The European Commission approved this takeover bid on 16 March.

Consequently, the three airlines and Amadelux Investments, S.A. (a company owned by a number of investment funds counselled by BC Partners Limited and Cinven Limited) have decided to launch a takeover bid, through a new company – WAM Acquisition, S.A. – over all the A shares in Amadeus at a price of €7.35/share. All A shares to be directly contributed to WAM Acquisition, S.A. by Air France and Iberia (4.11% of the total) and the treasury stock held by Amadeus (2.32%) are excluded and blocked. The B shares in Amadeus held by the reference shareholders will also be contributed directly to the new company if the takeover bid is successful. Accordingly, on 8 April the documents required to obtain authorisation for the operation were filed with the National Securities Market Commission (CNMV).

If the takeover bid is successful, Iberia will acquire an indirect interest, through WAM, of no more than 11.44% in the capital of Amadeus. This transaction will give Iberia a cash revenue before tax of €697 million. The sale of Amadeus shares through the takeover bid would give Iberia a capital gain before tax of €600 million in its consolidated accounts. Iberia estimates that in the consolidated group the capital gain will be taxable at an average tax rate of around 17.8%, after benefiting from several tax allowances, essentially from reinvestment.

Principal effects of applying the IFRS

In pursuance of IAS 39, applicable for the first time, as from 1 January 2005 the company has entered in its accounts the market value of all its hedging transactions. The hedges have also been valued as at 31 March, recording in its accounts the value spread between the two dates, which in aggregate terms is an improvement in the value of hedging transactions of €212.7 million. Of this figure, €132 million are due to the positive variation in the values of fuel hedges and the remaining €80.7 million correspond to the higher value of the exchange rate and interest rate hedges. The three factors contributing to this improvement in respect of the initial valuation were: the hike in fuel prices, the rise in dollar interest rates in the medium and long term, and the appreciation of the US currency against the euro.

Of the total increase in value, some €201 million are reflected in the variation of the balance sheet. The impact on reserves improved from -€149.1 million at 1 January 2005 to +€51.9 million at 31 March 2005. Moreover, a profit of €11.6 million has been recorded in the profit and loss account, €10.3 million of which is due largely to the change in value of the interest rate hedges that the company has contracted to swap the payments for operating leases in dollars at variable rate to euros at variable rate and that have been considered ineffective according to IFRS. The remainder, €1.3 million, is due to the temporary, statistical “non-effectiveness” (according to IFRS terminology) of part of the fuel hedges.

Iberia also resolved to create a Stock Option Plan for Executive Directors, certain executives and certain members of the structural staff. Under IFRS 2, the value of stock options must be carried to personnel expenses, crediting the corresponding amount in reserves and prorating the total value over the time to maturity. In this case, the total value calculated (by application of a Black-Scholes binomial) is €9.9 million, pro-rated over 24 months: from the date of granting, April 2003, to the date of first execution, April 2005. Therefore, the personnel expenses for the first quarter 2005 were increased by €1.2 million and the personnel expenses for the first quarter 2004 by the same amount.

The goodwill on consolidation was written-off as of 1 January 2005, it being practically impossible to do the impairment test required under IFRS 3 on the goodwill generated on the merger with Aviaco in 1999, giving rise to the corresponding reduction of reserves (€91.5 million).

As a result of applying the IFRS to the results of the first quarter 2004, Iberia increased its losses by €9.2 million in respect of the consolidated net income published a year earlier (according to the National Chart of Accounts). The largest effects (before tax in all cases) were: the exclusion of the capital gains obtained on the sales of treasury stock (€8,1 million); increase in the commercial expenses for the period, since certain expenses are no longer deferred over several years (€3.5 million); the negative net effect on income of €1.9 million deriving from the treatment under the IFRS of the fund for large fleet repairs; exclusion of the write-down of goodwill (€1.7 million); and increase in the income from interests in companies carried by the equity method (Amadeus).

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