First Half Results

January-June 2004

Contact
Subdirección Relaciones con los Accionistas
Velázquez, 130. Bloque IV. Planta 8
28006 Madrid (España)
Phone number 3491 5877334 Fax 3491 5877043
invesrel@iberia.es

Highlights

IBERIA GROUP (Thousand €)	Apr – Jun 2004	Apr – Jun 2003 (a)	%	Jan – Jun 2004	Jan – Jun 2003 (a)	%
Operating Revenues	1.208.880	1.169.552	3,4	2.296.590	2.212.704	3,8
Operating Expenses	1.134.076	1.098.573	3,2	2.247.787	2.192.679	2,5
Operating Income EBIT	74.804	70.979	5,4	48.803	20.025	143,7
EBITDAR	207.364	205.309	1,0	319.161	290.361	9,9
Consolidated net income	78.339	51.984	50,7	77.346	30.096	157,0
Total Shareholders Equity (b)	---	---	---	1.499.280	1.423.244	5,3
In balance-sheet net debt (b)	---	---	---	-1.022.721	-939.627	8,8
Adjusted net debt x 8 (b)	---	---	---	1.737.033	1.841.322	-5,7
ASKs (millions)	14.743	13.516	9,1	29.306	26.705	9,7
RPKs (millions)	11.106	9.982	11,3	21.827	19.439	12,3
Load Factor (%)	75,3	73,8	1,5 p.	74,5	72,8	1,7 p.
Passenger revenues	860.446	846.942	1,6	1.633.314	1.593.212	2,5
Yield (€ cents)	7,75	8,49	-8,7	7,48	8,20	-8,7
Operating Revenue/ASK (€ cents)	8,20	8,65	-5,2	7,84	8,29	-5,4
Operating Expenses/ASK (€ cents)	7,69	8,13	-5,4	7,67	8,21	-6,6
Operating Expenses/ASK exc Fuel (€ cents)	6,67	7,15	-6,6	6,69	7,18	-6,8

Number of shares as at 30-Jun-2004: 931,290,867; 31-Dec-2003: 919,016,894
(a) Pro forma excluding Iber-Swiss Catering, S.A. (See notes pages 2 and 3)
(b) June 2004 v December 2003. (See notes page 4).

Highlights

- In the first half of 2004 Iberia increased its operating income by 144% compared to last year. Consolidated net profit rose by 157%, reaching €77.3 million.
- Capacity increased by 9.7% and load factor was 1.7 percentage points up on the first half of 2004, setting new monthly records in the Company's history, especially in the long haul.
- Operating revenues grew by 3.8%. Yield fell by 8.7%, corresponding 1.5 points to the impact of the dollar and 4.9 to the enlargement of the average stage length.
- Operating costs increased by 2.5%, representing a 6.6% reduction in unit terms. In this sense, it is worth noting the reduction in commercial costs, in flight services expenses and aircraft leases due to the launch of the measures of the Director Plan 2003-05.
- In the second quarter, the weakness of revenues continued, mainly in the short and medium haul, accentuated in comparative terms by the positive behaviour registered in 2003 and a certain negative impact of the 11-M in Madrid. Costs, excluding the impact of fuel, improved within the same trend than in the first quarter.
- There were substantial improvements in staff productivity (7.9%) and fleet utilisation (6.3%).
- Recent data of our traffic indicate a more favourable trend in unit revenues, particularly in the domestic market.

Highlights (Historic data)

IBERIA GROUP (Thousand €)	Apr – Jun 2004	Apr – Jun 2003 (a)	%	Jan – Jun 2004	Jan – Jun 2003 (a)	%
Operating Revenues	1.208.880	1.170.987	3,2	2.296.590	2.215.512	3,7
Operating Expenses	1.134.076	1.099.046	3,2	2.247.787	2.194.287	2,4
Operating Income EBIT	74.804	71.941	4,0	48.803	21.226	129,9
EBITDAR	207.364	206.951	0,2	319.161	292.920	9,0
Consolidated net income	78.339	52.555	49,1	77.346	30.782	151,3
Total Shareholders Equity (b)	---	---	---	1.499.280	1.432.760	4,6
In balance-sheet net debt (b)	---	---	---	-1.022.721	-938.503	9,0
Adjusted net debt x 8 (b)	---	---	---	1.737.033	1.842.446	-5,7
Operating Revenue/ASK (€ cents)	8,20	8,66	-5,4	7,84	8,30	-5,5
Operating Expenses/ASK (€ cents)	7,69	8,13	-5,4	7,67	8,22	-6,7
Operating Expenses/ASK exc Fuel (€ cents)	6,67	7,15	-6,7	6,69	7,19	-6,9

(a) Iberia Group historic data (including Iber-Swiss Catering, S.A). Iberia, L.A.E. has sold its participation in Iber-Swiss Catering, S.A.. Consequently, this company is no longer inside the consolidation perimeter since January 2004. Comparing this chart with the previous one on page 1, it can be seen that its exclusion has not a significant effect on the 2003 results.

(b) June 2004 v December 2003. (See notes page 4).

Consolidated Statements of Income (not audited)

€ tthousand	2nd Quarter 2004	2nd Quarter 2003 (a)	%	Accumulated 2004	Accumulated 2003 (a)	%
Operating income	**74.804**	**70.979**	**5,4**	**48.803**	**20.025**	**143,7**
Operating revenues	**1.208.880**	**1.169.552**	**3,4**	**2.296.590**	**2.212.704**	**3,8**
Net sales	**1.157.150**	**1.118.163**	**3,5**	**2.192.391**	**2.111.951**	**3,8**
Passenger revenues (b)	947.277	917.726	3,2	1.795.761	1.732.339	3,7
Cargo revenues	63.170	60.024	5,2	127.833	122.951	4,0
Handling	78.286	70.440	11,1	137.488	120.907	13,7
Technical assistance to airlines	25.388	30.103	-15,7	48.708	60.227	-19,1
Other revenues	43.029	39.870	7,9	82.601	75.528	9,4
Other operating revenues	**51.730**	**51.390**	**0,7**	**104.199**	**100.754**	**3,4**
Rents	1.777	1.916	-7,3	3.407	3.534	-3,6
Commissions	29.549	30.071	-1,7	55.845	55.932	-0,2
Other sundry revenues	20.404	19.403	5,2	44.947	41.288	8,9
Operating expenses	**1.134.076**	**1.098.573**	**3,2**	**2.247.787**	**2.192.679**	**2,5**
Procurements	**196.741**	**177.369**	**10,9**	**377.726**	**365.605**	**3,3**
Aircraft fuel	150.154	132.655	13,2	285.925	274.661	4,1
Aircraft spare parts	36.438	34.712	5,0	71.583	69.251	3,4
Catering materials	5.188	6.027	-13,9	11.080	13.108	-15,5
Other purchases	4.960	3.975	24,8	9.138	8.586	6,4
Personnel expenses	**356.009**	**336.729**	**5,7**	**708.159**	**666.021**	**6,3**
Depreciation and amortization	**44.012**	**42.135**	**4,5**	**86.996**	**83.817**	**3,8**
Variation in operating provisions	**579**	**1.673**	**-65,4**	**2.955**	**2.870**	**2,9**
Other operating expenses	**536.734**	**540.668**	**-0,7**	**1.071.952**	**1.074.365**	**-0,2**
Aircraft leases (c)	88.547	92.195	-4,0	183.362	186.519	-1,7
Operating leases	84.830	88.404	-4,0	175.381	177.790	-1,4
Wet leases	424	0	n.a.	424	0	n.a.
Cargo wet leases	3.294	3.792	-13,1	7.558	8.728	-13,4
Other rent	19.073	18.286	4,3	36.580	37.756	-3,1
Fleet maintenance (subcontracts)	27.673	27.189	1,8	59.169	57.752	2,5
Commercial expenses	91.855	102.487	-10,4	179.857	202.376	-11,1
Air traffic levies and charges	103.785	95.296	8,9	203.150	187.320	8,5
Navigation-other communication aids	67.391	62.272	8,2	132.973	124.236	7,0
In flight services	16.654	24.225	-31,3	36.702	46.840	-21,6
Booking systems	35.452	35.446	0,0	72.062	70.140	2,7
Insurance	9.446	13.644	-30,8	18.472	27.182	-32,0
Other expenses	76.859	69.627	10,4	149.623	134.245	11,5

n.a.: not applicable.

(a) Iberia, L.A.E. has sold its participation in Iber-Swiss Catering, S.A.. Consequently, this company is no longer inside the consolidation perimeter since January 2004. For a more significant and homogeneous comparison 2003 data excludes Iber-Swiss Catering, S.A.

(b) Passenger revenues include issued but unused tickets, previously accounted in current liabilities as customer advances, together with other minor adjustments.

(c) The concept aircraft leases is used to calculate capitalized leases included in the adjusted net debt (see notes on page 4).

Financial results	**729**	**-2.442**	**129,8**	**890**	**-2.824**	**131,5**
Financial revenues	10.004	9.641	3,8	19.178	19.672	-2,5
Financial expenses	9.349	10.240	-8,7	18.990	19.648	-3,3
Exchange gains/losses	73	-1.842	104,0	703	-2.848	124,7
Share in income of companies carried by the equity method	15.228	6.440	136,5	22.859	13.351	71,2
Amortization of goodwill in consolidation	-1.653	-1.653	0,0	-3.307	-3.307	0,0
Extraordinary results	**16.380**	**3.522**	**n.s.**	**33.800**	**13.900**	**143,2**
Extraordinary revenues	44.043	9.070	n.s.	97.079	32.634	197,5
Extraordinary expenses	27.663	5.548	n.s.	63.279	18.734	237,8
Consolidated income before taxes	**105.487**	**76.846**	**37,3**	**103.045**	**41.144**	**150,4**
Taxes	-27.148	-24.862	-9,2	-25.699	-11.048	-132,6
Consolidated income for the period	**78.339**	**51.984**	**50,7**	**77.346**	**30.096**	**157,0**
Minorities	683	818	-16,4	1.322	1.396	-5,3
Attributed income for the period	77.656	51.167	51,8	76.024	28.699	164,9

n.m.: not meaningful (variation over +/- 300%).

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

In Balance-Sheet Net Debt: (CONVERTIBLE BONDS+PAYABLE TO CREDIT ENTITIES excluding future leasing payments) – (CASH + SHORT-TERM FINANCIAL INVESTMENTS)

Leasing Interest: Under Spanish GAAP, future interest payments associated with financial leases, calculated with the interest rates existing at the end of each fiscal year, must be included in the Asset side of the Balance Sheet under the account "Deferred Charges", and in the Liabilities side by increasing the account "Debt from Finance Leases". In order to calculate the Net Financial Debt with current figures and to be consistent with international practices, the future interest payments associated with financial leases due to this concept must be extracted from Debt from Finance Leases.

Capitalized leases: includes the total amount of operating leases + 50% of wet leases + 50% cargo leases. 2003 Annual Leases expenses amounted to €361,171 thousand. To get an approximation of the annual value of aircraft rentals in 2004, leases expenses for the first half (€179,371 thousand, resulting from operating leases + 50% cargo leases) must be multiplied by 2, this is €358,743 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 have 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 June 2004: 6% of 162.938 MM/ € x 8 = € 78.210 million
For December 2003: 6% of 156.810 MM/ € x 8 = € 75.269 million

Consolidated Balance Sheet (not audited)

€ thousand	Jun –2004	Dic – 2003 (a)
Assets	**5.078.877**	**4.679.894**
Fixed assets	**2.549.308**	**2.417.957**
Start-up expenses	149	80
Net intangible fixed assets	417.426	429.078
Property, plant and equipment	968.879	918.306
Long-term financial investments	859.165	766.790
Iberbuses loans	*162.938*	*156.810*
Iberbond bonds	*31.980*	*33.150*
Other	*664.247*	*576.830*
Long-term debtors	303.689	303.703
Consolidation goodwill	**94.791**	**98.098**
Deferred charges	**82.952**	**85.230**
Current assets	**2.351.826**	**2.078.609**
Inventories	96.995	75.858
Accounts receivable	709.876	575.716
Shares of the parent company	28.838	20.066
Short-term financial investments	1.433.818	1.358.019
Cash	46.508	17.889
Accrual accounts	35.791	31.061
Liabilities	**5.078.877**	**4.679.894**
Shareholders´ equity	**1.499.280**	**1.423.244**
Capital stock	726.407	716.833
Reserves of the parent company	495.814	412.496
Reserves at consolidated companies	201.266	151.432
Translation differences	-231	-284
Income attributable to the parent company	76.024	142.767
Minority interests	**6.470**	**8.543**
Negative consolidation difference	**1.783**	**1.494**
Deferred revenues	**53.724**	**56.805**
Provisions for contingencies and expenses	**1.272.711**	**1.249.459**
Long-term debt	**442.757**	**466.497**
Convertible debentures	27.532	27.532
Payable to credit entities	399.080	418.518
Payable to credit entities	*343.680*	*355.877*
Future leasing interests payments	*55.400*	*62.641*
Other accounts payable	16.145	20.447
Current liabilities	**1.802.152**	**1.473.852**
Convertible debentures	7.524	22.573
Payable to credit entities	94.364	46.458
Payable to credit entities	*78.869*	*30.299*
Future leasing interests payments	*15.495*	*16.159*
Other accounts payable	1.693.722	1.404.378
Accrual accounts	6.542	443

(a) Pro forma excluding Iber-Swiss Catering, S.A. for an homogenous comparison.

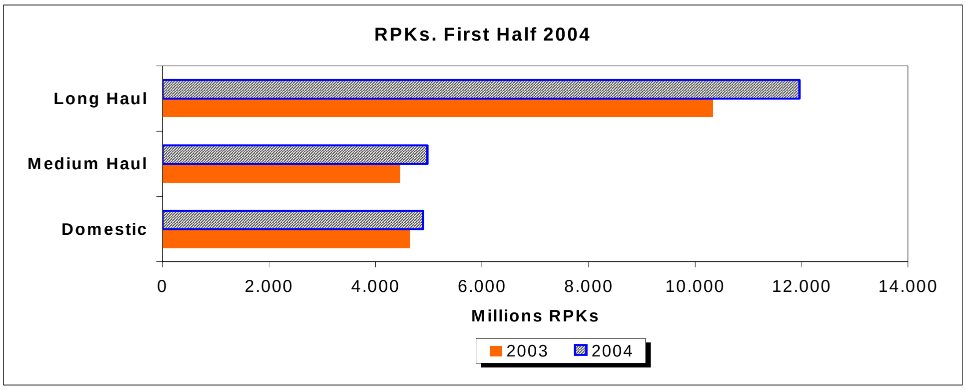
Cash Flow Statement (not audited)

€ Thousand	Jan – Jun 2004	Jan – Jun 2003
Attributed income for the period	**76.024**	**29.180**
Depreciation	86.996	85.176
Provisions	93.965	46.420
Amortization of goodwill in consolidation	3.307	3.307
Minorities	1.322	1.602
Share in income of companies carried by the equity method	-22.859	-13.351
Adjustment of deferred revenues and charges	2.559	7.814
Changes in working capital	-61.112	-9.866
Cash Flow from operating activities	**180.202**	**150.282**
Net capital expenditures on tangible and intangible fixed assets	-89.043	-223.204
Net capital expenditures on long term financial investment	-16.930	19.374
Cash Flow from investing activities	**-105.973**	**-203.830**
Dividends paid	0	0
Capital increase	10.918	0
Movement in financial debt	19.066	-23.779
Cash Flow from financing activities	**29.984**	**-23.779**
Net Cash Flow	**104.213**	**-77.327**
Cash and cash equivalents at the beginning of period	1.376.113	1.216.640
Cash and cash equivalents at the end of period	1.480.326	1.139.313

Operating Statistics

	2nd Quarter		%	Accumulated		%
	2004	2003		2004	2003	
Scheduled traffic						
Passengers (thousand)	**6.913**	**6.472**	**6,8**	**13.049**	**12.190**	**7,0**
Domestic	3.901	3.742	4,2	7.422	7.065	5,0
Medium-Haul	2.178	1.979	10,0	3.936	3.617	8,8
Europe	2.089	1.915	9,1	3.765	3.501	7,5
Africa & Middle East	89	64	38,3	172	116	47,9
Long-Haul	835	751	11,1	1.691	1.508	12,1
ASK (million)	**14.743**	**13.516**	**9,1**	**29.306**	**26.705**	**9,7**
Domestic	3.445	3.279	5,1	6.783	6.484	4,6
Medium-Haul	4.002	3.498	14,4	7.768	7.025	10,6
Europe	3.681	3.292	11,8	7.149	6.601	8,3
Africa & Middle East	321	206	55,8	619	423	46,2
Long-Haul	7.296	6.739	8,3	14.755	13.196	11,8
RPK (million)	**11.106**	**9.982**	**11,3**	**21.827**	**19.439**	**12,3**
Domestic	2.533	2.445	3,6	4.887	4.639	5,3
Medium-Haul	2.741	2.429	12,8	4.975	4.464	11,4
Europe	2.542	2.290	11,0	4.588	4.200	9,2
Africa & Middle East	199	139	43,1	388	264	46,7
Long-Haul	5.832	5.108	14,2	11.965	10.336	15,8
Load factor (%)	**75,3**	**73,8**	**1,5 p.**	**74,5**	**72,8**	**1,7 p.**
Domestic	73,5	74,6	-1,0 p.	72,0	71,5	0,5 p.
Medium-Haul	68,5	69,4	-1,0 p.	64,0	63,6	0,5 p.
Europe	69,1	69,6	-0,5 p.	64,2	63,6	0,5 p.
Africa & Middle East	61,9	67,3	-5,5 p.	62,6	62,4	0,2 p.
Long-Haul	79,9	75,8	4,1 p.	81,1	78,3	2,8 p.
Cargo						
Cargo Tonnes	57.632	50.301	14,6	115.529	100.888	14,5
ATK (million)	342	294	16,4	682	603	13,2
RTK (million)	244	196	24,5	490	403	21,6
Load factor (%)	71,4	66,8	4,6 p.	71,8	66,8	5,0 p.
Passenger revenues						
Revenues (€ thousand)	860.446	846.942	1,6	1.633.314	1.593.212	2,5
Revenue / ASK (€ cent)	5,84	6,27	-6,9	5,57	5,97	-6,6
Revenue / RPK (€ cent)	7,75	8,49	-8,7	7,48	8,20	-8,7

ASKs: Available Seat Kilometer
RPKs: 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

IBERIA GROUP	Apr – Jun 2004	Apr – Jun 2003 (a)	%	Jan – Jun 2004	Jan – Jun 2003 (a)	%
Unit Ratios (€ cents/ask)						
OPERATING REVENUE	8,20	8,65	-5,2	7,84	8,29	-5,4
OPERATING COST	7,69	8,13	-5,4	7,67	8,21	-6,6
Fuel Cost	1,02	0,98	3,8	0,98	1,03	-5,1
Fleet Maintenance cost	0,43	0,46	-5,0	0,45	0,48	-6,2
Spare parts cost	0,25	0,26	-3,8	0,24	0,26	-5,8
Maintenance cost (subcontracts)	0,19	0,20	-6,7	0,20	0,22	-6,6
Personnel cost	2,41	2,49	-3,1	2,42	2,49	-3,1
Leasing cost	0,60	0,68	-12,0	0,63	0,70	-10,4
Commercial Costs	0,62	0,76	-17,8	0,61	0,76	-19,0
Air Traffic Levies and charges	0,70	0,71	-0,2	0,69	0,70	-1,2
Navigation aids	0,46	0,46	-0,8	0,45	0,47	-2,5
Rest	1,44	1,59	-9,5	1,45	1,59	-9,1
Net commercial cost / Traffic passenger and cargo revenue (%) (b)	6,2	7,4	-16,7	6,4	7,9	-18,3
Productivity						
Average fleet utilization (block hours/aircraft/ day)	9,11	8,57	6,3	9,00	8,62	4,4
Annual average headcount	25.040	24.760	1,1	24.669	24.356	1,3
ASK per employee	589	546	7,9	1.188	1.096	8,3
Ground	790	731	7,9	1.607	1.479	8,6
Ground (without handling)	1.532	1.356	13,0	3.056	2.688	13,7
Block hours per technical crew	65,6	60,3	8,8	129,2	120,9	6,9
Block hours per flight attendant	29,3	27,5	6,6	56,4	54,3	3,8

(a) Pro forma (excluding Iber-Swiss)
(b) Commercial expenses lowered by commission revenues.

Operating Fleet

GRUPO IBERIA (a)	June 2004	December 2003	June 2003
Long Haul	**27**	**27**	**26**
Own	3	4	5
Financial Lease	0	0	0
Operating Lease	23	23	21
Wet lease	1	0	0
Short and Medium Haul	**126**	**122**	**121**
Own	45	43	42
Financial Lease	13	12	13
Operating Lease	68	67	66
Wet lease	0	0	0
Total	**153**	**149**	**147**
Own	48	47	47
Financial Lease	13	12	13
Operating Lease	91	90	87
Wet lease	1	0	0

(a) End of period

Operational and Financial Performance

Iberia Group Results

In the first half of 2004, the Group posted a consolidated income after tax and minorities of €76.0 million, outstripping by 165% the net profit obtained in the same period of 2003 (compared on homogenous terms, after adjusting the base period to the exclusion of Iber-Swiss Catering from the Group). The profit before tax rose €61.9 million year-on-year, to €103.0 million, representing a 4.5% margin, 2.6 percentage points more than that obtained last year.

Operating revenues rose by 3.8% year-on-year. As a result of the increase in capacity, by 9.7% in terms of available seat kilometres (ASK), and the improved load factor, up 1.7 percentage points, passenger traffic rose 12.3%, although this did not produce a proportional growth in revenues, owing to the lower yield. The unit operating revenues (per ASK) were 5.4% lower than in the first half of last year. Iberia was able, however, to bring its unit operating costs down further, by 6.6% compared to 2003, to 7.67 euro cents per ASK, mainly by implementing the measures designed in the Director Plan with the greatest impact on results: the new distribution model in Spain and the new in-flight service model. The appreciation of the euro against other currencies, especially the dollar, played its part in the lowering of unit operating cost and revenue, with a positive net effect on the half-year results. The net unit operating income rose to 0.17 euro cents per ASK, a year-on-year growth of 0.10 euro cents.

Operating income rose by €28.8 million to €48.8 million in the first half of 2004, pushed up by the increased traffic and the growth of the unit margin. Financial income and the share in income of companies carried by the equity method also improved, contributing to a 154% rise in the income from ordinary activities, to €69.2 million.

Second quarter

Iberia posted a consolidated income after tax (before minorities) of €78.3 million in the second quarter of 2004, overshooting the €52 million net profit obtained in the same period of 2003 by almost 51%.

Operating revenues went up 3.4% compared to last year. Passenger revenues grew by 3.2%, boosted mainly by the increase in traffic on international routes, with a 4.1 percentage point improvement in the load factor on long-haul flights. Overall, Iberia's RPKs rose by 11.3% over the second quarter of 2003. However, the tough competition on the markets, the growth of the average stage length and, to a smaller extent, the appreciation of the euro against the dollar, led to a 8.7% drop in yields (similar to that recorded in the first quarter).

Against a 9.1% increase in ASKs, operating expenses rose by just 3.2%. This brought unit operating costs down by 5.4%. Among the major cost items, only fuel rose (by 3.8%) in unit terms, owing to the hike in kerosene prices. Over the period April-June, commissions and insurance expenses significantly decreased, as in the first quarter of the year. A considerable saving was also achieved with the new model of in-flight service in economy class, introduced as from 1st March on most short and medium-haul flights, and from June on flights to the Canary Islands. On the other hand, the depreciation of the dollar against the euro eased off in the second quarter (-8.7% less than in the same period of 2003), reducing its favourable effect on costs and income.

The operating profit for the second quarter rose by 5.4% to €74.8 million. Financial income, share in income of companies carried by the equity method and extraordinary income also recorded year-on-year growth and positive net balances. As a result, consolidated income before tax rose €28.6 million, up 37.3%.

Capacity and demand

Air traffic picked up in the first six months of 2004, especially on intercontinental flights, accompanied by a growing overcapacity on certain markets and a rapid expansion of low cost carriers. According to provisional figures published by the Association of European Airlines (AEA), RPKs were up 11.7% on the first half of 2003, against a 7.9% increase in ASKs. The strong year-on-year growth of scheduled traffic of the AEA is partly due to the decline of demand in the first half of 2003 (-1.2%) and 2002 (-10.1%).

In the first half of 2004 Iberia increased its RPKs by 12.3%. When comparing this result against the general sector increase, it should be considered that Iberia's traffic has been more stable, growing by 0.4% in the first six months of 2003 and sliding only 3.0% during the same period of 2002. In the first half of 2004, the load factor rose 1.7 percentage points above 2003, to 74.5%, as traffic rose 2.6 percentage points above capacity, with a growth of 9.7%. Iberia carried more than 13 million passengers overall in the first half of 2004, a year-on-year growth of 7.0%.

In comparison with last year, the monthly growth in capacity has been around 9-10% for the network as a whole, the strongest growth being observed in the long-haul sector in the first quarter and, as from April, on medium-haul international flights, particularly to Africa and the Middle East. Iberia enjoyed high load factors, which reached record levels for the company in January, February and June.

The improvements in both traffic and load factor were observed in all three sectors. Long-haul flights maintained a good performance, with a 15.8% growth in traffic, an improvement in the mix and a 2.8 point rise in load factor, to 81.1%.

In Cargo, Iberia increased its revenue tonne kilometre (RTKs) to 490 million during the first six months of 2004, more than 94% of which was carried in the bellies of passenger aircraft. Compared to last year, cargo traffic increased by 21.6%, while the available tonne kilometres (ATKs) rose by 13.2%, improving the load factor by 5.0 points, to 71.8%. There was a considerable growth in traffic over this period, especially on the Mid and South Atlantic flights.

Second quarter

Over the period April-June, Iberia achieved a 11.3% growth in RPKs, against a 9.1% increase in capacity, improving the load factor by 1.5 points year-on-year, to 75.3%. International traffic grew 13.7%, highlighting the improvement in the load factor on long-haul flights, more than 4 points up on 2003.

Iberia carried 3.9 million passengers on the domestic market, 4.2% more than in the second quarter of last year. Capacity grew by 5.1% and RPKs by 3.6%, bringing the load factor down 1 point to 73.5%. Competition has intensified since March, especially on flights between the mainland and the Canary Islands. This, together with adverse weather conditions and the aftermath of the 11th March terrorist attacks, curbed traffic growth, which rose by 0.6% in April, showing a growing trend in May and June.

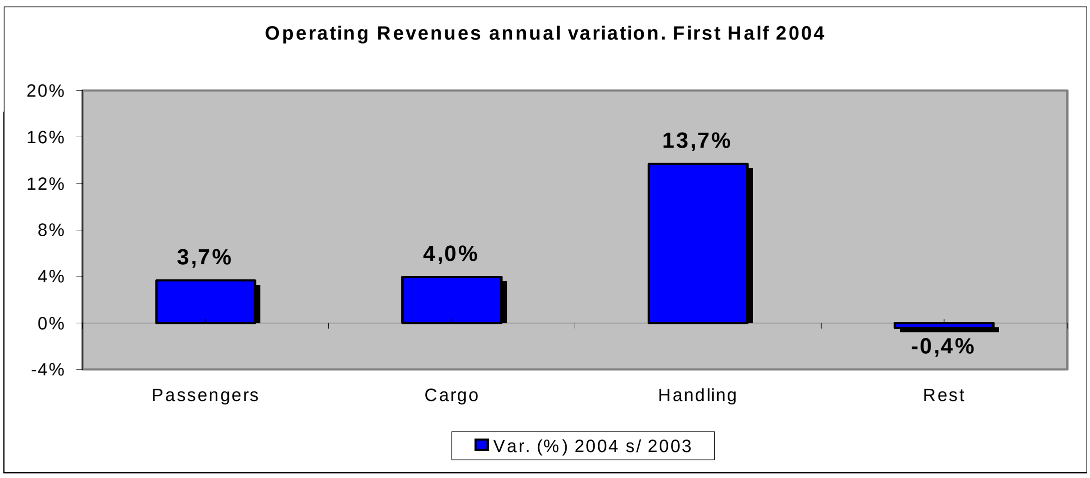
Medium-haul international traffic increased by 12.8%, against a 14.4% rise in ASKs, giving a load factor of 68.5%, 1 point down on last year. In European flights, capacity and traffic grew by 11.8% and 11.0%, respectively, bringing the load factor down 0.5 points in respect of the second quarter of 2003. The growth of traffic and capacity was very strong – in relative terms – on the Middle East and North Africa routes (more than 43% in RPKs and almost 56% in ASKs), corresponding to the aim of diversifying capacity and grow on less mature markets, which were hard hit by the war in Iraq last year.

On long-haul flights, the load factor was 4.1 points up on the second quarter of 2003, at 79.9%; ASKs rose 8.3% and traffic 14.2%, with growth in almost all markets. The smallest increase in capacity (3.0%) was in Mid Atlantic flights, where adequate changes in the schedule – reducing capacity in Cuba and raising it in Venezuela and Mexico – led to a 4.2 point improvement in the load factor to over 80%. On North Atlantic routes, RPKs were up 18.8%, exceeding by 4.5 percentage points the increase in ASKs, raising the load factor by 3.1 points to over 81%. On South Atlantic routes, the load factor rose 5.6 points to 78.3%, with a 20.5% increase in traffic against almost 12% in capacity.

The code-sharing and frequent flyer agreements signed between Iberia and Mexicana de Aviación in January came into force in April 2004, broadening the network of both operators and improving the service offered to their customers.

Operating Revenues

Consolidated operating revenues in the first half of 2004, went up 3.8% compared to the previous year on homogenous terms (i.e. excluding the company Iber-Swiss from the Group accounts in 2003). Passenger and cargo revenues, which represent almost 84% of the total, rose by €68.3 million. The increase in handling revenues was particularly significant, up €16.6 million year-on-year.



Passenger revenues totalled €1,795.8 million, outshining last year's results by 3.7%. This sum includes: the revenues generated on flights operated during the period (€1,633.3 million); the issued but unused tickets (€120.4 million, similar to the 2003 figure); and accounting adjustments and other revenues deriving from frequent flyer programmes (mainly Iberia-Plus and others offered by oneworld companies), fees for direct sales and other services related with the issuing of tickets in Spain, and seats to other companies (€42.1 million).

Passenger revenues from tickets actually flown during the first half of 2004 increased by 2.5% year-on-year. Traffic grew by 12.3% in terms of RPKs, as a result of the increase of capacity and the improvement in load factor. This increase in volume had an impact of €165.9 million, that was partially offset by an 8.7% drop in yield (- €125.8 million.) This drop in yield was due to: the increase in offers and promotional campaigns in response to strong competition in the short and medium haul, especially in Europe, the appreciation of the euro against other currencies, particularly the dollar, which most affected the unit revenues of long-haul flights; and the increase in the average stage length (4.9%) derived from the larger growth of capacity on intercontinental routes.

Total unit passenger revenue, was 6.13 euro cents per ASK, 5.5% down on the first half of 2003. With constant exchange rates, the year-on-year increase in passenger revenues would have been 5.2% and the reduction of unit passenger revenue would have been 4.1%.

Cargo revenues went, up 4.0% on last year. The increase in the volume of freight and mail carried by Iberia (up 14.5%) was largely offset by the drop in unit revenue, which was adversely affected by the growth in the average cargo stage length (up 6.2%) and the appreciation of the euro. Performance was better in smaller cargo revenues items, such as baggage checking.

Handling revenues increased by 13.7% year-on-year, due primarily to the increase in activity for third parties (8.7% in terms of aircraft handled) and, to a smaller extent, to the improvement in unit revenues on the services provided.

Technical assistance revenues dropped by €11.5 million year-on-year to €48.7 million, due mainly to the delay in the works for the Ministry of Defence and a slight decline in the activity for third parties (engine and aircraft overhauls), also aggravated by the negative effect of the dollar depreciation.

The amount of other revenues (invoicing of the reservations service, cargo terminal services, fuel and safety fees, among others) totalled €82.6 million, 9.4% more than the previous year. On aggregate, "Other Operating Revenues" grew by 3.4% to €104.2 million, including a €4 million growth of in-house aircraft manufacturing work done by Iberia.

Second quarter

Consolidated operating revenues increased by €39.3 million, or 3.4%, year-on-year. Passenger and cargo revenues rose 3.3%, thanks to the considerable increase in traffic. Other operating revenues, in an aggregate sum of €198.4 million, recorded a net increase of 3.5% on last year, pushed up especially – as in the first quarter – by the growth in handling revenues.

Passenger revenues totalled €947.3 million, up 3.2% on the same period of 2003. Of this sum, €860.4 million corresponds to revenues from tickets actually flown, which increased by 1.6% compared to the second quarter of last year. This rise in revenues (up €13.5 million) was pushed up by the growth in traffic (up 11.3% in terms of RPKs), which produced a rise of €82.8 million, partially offset by a 8.7% drop in yield, with an impact of €69.3 million. The principal causes of the reduction in yield was the tough competition on most markets and the growth of the average stage length (4.2% overall in the network). This was aggravated by the appreciation of the euro against other currencies, especially the dollar, although this had a smaller effect than in the first quarter. With constant exchange rates, the reduction of yield would have been 7.7% and the passenger revenues for the period would have risen by 2.7% year-on-year.

Revenues from issued but unused tickets totalled €63.4 million, €4.9 million more than the amount recorded in the second quarter of 2003. Passenger revenues also include accounting adjustments and other small revenue items, in an aggregate sum of €23.5 million, €11.2 million more than last year, pushed up in part by fees on direct sales and other services related with the issuing of tickets (under the new distribution model in Spain). Considering the total passenger revenues, the unit revenue was 6.43 euro cents per ASK, 5.4% down on the second quarter of 2003.

Cargo revenues grew 5.2% to €63.2 million euro. The considerable increase in traffic (24.5% in terms of RTKs for the network as a whole) was accompanied by a reduction of the unit revenue, affected by the growth of the average cargo stage length and the appreciation of the euro.

Handling revenues rose 11.1% to €78.3 million, due mainly to the increase in the activity for third parties (6.3% in terms of weighted aircraft handled) and a moderate increase in unit revenue on the services provided.

Operating Expenses

In the first half of 2004, consolidated operating expenses increased by 2.5% year-on-year (on homogenous terms, excluding Iber-Swiss). The increase in costs due to the capacity growth (9.7% in terms of ASKs) and price rises, especially in fuel, were partially offset by the favourable effect of the depreciation of the dollar against the euro and the savings achieved through the cost-cutting measures established in the Director Plan 2003/05. These measures include the new model of remuneration for travel agencies in Spain and the new in-flight service in economy class on most short and medium-haul routes. The fuel price hedging policy and renegotiation of insurance premiums also helped to reduce expenses.

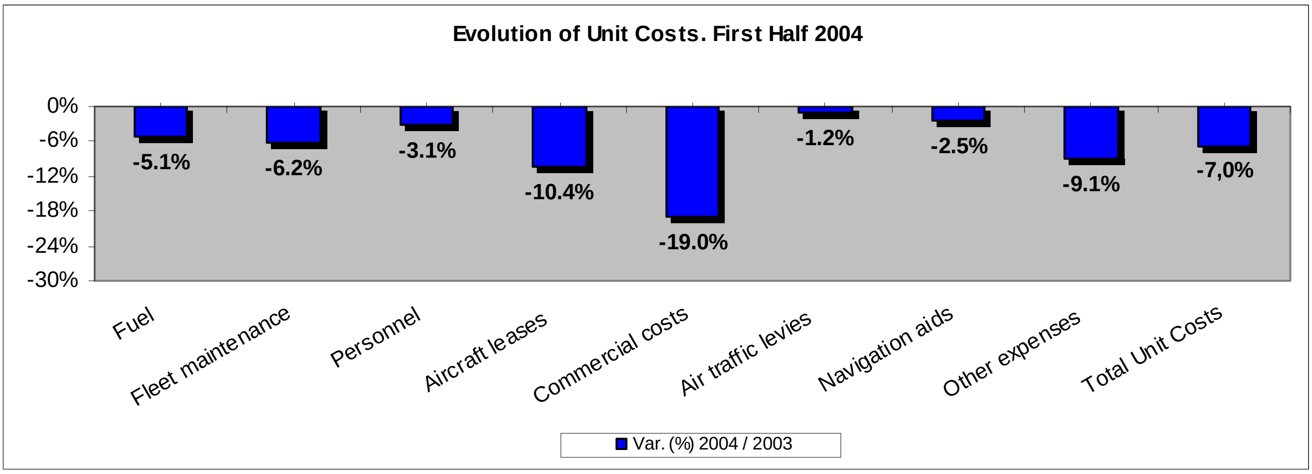
Commercial expenses were reduced by €22.5 million year-on-year, 11.1%, compared to the previous year, mainly due to the afore mentioned implementation of the new distribution model in Spain, as from 1st January, which brought down the basic commission paid by Iberia to travel agencies from 6.5% to 3% in the first half of the year (and to 2% in the second half); and its gradual extension to other international markets. The ratio of net commercial expenses (lowered by commission revenues) to traffic revenues came down 1.5 percentage points to 6.4%. In the first half pf 2004 the unit commercial cost (per ASK) was down by 19%.

The aggregate cost of "In-flight services" and "Catering materials" was brought down by 20.3% over the period. This was achieved largely through the new on board service introduced in economy class on 1st March 2004 on most international medium-haul flights and all domestic flights, except flights to the Canary Islands, on which it was introduced on 1st June. The unit cost of the in-flight service (including catering consumption) was brought down to €3.66 per passenger, more than 25% lower than in the first half of 2003.

Another expense item reduced considerably was insurance, which came down 32%, as a result of the renegotiation of insurance premiums at the end of 2003 and, to a lesser extent, depreciation of the dollar.

In contrast, the cost of aircraft fuel increased by €11.3 million, 4.1% higher than in the first half of last year, due to the increase in activity and, above all, the higher kerosene prices, which have remained high throughout the period, especially in the second quarter. The increase in overall costs caused by these two factors was partly offset by the hedging policy, a reduction of unit consumption (through modernisation of the fleet) and the depreciation of the dollar against the euro. Consequently, although the price in dollars rose, the unit cost of fuel was reduced by 5.1%, to 0.98 euro cents per ASK.

Personnel expenses totalled €708.2 million in the period, 6.3% up on in the previous year. This increase was caused by several factors: a 1.3% rise in headcount, to cover the growth in handling activity, application of the agreed pay rises (3.2% according to the consumer price index estimated for 2004, consolidation of the increase in "Share in Improved Profits 2003", provisions for "Share in Profits" and "Share in Improved Results" bonuses for 2004), and slippage. These increased costs were partly offset by the improved salary mix achieved through redundancy proceedings. Thanks to the significant increase in productivity, the unit personnel cost was brought down 1.3% to 2.42 euro cents per ASK.



Second quarter

Consolidated operating expenses grew by 3.2% compared to 2003. The unit operating cost decreased by 5.4% to 7.69 euro cents per ASK, despite the hike in fuel prices.

Fuel costs rose 13.2%, €17.5 million higher than the cost recorded in the second quarter of last year, due to the increase in activity and, above all, to the sharp rise in the dollar price of kerosene (around 30%), which was partially mitigated by the hedging carried out by Iberia. The cost increase by volume and price was partially offset by the favourable effect of the dollar depreciation against the euro and the reduction in average consumption achieved through greater aircraft efficiency. The unit cost of fuel rose 3.8% to 1.02 euro cents per ASK.

The total cost of fleet maintenance (spare parts, sub-contracts and provision for large repairs) was €64.1 million, 3.6% more than last year. Maintenance unit cost per ASK was down 5.0%.

The amount of “Other Purchases” (including parts for ground equipment, safety material and other sundry items) increased significantly in percentage terms to €5 million, almost €1 million more than in the same quarter of last year, due mainly to one-off purchases made during the quarter. For the first half of the year, the increase is reduced to 6.4%.

Personnel expenses totalled €356.0 million, 5.7% more than in the second quarter of 2003due to the application of agreed pay rises, slippages and a small rise in headcount, corresponding mainly to the increase in handling for third parties. Personnel unit cost was down 3.1% to 2.41 euro cents per ASK, thanks to the considerable increase in productivity across the board.

During the period April-June 2004, the equivalent staff headcount of the Iberia Group rose 1.1% over the previous year, with small increases in the three groups (1.0% in ground staff, 1.4% in technical crew and 2.2% in flight attendants), far exceeded by the increase in activity. The increase in ground staff was concentrated in the handling area, where the headcount rose by 6.3%, in line with the increased activity in airports. If handling staff are excluded, the rest of the ground staff decreased by 3.5%, while its productivity increased by 13.0%. Cabin crew productivity (measured in commercial block hours per manpower equivalent) also improved: by 8.8% for technical crew and 6.6% for flight attendants.

The depreciation and amortisation charge totalled €44.0 million, up 4.5% on the second quarter of 2003, due largely to investments in hardware and software and, to a lesser extent, in aircraft reparables and rotables.

Although the number of leased passenger aircraft increased, the aircraft leasing expense was 4.0% down on the second quarter of last year, thanks to the lowering of interest rates, the appreciation of the euro against the dollar and, to a smaller extent, a reduction in the contracting of cargo aircraft. The average fleet utilisation improved by 6.3%, contributing to a 12% reduction in the leasing unit cost.

Commercial costs totalled €91.9 million in the second quarter of 2004, €10.6 million less than the previous year, thanks to the new distribution model established in Spain and its gradual extension to other markets. This difference, which represents a reduction of 10.4%, is the result of a €12.1 million cut in commissions and incentives and a €1.5 million increase in advertising expenses (under sponsorship agreements for the Forum Barcelona and Xacobeo 2004, among others). The ratio of net commercial expenses (lowered by commission revenues) to traffic revenues was down 1.2 percentage points to 6.2%.

Over the period April-June 2004, the aggregate cost of “Catering materials” and “In-flight services” was €21.8 million, 27.8% down on 2003. This reduction was achieved thanks to the development of the new in-flight service, mentioned above, and contrasts with the increase in the number of passengers (up 6.8%), bringing the unit cost per passenger down by 32.4%.

Navigation aids and air traffic levies and charges (which comprise several variable items related to operation, such as fees for landing, parking, handling overseas or ramps) rose by 8.2% and 8.9%, respectively, due to the increase in activity (up 4.8% in terms of number of take-offs) and the increase in tariffs. Unit costs (per ASK), however, were slightly down.

“Other expenses”, including several sundry items, amounted to €76.9 million, €7.2 million more than in the second quarter of 2003. The most significant increases were in ground equipment maintenance (which has been sub-contracted this year), transport and computer expenses.

Extraordinary, Financial and Other Non-Operating Results

In the first six months of 2004, Iberia recorded a financial income of €0.9 million, contrasting with the loss of €2.8 million recorded last year. This difference of €3.7 million was due mainly to the improvement in the net balance of exchange differences. Financial revenues and expenses were slightly down on 2003, due to the lower interest rates.

The share in income of companies carried by the equity method amounted to €22.9 million in the first half of the year, €9.5 million higher than the net balance last year, due mainly to the increased profits of Amadeus. Iberia’s consolidated accounts for the second quarter of 2004 include an estimate of the Amadeus income for that quarter, since the real income figures are not yet available.

The Iberia Group posted an extraordinary income of €33.8 million in the first half of 2004, compared to €13.9 million one year earlier.

Extraordinary revenues totalled €97.1 million in the first six months of 2004, mostly obtained on fixed asset sales: sales of buildings and premises, in a sum of €30.2 million; sales of the trademark and holding in Viva Tours, producing €15 million; sale of the holding in Iber-Swiss Catering, which generated a net gain of €12.7 million; and finally, a net gain of €9.9 million produced in June on the sale of flight simulators to "Servicios Instrucción Vuelo" (a joint venture engaged in flight training, in which Iberia has a holding of just under 20%).

Extraordinary expenses totalled €63.3 million and included the provisions set aside for the extension of the redundancy plan (€28.5 million) and provisions for the accelerated amortisation of the B-747 fleet and for expenses related with the return of B-757 aircraft.

Net Debt to Equity

On 30th June 2004, the total shareholders' equity of the Iberia Group was worth €1,499.3 million, €76.0 million more than at the close of 2003.

The in-balance sheet net debt was still negative (in other words, the available cash was higher than the remunerated debt), amounting to -€1,022.7 million on 30th June 2004. The remunerated debt recorded on the balance sheet, not including interest on financial leases, was €457.6 million, €21.3 million more than the balance recorded on 31st December 2003. The available cash was more than €1,480 million, €104.4 million higher than the closing balance of the previous year. The adjusted net debt, which includes capitalisation of operating leases, was 5.7% down on December 2003, at €1,737 million. Leverage, measured as adjusted net debt over total resources, was 53.7%, 2.7 percentage points down on 31st December 2003.

Last 24^{th} of June the Board of Directors of Iberia resolved to increase the company's capital stock by €4.79 million, issuing 6,146,324 ordinary shares, to meet requests for conversion from holders of convertible bonds under the Employees Stock Option Plan 2001.

Operating Fleet and Variations

On 30th June 2004, the Iberia Group's operating fleet was made up of 153 aircraft, 48 of which were owned, 13 held under financial leases, 91 under operating leases and 1 under wet lease.

In May, Iberia added a new Airbus A-321 to its short and medium haul fleet (the second of this type in 2004), on an operating lease. With the inclusion of this aircraft, Iberia now has nine of this type.

In June, Iberia added a new Airbus A-320 to its short and medium haul fleet (the third of this type acquired this year), which will operate under financial lease. In the same month, an A-320 held on an operating lease was retired. Consequently, the company still has 58 aircraft of this model.

Subsidiaries and Other Business Interests

The Iberia Group has altered its consolidation perimeter in 2004. Iber-Swiss Catering left the group of fully-consolidated companies and Binter Finance has joined it. The effect of both events on the half-year consolidated financial statements is insignificant.

During the first six months of 2004, Cacesa posted an income before tax of €0.6 million, €0.1 million up on last year, while Savia recorded a €6.9 million profit before tax, compared to €7.3 million in the first half of 2003.

Madrid, 28th July 2004