IBERIA

Third Quarter Results

January-September 2005

Main Figures (not audited) (a)

IBERIA GROUP	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
€ thousand	**2005**	**2004**	**%**	**2005**	**2004**	**%**
Revenues from operating activities	1.978.671	1.293.375	53,0	4.378.054	3.672.079	19,2
Costs from operating activities	1.585.074	1.183.164	34,0	3.955.511	3.498.943	13,0
Profit/loss from operating activities	393.597	110.210	257,1	422.543	173.136	144,1
EBITDAR (b)	239.686	258.613	-7,3	542.259	561.561	-3,4
Operating Income EBIT (b)	80.758	112.665	-28,3	109.232	142.718	-23,5
Consolidated income after taxes	372.562	87.855	n.m.	401.802	150.059	167,8
Total shareholders' equity (c)	---	---	---	1.762.661	1.657.211	6,4
In-balance sheet net debt (c)	---	---	---	-1.532.534	-1.171.184	30,9
Adjusted net debt x 8 (c)	---	---	---	1.667.658	1.678.916	-0,7
ASK (million)	16.659	16.053	3,8	47.764	45.359	5,3
RPK (million)	13.619	12.699	7,2	36.979	34.526	7,1
Load factor (%)	81,8	79,1	2,6 p.	77,4	76,1	1,3 p.
Passenger revenues	989.792	927.162	6,8	2.689.366	2.560.475	5,0
Yield (€ cent)	7,27	7,30	-0,5	7,27	7,42	-1,9
Passenger Revenue / ASK (€ cent)	5,94	5,78	2,9	5,63	5,64	-0,3
Operating revenue/ASK (€ cent)	8,00	8,04	-0,4	7,67	7,89	-2,7
Operating expense/ASK (€ cent)	7,52	7,33	2,5	7,44	7,57	-1,7
Operating expense (exc fuel)/ASK (€ cent)	6,10	6,25	-2,5	6,19	6,56	-5,7

(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) Non recurrent revenues and expenses are not included.
(c) September 2005 v December 2004. (See notes page 3).
Number of shares as at 30-September: 943.090.896; 31-Dec-2004: 937.467.468

Highlights

- IBERIA posted a net income after tax of €372.6 million in the third quarter, €284.7 million more than in 3Q2004, due to the net capital gain obtained on the sale of its stake in Amadeus (€635 million), part of which was ploughed back to cover the workforce restructuring expenses (€280 million) and fleet renewal expenses (€42.9 million) included in the new Director Plan. An interim dividend of 0.30 euro cents per share was paid in August.
- The operating income totalled €80.0 million in the third quarter, down 28.3% year on year, due largely to the hike in fuel prices (almost 50% higher before hedging).
- Unit operating revenues was 0.4% down on last year, although its performance was better than in the second quarter of 2005 (-6.4%), thanks to the 2.9% rise in unit passenger revenues. The volume of traffic grew steadily over the quarter (more than 7%) and the load factor rose in all three sectors (2.6 points overall), while the yield stabilised.
- The unit operating cost (excluding fuel) was brought down by 5.7% year on year.
- The net profit after tax for the first nine months of the year was €401.8 million, up 167.8% year on year.
- The cumulative (recurring) EBITDAR margin for the first three quarters was 14.8%.
- Staff productivity (in terms of ASK per employee) was 7.7% up on last year.

Consolidated Statements of Income (not audited) (a)

€ thousand	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2005	**2004**	**%**	**2005**	**2004**	**%**
Profit/loss from operations (b)	**393.597**	**110.210**	**257,1**	**422.543**	**173.136**	**144,1**
Revenues from operating activities	**1.978.671**	**1.293.375**	**53,0**	**4.378.054**	**3.672.079**	**19,2**
Net sales	**1.291.858**	**1.243.124**	**3,9**	**3.541.187**	**3.435.515**	**3,1**
Passenger revenues (c)	1.063.961	1.013.209	5,0	2.897.782	2.808.970	3,2
Cargo revenues	72.019	63.923	12,7	219.893	191.756	14,7
Handling	100.650	94.220	6,8	250.883	231.708	8,3
Technical assistance to airlines	32.671	31.811	2,7	106.465	80.520	32,2
Other revenues	22.557	39.961	-43,6	66.165	122.562	-46,0
Other operating revenues	**686.813**	**50.250**	**n.m.**	**836.867**	**236.563**	**253,8**
Net gain on sales of non-current assets	637.840	-612	n.m.	704.478	84.444	n.m.
Sundry revenues	41.303	46.889	-11,9	123.334	142.647	-13,5
Other non recurrent revenues	7.671	3.973	93,1	9.055	9.472	-4,4
Costs from operating activities	**1.585.074**	**1.183.164**	**34,0**	**3.955.511**	**3.498.943**	**13,0**
Procurements	**285.887**	**224.537**	**27,3**	**747.977**	**602.262**	**24,2**
Aircraft fuel	236.394	173.299	36,4	600.509	459.224	30,8
Aircraft spare parts	38.007	40.188	-5,4	115.272	111.771	3,1
Catering materials	6.319	6.292	0,4	17.592	17.372	1,3
Other purchases	5.168	4.758	8,6	14.603	13.896	5,1
Personnel expenses	**642.291**	**366.247**	**75,4**	**1.360.259**	**1.105.383**	**23,1**
of which: Non recurrent	280.000	4.000	n.m.	285.000	32.500	n.m.
Depreciation and amortization	**87.410**	**47.280**	**84,9**	**237.457**	**142.813**	**66,3**
of which: Accelerated fleet depreciation	42.900	-	n.a.	104.600	6.000	n.m.
Variation in operating provisions	**852**	**771**	**10,5**	**3.782**	**3.726**	**1,5**
Other operating costs	**568.633**	**544.329**	**4,5**	**1.606.037**	**1.644.758**	**-2,4**
Aircraft leases	114.418	98.668	16,0	300.170	282.030	6,4
Operating leases	97.316	86.536	12,5	259.691	261.916	-0,8
Wet leases	12.897	8.372	54,0	29.404	8.796	234,3
Cargo wet leases	4.205	3.760	11,8	11.075	11.318	-2,1
Other rent	18.072	21.282	-15,1	56.935	57.862	-1,6
Fleet maintenance (subcontracts)	34.653	31.045	11,6	103.709	87.100	19,1
Commercial expenses	68.723	80.645	-14,8	195.503	269.445	-27,4
Air traffic levies and charges	113.741	108.042	5,3	323.012	311.192	3,8
Navigation-other communication aids	70.851	68.848	2,9	207.854	201.821	3,0
In flight services	16.540	17.031	-2,9	47.024	53.733	-12,5
Booking systems	33.547	31.033	8,1	110.152	103.095	6,8
Insurance	8.597	9.284	-7,4	24.694	27.755	-11,0
Other expenses	89.492	78.453	14,1	236.985	250.724	-5,5
of which: Non recurrent costs	9.772	1.816	n.m.	10.622	24.998	-57,5

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	3rd Quarter (Jul – Sep)			Accumulated (Ene – Sep)		
	2005	**2004**	**%**	**2005**	**2004**	**%**
Financial results	**2.494**	**-820**	**n.m.**	**3.913**	**81**	**n.m.**
Financial revenues	14.041	9.412	49,2	36.163	28.589	26,5
Financial expenses	12.049	8.708	38,4	34.081	27.688	23,1
Exchange gains/losses	404	-1.524	126,5	-325	-821	60,4
Results from ineffective hedging instruments	99	-	n.a.	2.156	-	n.a.
Income from investments accounted for using the equity method	**-20.540**	**7.372**	**n.m.**	**-7.465**	**31.448**	**-123,7**
Consolidated income before taxes	**375.552**	**116.762**	**221,6**	**418.991**	**204.665**	**104,7**
Taxes	-2.990	-28.907	89,7	-17.190	-54.605	68,5
Consolidated income after taxes	**372.562**	**87.855**	**n.m.**	**401.802**	**150.059**	**167,8**
Minorities	27	342	-92,1	117	1.664	-93,0
Attributed income for the period	372.534	87.514	n.m.	401.685	148.396	170,7

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).
Does not include the effect of the valuation of hedge operations (IAS 39), that as of the 30th of September 2005 implied an increase of Short term financial investments of 78,017 thousand euros.

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 nine months (€310,307 thousand) must be multiplied by 4/3, this is €413,743 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 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 September 2005: 6% of 164.466 MM/ € x 8 = €78.944 thousand
For December 2004: 6% of 145.400 MM/ € x 8 = € 69.792 thousand

Consolidated Balance Sheet (not audited) (a)

€ thousand	Sep–2005	Dec–2004
ASSETS	**5.328.984**	**4.763.239**
Fixed assets	**2.387.019**	**2.531.179**
Intangible assets	40.403	45.439
Property, plant and equipment	1.163.929	1.368.634
Long term financial investments	771.588	704.266
Iberbus loans	*164.466*	*145.400*
Iberbond bonds	*30.810*	*31.980*
Other	*576.312*	*526.886*
Long-term receivables	411.099	412.840
Deferred charges	**8.135**	**4.796**
Current assets	**2.933.830**	**2.227.264**
Inventories	108.290	87.420
Accounts receivable	679.465	551.798
Short term financial investments	1.107.806	1.000.632
Cash and cash equivalents	1.013.592	566.460
Accrual accounts	24.677	20.954
LIABILITIES	**5.328.984**	**4.763.239**
Shareholders´ equity	**1.762.661**	**1.657.211**
Capital stock	735.611	731.225
Stock premium	111.225	106.501
Reserves of the parent company	650.959	516.368
Reserves at consolidated companies	143.494	99.853
Translation differences	-211	-344
Income attributable to the parent company	401.685	198.285
Interim dividends	-281.026	-
Minorities	924	5.323
Deferred revenues	**27.281**	**22.656**
Provisions for contingencies and expenses	**1.414.842**	**1.211.160**
Long-term debt	**492.652**	**362.931**
Convertible debentures	17.311	16.649
Payable to credit entities	420.259	331.627
Other accounts payable	55.082	14.655
Current liabilities	**1.631.548**	**1.509.281**
Convertible debentures	68	8.324
Payable to credit entities	73.209	39.308
Other accounts payable	1.550.946	1.458.378
Accrual accounts	7.325	3.271

(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.

Consolidated Cash Flow Statement) (not audited) (a)

€ thousand	Accumulated (Jan – Sep)	
	2005	**2004**
Income before taxes	**418.991**	**204.665**
Depreciation	237.457	142.813
Variation in provisions	350.210	114.790
Income from investments accounted for using the equity method	7.465	-31.448
Adjustment of deferred revenues and charges	435	-6.341
Application of provisions	-145.826	-88.312
Other cash flow adjustments (b)	-768.315	-80.414
Cash Flow from operating activities	**100.417**	**255.753**
Net capital expenditures on tangible and intangible fixed assets	113.982	-136.378
Net capital expenditures on financial and other non current assets (b)	589.275	-76.161
Current financial assets and other	-34.581	-100.303
Cash Flow from investing activities	**668.676**	**-312.842**
Dividends paid	-322.379	-29.090
Capital increase	9.109	10.918
Movement in financial debt	-8.691	17.943
Cash Flow from financing activities	**-321.961**	**-229**
Net Cash Flow	**447.132**	**-57.318**
Cash and cash equivalents at the beginning of period	566.460	660.503
Cash and cash equivalents at the end of period	1.013.592	603.185

(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) Includes the sale of Amadeus

Operating Statistics

IBERIA GROUP (a)	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2005	2004	%	2005	2004	%
SCHEDULED TRAFFIC						
Passengers (thousand)	**7.656**	**7.314**	**4,7**	**21.079**	**20.363**	**3,5**
Domestic	4.110	3.917	4,9	11.752	11.338	3,6
Medium Haul	2.595	2.427	6,9	6.687	6.364	5,1
Europe	2.443	2.306	5,9	6.301	6.071	3,8
Africa & Middle East	152	121	26,0	386	292	32,0
Long Haul	950	970	-2,0	2.641	2.661	-0,8
ASK (million)	**16.659**	**16.053**	**3,8**	**47.764**	**45.359**	**5,3**
Domestic	3.659	3.651	0,2	10.614	10.434	1,7
Medium Haul	4.363	4.217	3,5	12.548	11.985	4,7
Europe	3.873	3.826	1,2	11.199	10.975	2,0
Africa & Middle East	489	391	25,1	1.349	1.010	33,6
Long Haul	8.638	8.184	5,5	24.601	22.939	7,2
RPK (million)	**13.619**	**12.699**	**7,2**	**36.979**	**34.526**	**7,1**
Domestic	2.805	2.692	4,2	7.782	7.578	2,7
Medium Haul	3.401	3.105	9,5	8.729	8.081	8,0
Europe	3.041	2.817	8,0	7.811	7.404	5,5
Africa & Middle East	360	289	24,7	917	676	35,7
Long Haul	7.413	6.902	7,4	20.468	18.867	8,5
Load factor (%)	**81,8**	**79,1**	**2,6 p.**	**77,4**	**76,1**	**1,3 p.**
Domestic	76,7	73,7	2,9 p.	73,3	72,6	0,7 p.
Medium Haul	78,0	73,6	4,3 p.	69,6	67,4	2,1 p.
Europe	78,5	73,6	4,9 p.	69,7	67,5	2,3 p.
Africa & Middle East	73,6	73,8	-0,3 p.	68,0	67,0	1,0 p.
Long Haul	85,8	84,3	1,5 p.	83,2	82,2	1,0 p.
CARGO						
Cargo Tones	53.543	54.849	-2,4	169.139	170.378	-0,7
ATK (million)	405	341	18,7	1.177	1.024	15,0
RTK (million)	230	237	-2,9	740	727	1,7
Load factor (%)	56,8	69,5	-12,7 p.	62,8	71,0	-8,2 p.
PASSENGER REVENUES						
Revenues (€ thousand)	989.792	927.162	6,8	2.689.366	2.560.475	5,0
Revenue / ASK (€ cent)	5,94	5,78	2,9	5,63	5,64	-0,3
Revenue / RPK (€ cent)	7,27	7,30	-0,5	7,27	7,42	-1,9

(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	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2005	2004	%	2005	2004	%
Unit Ratios (€ cent/ASK)						
OPERATING REVENUE	8,00	8,04	-0,4	7,67	7,89	-2,7
OPERATING COST	7,52	7,33	2,5	7,44	7,57	-1,7
Fuel	1,42	1,08	31,4	1,26	1,01	24,2
Fleet Maintenance	0,44	0,44	-1,7	0,46	0,44	4,6
Spare parts	0,23	0,25	-8,9	0,24	0,25	-2,1
Maintenance (subcontracts)	0,21	0,19	7,6	0,22	0,19	13,1
Personnel	2,17	2,26	-3,6	2,25	2,37	-4,8
Aircraft Leases	0,69	0,61	11,7	0,63	0,62	1,1
Commercial	0,41	0,50	-17,9	0,41	0,59	-31,1
Air Traffic Levies and charges	0,68	0,67	1,4	0,68	0,69	-1,4
Navigation aids	0,43	0,43	-0,8	0,44	0,44	-2,2
In-flight services and catering materials	0,14	0,15	-5,6	0,14	0,16	-13,7
Rest	1,14	1,19	-3,9	1,19	1,25	-5,0
Net fleet maintenance (b)	0,34	0,34	-1,9	0,35	0,35	-0,8
Net commercial cost / traffic passenger and cargo revenue (%) (c)	4,3	4,9	-0,6 p.	4,3	6,2	-1,8 p.
Productivity						
Average fleet utilization (block hours/aircraft/ day)	9,32	9,31	0,1	9,17	9,11	0,7
Annual average headcount	25.069	25.843	-3,0	24.516	25.063	-2,2
ASK / Employee	665	621	7,0	1.948	1.810	7,7
Ground	883	826	6,9	2.620	2.433	7,7
Ground (without handling)	1.835	1.667	10,1	5.228	4.722	10,7
Block hours / Technical crew	68,9	65,4	5,3	198,6	189,8	4,6
Block hours / Flight attendant	31,1	30,2	2,8	90,1	86,8	3,8

(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

GRUPO IBERIA (a)	September 2005	December 2004	September 2004
Long Haul	**31**	**29**	**28**
Owned	0	2	3
Financial lease	0	0	0
Operating lease	27	25	23
Wet lease	4	2	2
Short and Medium Haul	**120**	**125**	**124**
Owned	41	46	46
Financial lease	13	12	13
Operating lease	64	67	65
Wet lease	2	0	0
Total	**151**	**154**	**152**
Owned	41	48	49
Financial lease	13	12	13
Operating lease	91	92	88
Wet lease	6	2	2

(a) End of period, excluding inactive aircraft
Additionally, as of 30th of September 2005 the Company has two Airbus A-320 ceded.

Operational and Financial Performance

Iberia Group Results

The cumulative consolidated income after tax and minority interests in September 2005 was €401.7 million, 171% more than the €148.4 million profit 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.

Profit from operations totalled €422.5 million in the first nine months, €249.4 million more than the profit recorded a year earlier, pushed up by the improvement in the net balance of non-recurring income and expense items, which stood at €313.3 million in 2005, compared to a cumulative €30.4 million in September 2004. Revenues from operating activities rose by 19.2%, mostly as a result of the gains (€712.4 million) generated on the sales of the stakes in SAVIA and Amadeus. Costs from operating activities increased by 13%, due mainly to: the extraordinary provisions for staff restructuring and fleet renewal expenses, on the one hand, and the relentless hike in fuel prices.

Operating income, excluding non-recurring items, was €109.2 million for the first nine months of 2005, €33.5 million, 23.5% down on last year. Operating revenues increased by €86.4 million, up 2.4%, essentially as a result of the growth in passenger traffic. Operating expenses went up 3.5%, due to the growth in activity (5.3% in ASK terms) and the rising fuel prices. The effect of these was partly offset by the different cost-cutting measures contemplated in the current Director Plan, the efficient risk-hedging policy and the depreciation of the dollar against the euro. The unit operating cost was thus brought down by 1.7% to 7.44 euro cents per ASK; if the fuel expense is excluded in both years, the unit operating cost was down 5.7%.

Income for investments accounted for using the equity method recorded a loss of €7.5 million up to September 2005, €38.9 million less than the previous year, dragged down by the losses in the new company WAM, mainly due to the financial and start up expenses. This negative difference was offset by the improvement in financial income (€3.8 million) and, above all, by the reduction in corporation tax (€37.4 million less than in 2004). Consequently, consolidated profits grew by €251.7 million to €401.8 million.

Third Quarter

The attributed income in the third quarter was €372.5 million, €285 million more than the net profit of €87.5 million obtained in the same period of 2004.

Iberia posted a profit from operations of €393.6 million for the period July-September 2005, representing a year-on-year growth of 257%. The recording of large, non-recurring items produced sharp increases in both revenues (53%) and expenses (34%). Revenues included the net gain generated on the sale of Amadeus (€635.1 million, including IFRS consolidation adjustments) while expenses included an additional provision of €280 million for redundancy proceedings. The net balance of all non-recurring revenues and expenses was €312.8 million in the third quarter of 2005 (compared to €-2.5 million in the same period of 2004).

EBIT totalled €80.8 million, €31.9 million less than in the third quarter of 2004. Revenues amounted to €1,333.2 million, up 3.3% year on year, pushed up mainly by the increase in passenger revenues (5%), which was partly offset by the exclusion of SAVIA revenues. Operating expenses totalled €1,252.4 million in the third quarter of this year, representing a year-on-year growth of 6.4%, due mainly to the rise in kerosene prices, which caused a 36,4% rise in fuel costs despite hedging and the better fleet consumption efficiency.

Capacity and demand

Revenue passenger kilometres (RPK) grew by 7.1% year on year in the first nine months of 2005, outperforming the average increase recorded by the Association of European Airlines (AEA), of 6.0%. Capacity went up 5.3%, improving its load factor by 1.3 percentage points year on year, to 77.4%.

The larger growth on long-haul flights raised the average passenger stage length for the entire network by 3.5%. The company raised frequencies and number of direct flights. One of its major achievements was the launching of the new *Business Plus* class in spring 2005, which offers passengers greater comfort and more technological facilities. These factors contributed to a 8.5% year-on-year growth in traffic in this sector and, in particular, to the continuous enhancement of the mix. ASKs grew by 7.2% and load factor rose 1.0 points to 83.2%, a record in Iberia. The market share in Europe-Latin America grew by 0.6 points to 17.5%.

Any comparison with last year should take into account the restructuring of operations in Central America as from October 2004. If we combine operations in North and Central America (to avoid the distortion produced by said restructuring on the comparison of the two sectors), the year-on-year growth in traffic was 5.9%, against a 2.9% increase in ASK, improving the load factor by 2.3 points to 83.6%. Iberia maintained a steady development in South America, with growths of 15.2% in traffic and 18.4% in capacity, giving a load factor of 82.5%. As a result, long haul average stage length increased by 9.3%.

International medium-haul traffic grew by 8.0% year on year, accompanied by a 4.7% growth in capacity, improving the load factor by 2.1 points to 69.6%. The Spain-Europe market was affected by the strong growth of the low cost carriers whose aggregate capacity -measured in number of seats- now accounts for 35% of the total. Iberia managed to win market share from its traditional rivals, obtaining a good response in traffic, particularly in the third quarter. The RPK increased by 5.5%, with a 2.0% increase in capacity, due entirely to the effect of seat reconfiguration on medium-haul flights. The load factor rose by 2.3 points to 69.7%. It is worth highlighting the good performance of the Madrid-Moscow route, opened in March 2005, and some of the Southern European routes (Portugal, Greece, Italy and Turkey). On African and Middle East flights, capacity and traffic grew by 33.6% and 35.7%, respectively.

Capacity in the Spanish domestic market increased strongly mainly due to the expansion of competitors. Iberia, however, maintained its strategy of moderate growth, raising the ASK by 1.7% year on year. Flights between the mainland and the Canary Islands reduced by 3% while other connections went up 4.6%. Traffic -measured in RPK- grew by 2.7% (3.6% in number of passengers) overall on domestic flights, raising the load factor by 0.7 percentage points to 73.3%.

In cargo, traffic growth slowed down over the year in the Atlantic markets, which account for more than 80% of Iberia's cargo traffic. The revenue tonne kilometers (RTK) totalled 740 million up to September 2005, 1.7% more than last year (the RTK dropped 2.9% in the third quarter). More than 94% of the total RTK was carried in the bellies of passenger aircraft.

Third Quarter

Iberia achieved high load factors in all sectors throughout the third quarter of 2005 with record levels in August, at 83.0%. ASKs went up by 3.8%in the quarter moderating the growth of the first half (6.1%). Traffic rose by 7.2% in the quarter, maintaining the upward trend recorded in the first half of the year.

Capacity increased by 5.5% on long-haul flights, with a 7.4% growth in RPK, raising the load factor by 1.5 points year on year to 85.8%. Combining North and Central Atlantic Flights, the traffic increased by 5.9%, ASK by 2.7% and the load factor by 2.6 points to 86.7%. On South Atlantic flights, capacity and traffic increased by 12.3% and 10.7%, respectively, giving a load factor of 83.7%.

The load factor on European flights improved considerably in the third quarter, rising 4.9 points year on year to 78.5%. Capacity was raised by 1.2% through seat reconfiguration, while the RPK grew by 8.0% in Europe, doubling the year-on-year growth recorded in the first half (4.0%). On African and Middle East routes, capacity and traffic increased by around 25% year on year. The traffic growth for all medium-haul flights was 9.5%, against a 3.5% increase in ASK, giving a load factor of 78.0%, up 4.3 percentage points.

The airline carried 4.1 million passengers on domestic flights in the third quarter, 4.9% more than in 2004. While maintaining capacity at last year's level, RPK rose by 4.2%, consequently pushing up the load factor by 2.9 points year on year to an impressive 76.7%. In spite of the huge increase in competition, Iberia managed to improve its load factors.

Revenues from operating activities

Revenues from operating activities rose by €706 million year on year to € 4,378.1 million. If we exclude net sales of non-current assets and other non-recurring revenues (an aggregate €713.5 million in 2005 and €93.9 million in 2004) we get €3,664.5 million of revenues from ordinary activities, , 2.4% more than the equivalent sum in the first nine months of 2004.

The aggregate passenger and cargo revenues rose 3.3% year on year to €3,117.7 million. Passenger revenues grew by 3.2% and cargo revenues by 4.5%. The year-on-year growths were calculated according to the same grouping criteria in both periods and differ from those recorded in the profit and loss account, due to the reclassification of "fuel and safety levies", which were included in "other revenues" last year (in an aggregate sum of €18.6 million up to September 2004), but in "cargo revenues" as from January 2005.

Passenger revenues rose by €88.8 million year on year to €2,897.8 million. Of this sum, €2,689.4 million corresponded to revenue on tickets actually flown during the period January-September 2005, €128.9 million (5.0%) more than the same period of 2004, generated by the growth in traffic. 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 €208.4 million, €40.1 million down on September 2004, mainly due to the reduced cancellation of advance payments.

In the network overall, the yield fell by 1.9% year on year, adversely affected by the increase in the average passenger stage length (3.5%) and, to a smaller extent, by the depreciation of the dollar against the euro. The improved load factor (1.3 points) practically offset the drop in yield, with a unit revenue of €5.63/ASK, similar to last year. At constant exchange rates, the unit revenue would have risen 0.4%.

On long-haul flights, passenger revenues rose 11.9% year-on-year to €913 million in the first nine months of 2005. This growth, produced as a result of the significant increase in traffic (8.5%), the fuel surcharges and the improved mix, was partly offset by the depreciation of the dollar and considerable increase in average stage length (9.3%), hence the revenue per ASK was 4.4% up on last year.

Passenger revenues on international medium-haul flights grew by 4.3% year on year to €841 million. Due in part to the increased average stage length (2.8%) and affected by the route mix, the unit revenue per ASK slid by 0.4% in the sector overall.

In Spain competition increased very significantly in comparison with the previous year, making the market far more dynamic. Consequently, as from end-March the company launched promotions and special offers. Yield fell 2.9% over the first nine months, partly offset by the increase in traffic (2.7%). Passenger revenues on domestic flights slid 0.3% to €935.5 million, lowering the reveue/ASK by 2.0%.

Cargo revenues totalled €219.9 million, 4.5% up on September 2004 (applying the same grouping criteria, i.e. adding in 2004 the fuel and safety levies, previously included in “other revenues”). This rise was largely due to the increase in extra charges (or levies) to compensate the higher fuel prices and, to a smaller extent, to the growth in cargo traffic (1.7%). Cargo yield (excluding fuel and safety levies) was 7.6% down on the preceding year, affected by the increased average stage length and the depreciation of the dollar.

Revenues generated on handling services at airports totalled €250.9 million, up 8.3% year on year, due largely to the growth in activity for third parties (6.3% in terms of average aircraft handled) and the improvement in unit revenues. Technical assistance revenues rose by 32.2% to €106.5 million, owing to the increased engine maintenance for other airlines. “Other revenues” dropped by 36.4% compared to the previous year (after excluding the cargo-related levies), mainly owing to the disappearance of the SAVIA revenues (more than €43.0 million in the first nine months of 2004). “Sundry revenues” fell by 13.5%, largely pulled down by the drop in passenger commissions, partly as a result of the measures to cut commercial expenses.

The net gains on sales of non current assets amounted to €704.5 million in the first nine months of 2005, including the sale of SAVIA (€77.3 million) and Amadeus (€635.1 million). Other profits and losses on fixed assets were also recorded, mostly deriving from operations related with the fleet renewal. In the same period of the previous year, net revenues of €84.4 million had been recorded, mostly from the net gains on selling buildings and premises, flight simulators and stakes in Iber-Swiss Catering and Viva Tours.

Third Quarter

Revenues from operating activities amounted to €1,978.7 million in the third quarter of 2005, 53% more than last year. This increase is mainly due to the difference of over €642 million in the non-recurring revenues recorded in both periods (€645.5 million in 2005, compared to €3.4 million in the period July-September 2004), deriving from the gain obtained on the sale of shares in Amadeus.

Operating revenues (excluding net revenues from asset sales and any other non-recurring revenues) totalled €1,333.2 million, up 3.3% year on year. Excluding the contribution made by Savia to the group revenues in 3Q2004 (€13.1 million), the increase in operating revenues would be 4.4%. Traffic revenues (passenger and cargo) were €1,136 million, up 4.8% on last year (after homogenising the criteria for recording revenues from fuel and safety levies).

Passenger revenues totalled €1,064 million, 5.0% up on last year’s figures. Of this sum, €989.8 million corresponded to revenue on tickets actually flown during the period July-September 2005, up 6.8% year on year. This increase was mainly due to the traffic growth (7.2% in terms of RPK). The unit revenue per ASK rose by 2.9% year on year: long haul and international medium-haul improved by 8.2% and 6.8%, respectively while on domestic flights unit revenue dropped by 3.9%. The improvement on international flight revenues was partly due to fuel surcharges, which were incorporated to compensate the adverse effect of the higher fuel prices.

The aggregate amount of other passenger revenues was €74.2 million in the third quarter of 2005, €11.9 million less than in the same period of last year, owing to the lower revenues from cancellation of advance payments in issued but unused tickets.

Cargo revenues totalled €72.0 million in the third quarter of 2005, 1.6% more than a year earlier (applying the same grouping criteria for fuel and safety levies, €6.9 million aggregate in the third quarter of 2004, included in the item “Other revenues ” on the profit and loss account). This increase was due to the fuel surcharges.

The aggregate amount of other operating revenues was €197.2 million, down €8.8 million (4.3%) year on year (with homogenous grouping criteria). Technical assistance revenues recorded a year-on-year growth of 2.7%. Handling revenues also rose, by 6.8%, due mainly to the growth in activity for third parties (5.6% in terms of weighted aircraft handled). On the other hand, commissions fell (related with the measures for cutting commercial expenses) and the revenues corresponding to SAVIA ceased to be consolidated.

Costs from operating activities

Costs from operating activities amounted to €3,955.5 million in the first three quarters of 2005, up 13% year on year. Almost three-quarters of this increase corresponded to the growth in non-recurring expenses, (+ €336.7 million) while recurring operating expenses increased by €119.8 million.

The aggregate non-recurring expenses totalled €400.2 million in the first nine months of this year (compared to €63.5 million recorded up to September last year) and include a provision of €280 million for the extension of the redundancy plan, together with a further €5 million for staff restructuring at the cargo terminals; and a provision of €104.6 million for the accelerated depreciation of the McDonnell Douglas aircraft in accordance with the new Director Plan.

Operating costs amounted to €3,555.3 million, a 3.5% increase over the cumulative costs at September 2004. The main reasons for this increase were the fuel price hike and the increase in capacity (5.3% in terms of ASK), the adverse effect of which was partly offset by the risk hedging policy and the implementation of the cost-cutting measures contemplated in the current Director Plan: the new model of remuneration for travel agencies, improved staff productivity and the new model of in-flight services in economy class on short and medium-haul flights.

Fuel costs rose by €141 million (30.8%) year on year . This sharp increase was mainly due to the increase in aircraft fuel prices, which reached record levels again during the quarter, rising above 65 dollars/barrel. Hedging in place curbed the expense by €114.3 million over the first nine months of the year. Unit consumption was lowered through greater fleet efficiency and extension of the average stage length, while the depreciation of the dollar and the effect of exchange rate hedging also contributed to mitigate the expense. As a combined effect of all these factors, the unit fuel cost was 1.26 euro cents per ASK, 24.2% higher than last year.

The cost of fleet maintenance (spare parts, parts with a limited life, maintenance subcontracts and provision for major repairs on leased aircraft) totalled €219 million, 10.1% up on September 2004, due mainly to the increase in maintenance activity for third parties. If the expenses incurred in the maintenance of third-party engines and aircraft are excluded, the net unit cost was down 0.35 euro cents per ASK, 0.8% less than last year.

Personal expenses amounted to €1,360.3 million up to September 2005. If non-recurring expenses are excluded (€285 million in 2005 and €32.5 million in 2004), personnel expenses were €1,075.3 million, just 0.2% higher than last year. The Group’s equivalent headcount was 24,516 in the first three quarters of 2005, 2.2% less than in the same period of 2004, with similar reductions in the ground and cabin crew. The Group productivity, measured in ASK/employee, was raised 7.7% year on year, with improvements across the board. In the case of handling staff, the number of average aircraft handled increased by 3.5%, compared to a 0.7% increase in the equivalent headcount of this staff over the period January-September. The productivity of the other ground staff rose by 10.7%, while the productivity of pilots and flight attendants -commercial block hours per equivalent employee- rose by 4.6% and 3.8%, respectively. As a result of this progressive increase in productivity, the unit personnel cost was brought down by 4.8%.

Aircraft leasing costs totalled €300.2 million in the first nine months of 2005, up 6.4% year on year. The total number of aircraft was slightly higher than last year. According to the fleet renewal plan new Airbus aircraft (A-320 and A-340 families) have been incorporated under operating lease while B-747, B-757 and MD-87/88 have been reduced. In particular, the last B-747s owned by the company were phased out in mid-2005, while a total of six new A-340/600 were incorporated as from October 2004. The number of aircraft operated under wet leases was also increased: in addition to the two B-747/400 in operation since the summer of 2004, this year another two B-747/300 (since May) and two B-757 (since July) have been added. However, the favourable effect of the depreciation of the dollar and the hedging operations diminished the increase in leasing costs. Moreover, the instruments used for exchange and interest hedging in aircraft leasing considered "not effective" under IAS 39 generated a €30.4 million increase in value at September 2005, so the aircraft leasing costs were reduced by that amount in the period (see section "Principal effects of applying the IFRS"). As a result, the unit leasing cost had a year-on-year growth of 1.1%, to 0.63 euro cents per ASK.

Commercial expenses were cut by 27.4% to €195.5 million, mainly as a result of successive reductions of the basic commission paid to travel agencies in Spain and the extension of this model to other markets. With these measures, commercial expenses were brought down by 1.5% between January and June 2005 (compared to 3% in the first half of last year) and by 1% as from July (compared to 2% in the second half of 2004). Apart from savings on passenger commissions, the commissions paid to cargo agencies were also slashed, as were commissions among **one**world companies and advertising expenses. The unit commercial cost (per ASK) was cut by more than 31% year on year to 0.41 euro cents per ASK. The ratio of net commercial expenses (after deducting commission revenues) to traffic revenues was 4.3%, 1.8 points lower than last year.

The aggregate cost of "In-flight services" and "Catering materials" was €64.6 million in the first three quarters of 2005, a year-on-year drop of 9.1%, achieved mainly as a result of the new in-flight service in economy class introduced on short and medium-haul flights as from March 2004 (on Canaries flights from June). The unit cost (per ASK) of these items was 13.7% lower than in the same period of last year.

There was a 3.8% year-on-year growth in air traffic levies and charges, which totalled €323 million in the first nine months of 2005, due to the increase in traffic.

"Other expenses" totalled €237 million up to September this year, 5.5% less than last year. Among the different items included in this account, compensation expenses totalled €27.4 million, 34.7% more than last year, due mainly to the entry into force of EU Regulation 261/2004 of 17 February 2005, which raised the compensations and assistance to travellers in the event of overbooking, delays, flight cancellations and loss of baggage. Non-recurring items are also included, in an aggregate sum of €10.6 million in 2005 and €25.0 million in the previous year (of which €6m and €12m, respectively, corresponded to fleet return expenses).

Third Quarter

Excluding non-recurring items, operating expenses rose by 6.4% to €1,252.4 million, due mainly to the growth in traffic and, especially, to the fuel price hike. Unit operating cost, excluding fuel, was 2.5% lower than last year, at 6.10 euro cents per ASK.

Fuel costs rose 36.4% year on year to €236.4 million in the third quarter of 2005. Just as in the first six months, the main cause of this increase was the soaring price of oil, which has once again beaten all the market expectations. Against this backdrop, the company managed to reduce the expense by €47.5 million through fuel price and exchange rate hedges.

Personnel expenses include a provision of €280 million in the third quarter of 2005, to cover the costs of the redundancy program contemplated in the Director Plan 2006/2008. Excluding non-recurring items, personnel expenses were on a par with last year (€362.3 million), with a 3.0% reduction in equivalent headcount. The increased productivity of the Group's workforce (7% in terms of ASK/employee) brought down the unit personnel expense by 3.6% year on year, to 2.17 euro cents per ASK. The flight crew productivity (commercial block hours per manpower equivalent) improved by 5.3% for pilots and 2.8% for flight attendants.

An extraordinary provision of €42.9 million was also made during the third quarter 2005 (added to a further €61.7 million set aside in the first quarter) for the accelerated depreciation of the McDonnell Douglas aircraft, which are to be replaced ahead of schedule by new Airbus aircraft. Other provisions for depreciation and amortisation were made in the sum of €44.5 million, 5.9% less than in the same period of 2004.

Aircraft leasing costs recorded a year-on-year growth of 16.0%, totalling €114.4 million in the period July-September 2005. As explained earlier, the fleet renewal plan has restructured the composition of the fleet, increasing the number of aircraft on operating lease and wet lease.

The aggregate cost of fleet maintenance was 2.0% higher than in the third quarter of 2004. Deducting the additional expenses corresponding to third-party technical assistance revenues, the unit cost of maintenance was down 1.9%.

Commercial costs amounted to €68.7 million in the third quarter of 2005, almost €12 million (14.8%) less than the previous year, achieved by means of a dramatic cut in passenger and cargo commissions, although this was partly counteracted by the €4.2 million increase in advertising expenses, due to new sponsorship agreements and media advertising campaigns.

In the third quarter, a year-on-year reduction of 2.0% was achieved in the aggregate cost of "In-flight services" and "Catering materials", bringing it down to €22.9 million. The reduction of this expense was smaller than the savings achieved in the first two quarters of 2005 because the new design of in-flight services in economy class on short and medium-haul flights had already been fully introduced by the third quarter of 2004.

Finally, "Other expenses", including varied items, totalled €89.5 million, €11.0 million more than in the third quarter of 2004. If non-recurring items were excluded (€9.8 million in 2005 and €1.8 million in 2004), these expenses would have risen by 4.0% year on year.

Financial and Other Non-Operating Results

Up to September 2005, Iberia posted financial results of €3.9 million, €3.8 million more than that recorded at the same time last year. In pursuance of IAS 39, revenues deriving from evaluation of financial instrument hedges, amounting to €2.2 million at 30 September are included.

The income fron investments accounted for using the equity method was -€7.5 million up to September 2004, €41 million less than the positive balance of €31.4 million recorded in the same period last year. The main reason for this decline was the inclusion of €9.8 million loss coming from the 11.7% stake held by Iberia in WAM Acquisition, S.A. ecorded on the interim balance sheet (WAM), at 31 July 2005, which, considering the in this new company, was transferred to the Iberia accounts as a loss of. A net loss of €20.5 million was recorded for Amadeus in the third quarter of 2005, as a result of regularisation of its estimated revenues in the first half of 2005, together with accounting of its share in the income of the other companies carried by the equity method.

Net Debt to Equity

The in-balance sheet net debt improved considerably to -€1,532.5 million at 30 September 2005, compared to -€1,171.2 million at year-end 2004. In both cases, short term financial investments exceeded the interest-paying debt. At the end of September 2005, liquid assets (short-term financial investments and cash, plus other equivalent liquid means) totalled €2,043.4 million, €476.3 million up on the closing balance of 2004, primarily as a result of the sale of shares in Savia and Amadeus and sale and leaseback transactions.

The adjusted net debt, which includes the capitalisation of operating leases, was slightly down on the close of last year, standing at €1,667.7 million at 30 September 2005. Most of the reduction of the in-balance sheet net debt was offset by the increase in the capitalised aircraft leasing costs (excluding the difference in the valuation of "non-effective" hedges). Leverage, measured as adjusted net debt over total resources, was down 1.7 percentage points from 31 December 2004, at 48.6%.

At 30 September 2005, Iberia had a shareholders' equity of €1,762.7 million, €105.4 million more than at year-end 2004. This balance-sheet item takes into account the interim dividend (€281 million) paid in August.

Operating Fleet and Variations

At 30 September 2005, Iberia had an operating fleet of 151 aircraft, 41 of which were owned, 13 held on financial leases, 91 on operating leases and 6 contracted on a wet lease. The airline has 120 aircraft in its short and medium-haul fleet and 31 in its long-haul fleet.

During the third quarter, the company added two B-757 to its short and medium-haul fleet, under wet leases. Meanwhile, two B-757 and two MD-87, held on operating leases, and one MD-88, owned, were phased out.

Actions concerning subsidiaries

In March 2005, Iberia sold the 66% stake it held in Sistemas Automatizados Agencias de Viajes, S.A. (SAVIA) to Amadeus Global Travel Distribution, S.A. (Amadeus).

In April 2005, Iberia, Air France and Lufthansa, shareholders of Amadeus, and Amadelux Investments, S.A. launched a takeover bid, through the new company WAM Acquisition, over all the A shares in Amadeus, at a price of €7.35/share. The takeover bid, accepted by each of the reference shareholders for a certain number of its shares, was successfully closed in early July. The reference shareholders then transferred the remaining shares held to WAM, which now holds practically all the shares in Amadeus.

Iberia, which had a 33.80% stake in Amadeus prior to the above-mentioned operation, now has a 11.8% stake in WAM. The remaining shareholders of WAM hold the following stakes: Amadelux Investments, S.A, 53.27%; Air France, 23.36%; and Lufthansa 11.68%.

On 21 July 2005, the Extraordinary General Shareholders Meeting of Amadeus resolved to change the financial year, which now begins on 1 August and ends on 31 July of each year.

Principal effects of applying the IFRS

The financial statements presented in this report have been drawn up in accordance with the International Financial Reporting Standards (IFRS). In order to offer homogenous information, the IFRS has been applied from 1 January 2004, except IAS 39, which is applied from January 2005. Consequently, the 2004 figures differ slightly from the accounts published a year ago under the National Chart of Accounts (NCA).

As a result of applying the IFRS to the profit and loss account, the consolidated net profit for the third quarter of 2004 is €1.4 million smaller than that published a year earlier under the NCA. In the period January-September 2004, the consolidated profit after tax under the new international standards is €16.6 million less than the net profit published a year ago under the NCA. The most significant changes, considering in all cases the first nine months of 2004, are as follows: in non-recurring revenues, the capital gains obtained on the sale of own shares, in a sum of €8.6 million (in application of IAS 32) are excluded; sundry revenues are reduced by €10.6 million, due to the different recording of gains generated on the sale and leaseback transactions (IAS 17) and a smaller recovery of provisions for major repairs (IAS 37); commercial expenses are increased by €7.8 million, since certain advertising expenses may no longer be capitalised (IAS 38); personnel expenses are increased by €3.7 million, as a result of the evaluation of the Stock Option Plan (IFRS 2); the expense item corresponding to the provision for major repairs is reduced by €4.4 million, partly offset by a €3.9 million increase in the provision for amortisation (IAS 37); and the profit before tax is raised by almost €5 million, corresponding to amortisation of the consolidation goodwill under the NCA in 2004.

In accordance with the first transition rule of the IFRS, the consolidation goodwill was written off at 1 January 2004, since it was practically impossible to do the impairment test on the goodwill generated in the merger with Aviaco in 1999 (as required by IFRS 3), giving rise to the corresponding reduction of reserves on the balance sheet (€98.1 million).

In application of IAS 39 (Financial Instruments: Recognition and Measurement), the company recorded the fair value of all its hedges at 1 January 2005. Hedges have subsequently been measured at the end of each quarter, recording any value spreads.

The measurement of hedges at 30 September 2005 set the value of financial assets on the balance sheet €90.7 million higher than at the close of last year. This improvement on the initial value was the product of the following factors: the fuel price hike, the higher dollar interest rates in the medium and long term and the appreciation of the dollar against the euro. Of the total increase in value, €34.4 million has been recorded in the profit and loss account as at September 2005, corresponding to "non-effective" hedges according to the conditions established in the new standards. That amount, which constitutes an increase in profit, is broken down as follows: €30.4 million reduction of expense corresponding to the valuation of financial instruments related to operating aircraft leases; €2.2 million reduction of expense in the valuation of other financial instruments; and €1.8 million reduction of expense deriving from the temporary, statistical "non-effectiveness" (according to IFRS terminology) of part of the fuel hedges.

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