

### Contact

Subdirección Relaciones con los Accionistas

Velázquez, 130. Bloque IV. Planta 8

28006 Madrid (Spain)

Phone number 3491 5877334 Fax 3491 5877043

[invesrel@iberia.es](mailto:invesrel@iberia.es)

## January - December 2004

### Highlights (not audited)

IBERIA GROUP €thousand	Fourth Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2004	2003 (a)	%	2004	2003 (a)	%
Operating Revenues	1.216.420	1.172.209	3,8	4.805.409	4.610.791	4,2
Operating Expenses	1.176.539	1.146.947	2,6	4.602.105	4.454.110	3,3
Operating Income EBIT	39.881	25.262	57,9	203.304	156.681	29,8
EBITDAR	188.525	166.264	13,4	766.936	693.968	10,5
Consolidated income after taxes	53.368	34.856	53,1	219.988	144.372	52,4
Total shareholders' equity (b)	---	---	---	1.645.786	1.423.244	15,6
In-balance sheet net debt (b)	---	---	---	-1.152.889	-939.627	22,7
Adjusted net debt x 8 (b)	---	---	---	1.697.211	1.841.322	-7,8
ASK (million)	15.700	14.621	7,4	61.058	56.145	8,8
RPK (million)	11.398	10.815	5,4	45.924	42.100	9,1
Load factor (%)	72,6	74,0	-1,4 p.	75,2	75,0	0,2 p.
Passenger revenues	871.665	857.973	1,6	3.432.140	3.356.794	2,2
Yield (€cent)	7,65	7,93	-3,6	7,47	7,97	-6,3
Operating revenue/ASK (€cent)	7,75	8,02	-3,4	7,87	8,21	-4,2
Operating expense/ASK (€cent)	7,49	7,84	-4,5	7,54	7,93	-5,0
Operating expense (exc fuel)/ASK (€cent)	6,26	6,88	-9,0	6,47	6,94	-6,8

Number of shares as at 31-Dec-2004: 937,467,468; 31-Dec-2003: 919,016,894

(a) Pro forma excluding Iber-Swiss Catering, S.A. (See notes pages 2 and 3)

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

### Highlights

- Iberia posted a consolidated income after taxes of €220 million in 2004, more than 50% up on the profit recorded in 2003.
- The load factor was 75.2% (a record level in the company's history), with a capacity growth of 8.8%, achieved particularly on international routes.
- Unit operating revenue was down 4.2% year on year, due to the decrease in yields (-6.3%), although both items showed a recovery trend during the year.
- Iberia managed to reduce its unit operating cost (per ASK) by 5.0% year on year, despite the negative impact of the hike in fuel prices. Excluding fuel, the unit cost was down 6.8%, with a positive performance over the year, thanks to the growing savings generated by the measures implemented under the Director Plan 2003/05.
- Employee productivity improved by 7.7% (in terms of ASK/employee) and fleet utilisation rose by 3.9% (in terms of hour/aircraft/day), in line with the targets of the Director Plan 2003/05.
- The adjusted net debt, which includes capitalisation of the operating leases, was reduced by 7.8% from the level recorded in December 2003, despite the investments made in renewing and increasing the fleet.
- The value of the Iberia share rose 11.8% in 2004. It was also included in the Dow Jones Stoxx Sustainability Index, which is an important recognition of the company's social, economic and environmental commitment.
- Consolidated income after taxes amounted to €53.4 million in the fourth quarter, up 53% on the previous year. Unit cost fell by 4.5% (9% ex fuel).

## Highlights (historic data) (not audited)

IBERIA GROUP €thousand	Fourth Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2004	2003 (a)	%	2004	2003 (a)	%
Operating Revenues	1.216.420	1.174.708	3,6	4.805.409	4.619.329	4,0
Operating Expenses	1.176.539	1.149.201	2,4	4.602.105	4.458.648	3,2
Operating Income EBIT	39.881	25.507	56,4	203.304	160.680	26,5
EBITDAR	188.525	167.181	12,8	766.936	700.673	9,5
Consolidated income after tax	53.368	34.823	53,3	219.988	145.852	50,8
Total shareholders' equity (b)	---	---	---	1.645.786	1.432.760	14,9
In-balance sheet net debt (b)	---	---	---	-1.152.889	-938.503	22,8
Adjusted net debt x 8 (b)	---	---	---	1.697.211	1.842.446	-7,9
Operating Revenue/ASK (€cent)	7,75	8,03	-3,6	7,87	8,23	-4,3
Operating Expense/ASK (€cent)	7,49	7,86	-4,7	7,54	7,94	-5,1
Operating Expense (exc fuel)/ASK (€cent)	6,26	6,89	-9,2	6,47	6,95	-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) December 2004 v December 2003. (See notes page 4).

## Consolidated Statements of Income (not audited)

€thousand	Fourth Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2004	2003 (a)	%	2004	2003 (a)	%
<b>Operating income</b>	<b>39.881</b>	<b>25.262</b>	<b>57,9</b>	<b>203.304</b>	<b>156.681</b>	<b>29,8</b>
<b>Operating revenues</b>	<b>1.216.420</b>	<b>1.172.209</b>	<b>3,8</b>	<b>4.805.409</b>	<b>4.610.791</b>	<b>4,2</b>
<b>Net sales</b>	<b>1.165.964</b>	<b>1.116.128</b>	<b>4,5</b>	<b>4.601.665</b>	<b>4.393.833</b>	<b>4,7</b>
Passenger revenues (b)	948.830	920.957	3,0	3.757.800	3.615.437	3,9
Cargo revenues	69.874	74.059	-5,7	261.630	254.857	2,7
Handling	70.726	63.163	12,0	302.435	271.136	11,5
Technical assistance to airlines	31.915	23.351	36,7	112.435	103.997	8,1
Other revenues	44.618	34.598	29,0	167.366	148.407	12,8
<b>Other operating revenues</b>	<b>50.456</b>	<b>56.081</b>	<b>-10,0</b>	<b>203.744</b>	<b>216.958</b>	<b>-6,1</b>
Rents	4.274	3.312	29,0	10.080	8.746	15,3
Commissions	27.393	30.642	-10,6	111.407	120.943	-7,9
Other sundry revenues	18.789	22.127	-15,1	82.257	87.269	-5,7
<b>Operating expenses</b>	<b>1.176.539</b>	<b>1.146.947</b>	<b>2,6</b>	<b>4.602.105</b>	<b>4.454.110</b>	<b>3,3</b>
<b>Procurements</b>	<b>249.683</b>	<b>184.650</b>	<b>35,2</b>	<b>851.945</b>	<b>732.956</b>	<b>16,2</b>
Aircraft fuel	194.294	141.741	37,1	653.518	556.841	17,4
Aircraft spare parts	43.163	30.406	42,0	154.934	130.772	18,5
Catering materials	5.322	7.314	-27,2	22.694	26.975	-15,9
Other purchases	6.904	5.189	33,1	20.800	18.368	13,2
<b>Personnel expenses</b>	<b>354.159</b>	<b>354.434</b>	<b>-0,1</b>	<b>1.423.323</b>	<b>1.366.161</b>	<b>4,2</b>
<b>Depreciation and amortization</b>	<b>46.269</b>	<b>41.903</b>	<b>10,4</b>	<b>179.227</b>	<b>168.130</b>	<b>6,6</b>
<b>Variation in operating provisions</b>	<b>1.556</b>	<b>3.504</b>	<b>-55,6</b>	<b>5.335</b>	<b>6.288</b>	<b>-15,2</b>
<b>Other operating expenses</b>	<b>524.872</b>	<b>562.456</b>	<b>-6,7</b>	<b>2.142.276</b>	<b>2.180.575</b>	<b>-1,8</b>
Aircraft leases (c)	102.375	99.100	3,3	384.405	369.157	4,1
Operating leases	91.647	94.750	-3,3	353.563	353.185	0,1
Wet leases	6.729	0	--	15.525	0	--
Cargo wet leases	3.999	4.350	-8,1	15.317	15.973	-4,1
Other rent	20.498	18.840	8,8	78.360	74.728	4,9
Fleet maintenance (subcontracts)	25.619	21.381	19,8	117.163	104.708	11,9
Commercial expenses	80.841	124.354	-35,0	342.499	437.809	-21,8
Air traffic levies and charges	104.618	97.104	7,7	415.810	384.410	8,2
Navigation-other communication aids	68.712	66.402	3,5	270.533	257.593	5,0
In flight services	15.234	22.728	-33,0	68.967	94.255	-26,8
Booking systems	27.252	28.876	-5,6	130.347	128.164	1,7
Insurance	8.829	11.571	-23,7	36.584	50.805	-28,0
Other expenses	70.895	72.101	-1,7	297.608	278.946	6,7

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).

miles de €	Fourth Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2004	2003 (a)	%	2004	2003 (a)	%
<b>Financial results</b>	<b>20.786</b>	<b>581</b>	<b>n.s.</b>	<b>20.830</b>	<b>-3.229</b>	<b>n.s.</b>
Financial revenues	13.535	12.235	10,6	42.124	53.676	-21,5
Financial expenses	8.978	7.766	15,6	36.703	50.198	-26,9
Exchange gains/losses	16.229	-3.888	n.s.	15.408	-6.706	n.s.
Share in income of companies carried by the equity method	16.222	12.741	27,3	47.063	33.898	38,8
Amortization of goodwill in consolidation	-1.653	-1.653	0,0	-6.613	-6.613	0,0
<b>Extraordinary results</b>	<b>-13.229</b>	<b>6.819</b>	<b>-294,0</b>	<b>18.649</b>	<b>18.302</b>	<b>1,9</b>
Extraordinary revenues	100.098	59.106	69,4	206.856	102.549	101,7
Extraordinary expenses	113.327	52.287	116,7	188.207	84.247	123,4
<b>Consolidated income before taxes</b>	<b>62.006</b>	<b>43.749</b>	<b>41,7</b>	<b>283.232</b>	<b>199.039</b>	<b>42,3</b>
Taxes	-8.639	-8.893	2,9	-63.244	-54.667	-15,7
<b>Consolidated income after taxes</b>	<b>53.368</b>	<b>34.856</b>	<b>53,1</b>	<b>219.988</b>	<b>144.372</b>	<b>52,4</b>
Minorities	-77	-31	-152,7	1.586	1.605	-1,1
<b>Attributed income for the period</b>	<b>53.445</b>	<b>34.886</b>	<b>53,2</b>	<b>218.401</b>	<b>142.767</b>	<b>53,0</b>

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. Annual leasing expenses were €68,984 thousand in 2004 and €361,171 thousand in 2003. Both amounts must be 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 December 2004: 6% of 145.400 MM/ €x 8 = €69.792 million

For December 2003: 6% of 156.810 MM/ €x 8 = €75.269 million

## Consolidated Balance Sheet (not audited)

€thousand	Dec – 2004	Dec – 2003 (a)
<b>Assets</b>	<b>4.890.425</b>	<b>4.679.894</b>
<b>Fixed assets</b>	<b>2.442.174</b>	<b>2.417.957</b>
Start-up expenses	279	80
Net intangible fixed assets	400.722	429.078
Property, plant and equipment	1.013.412	918.306
Long-term financial investments	748.011	766.790
<i>Iberbuses loans</i>	145.400	156.810
<i>Iberbond bonds</i>	31.980	33.150
<i>Other</i>	570.631	576.830
Long-term receivables	279.750	303.703
<b>Consolidation goodwill</b>	<b>91.484</b>	<b>98.098</b>
<b>Deferred charges</b>	<b>69.350</b>	<b>85.230</b>
<b>Current assets</b>	<b>2.287.417</b>	<b>2.078.609</b>
Inventories	87.419	75.858
Accounts receivable	600.526	575.716
Shares of the parent company	31.961	20.066
Short-term financial investments	1.515.670	1.358.019
Cash	30.888	17.889
Accrual accounts	20.953	31.061
<b>Liabilities</b>	<b>4.890.425</b>	<b>4.679.894</b>
<b>Shareholders' equity</b>	<b>1.645.786</b>	<b>1.423.244</b>
Capital stock	731.225	716.833
Reserves of the parent company	498.530	412.496
Reserves at consolidated companies	197.953	151.432
Translation differences	-323	-284
Income attributable to the parent company	218.401	142.767
<b>Minority interests</b>	<b>5.323</b>	<b>8.543</b>
<b>Negative consolidation difference</b>	<b>998</b>	<b>1.494</b>
<b>Deferred revenues</b>	<b>25.705</b>	<b>56.805</b>
<b>Provisions for contingencies and expenses</b>	<b>1.278.730</b>	<b>1.249.459</b>
<b>Long-term debt</b>	<b>423.390</b>	<b>466.497</b>
Convertible debentures	27.532	27.532
Payable to credit entities	379.053	418.518
<i>Payable to credit entities</i>	331.835	355.877
<i>Future leasing interests payments</i>	47.218	62.641
Other accounts payable	16.805	20.447
<b>Current liabilities</b>	<b>1.510.493</b>	<b>1.473.852</b>
Convertible debentures	0	22.573
Payable to credit entities	49.201	46.458
<i>Payable to credit entities</i>	34.302	30.299
<i>Future leasing interests payments</i>	14.899	16.159
Other accounts payable	1.458.167	1.404.378
Accrual accounts	3.125	443

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

## Group Statements of Changes in Financial Position (not audited)

€Thousand	Dec – 2004
<b>APPLICATION OF FUNDS</b>	
VARIATION IN DEFERRED CHARGES	-15.880
VARIATION IN START-UP EXPENSES	199
FIXED ASSET ADDITIONS	670.592
VARIATION IN ASSOCIATES	-6.118
DIVIDENDS	29.089
REPAYMENT/TRANSFER TO SHORT-TERM OF LONG-TERM DEBT	244.559
APPLICATION OF PROVISIONS FOR CONTINGENCES AND EXPENSES	244.500
VARIATION IN NET WORKING CAPITAL	152.337
<b>TOTAL FUNDS APPLIED</b>	<b>1.319.278</b>
<b>SOURCE OF FUNDS</b>	
FUNDS FROM OPERATIONS	696.359
INCREASE IN CAPITAL	21.957
VARIATION IN DEFERRED REVENUES	-31.100
DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	116.336
DISPOSAL OF LONG-TERM INVESTMENTS	326.051
LONG-TERM DEBT	181.622
OTHER ADJUSTMENTS	8.053
<b>TOTAL FUNDS OBTAINED</b>	<b>1.319.278</b>

## Operating Statistics

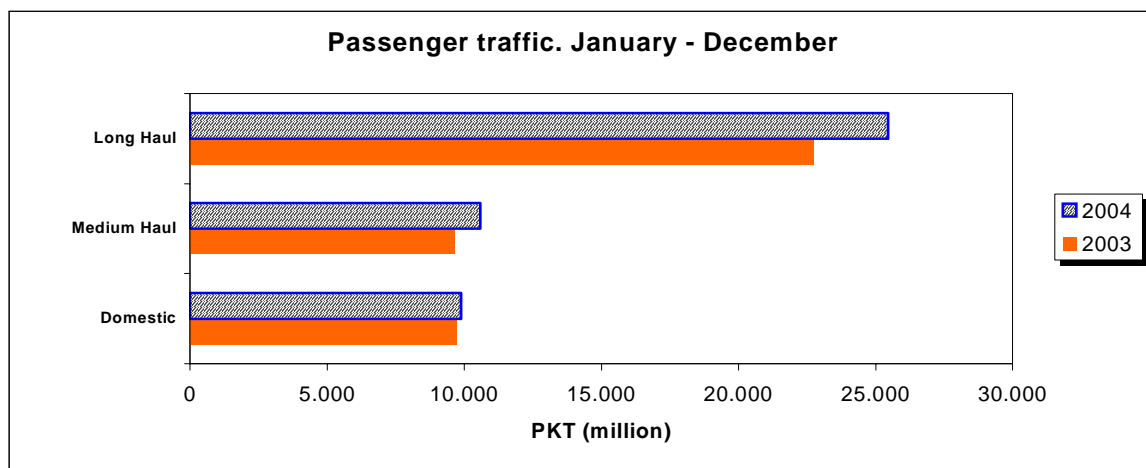
IBERIA GROUP (a)	Fourth Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2004	2003	%	2004	2003	%
<b>Scheduled traffic</b>						
<b>Passengers (thousand)</b>	<b>6.329</b>	<b>6.350</b>	<b>-0,3</b>	<b>26.692</b>	<b>25.613</b>	<b>4,2</b>
Domestic	3.536	3.650	-3,1	14.874	14.581	2,0
Medium Haul	1.944	1.850	5,1	8.307	7.756	7,1
Europe	1.838	1.774	3,6	7.909	7.475	5,8
Africa & Middle East	106	76	38,5	398	282	41,3
Long Haul	849	850	-0,0	3.511	3.276	7,1
<b>ASK (million)</b>	<b>15.700</b>	<b>14.621</b>	<b>7,4</b>	<b>61.058</b>	<b>56.145</b>	<b>8,8</b>
Domestic	3.396	3.337	1,8	13.831	13.323	3,8
Medium Haul	4.075	3.791	7,5	16.060	14.622	9,8
Europe	3.675	3.507	4,8	14.650	13.648	7,3
Africa & Middle East	400	285	40,5	1.410	974	44,7
Long Haul	8.229	7.492	9,8	31.168	28.200	10,5
<b>RPK (million)</b>	<b>11.398</b>	<b>10.815</b>	<b>5,4</b>	<b>45.924</b>	<b>42.100</b>	<b>9,1</b>
Domestic	2.305	2.416	-4,6	9.883	9.718	1,7
Medium Haul	2.514	2.338	7,5	10.595	9.655	9,7
Europe	2.257	2.161	4,4	9.661	9.016	7,2
Africa & Middle East	257	177	45,6	933	639	46,1
Long Haul	6.579	6.062	8,5	25.446	22.727	12,0
<b>Load factor (%)</b>	<b>72,6</b>	<b>74,0</b>	<b>-1,4 p.</b>	<b>75,2</b>	<b>75,0</b>	<b>0,2 p.</b>
Domestic	67,9	72,4	-4,5 p.	71,5	72,9	-1,5 p.
Medium Haul	61,7	61,7	0,0 p.	66,0	66,0	-0,1 p.
Europe	61,4	61,6	-0,2 p.	65,9	66,1	-0,1 p.
Africa & Middle East	64,3	62,0	2,3 p.	66,2	65,5	0,7 p.
Long Haul	80,0	80,9	-1,0 p.	81,6	80,6	1,0 p.
<b>Cargo</b>						
Cargo Tones	67.764	63.070	7,4	238.142	213.459	11,6
ATK (million)	382	341	11,8	1.406	1.269	10,8
RTK (million)	306	264	16,1	1.033	868	19,0
Load factor (%)	80,1	77,2	2,9 p.	73,5	68,4	5,1 p.
<b>Passenger revenues</b>						
Revenues (€thousand)	871.665	857.973	1,6	3.432.140	3.356.794	2,2
Revenue / ASK (€cent)	5,55	5,87	-5,4	5,62	5,98	-6,0
Revenue / RPK (€cent)	7,65	7,93	-3,6	7,47	7,97	-6,3

(a) Iberia L.A.E. traffic

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 (not audited)

IBERIA GROUP	Fourth Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2004	2003 (a)	%	2004	2003 (a)	%
<b>Unit Ratios (€cent/ASK)</b>						
Operating revenue	7,75	8,02	-3,4	7,87	8,21	-4,2
Operating cost	7,49	7,84	-4,5	7,54	7,93	-5,0
Fuel	1,24	0,97	27,7	1,07	0,99	7,9
Fleet Maintenance	0,44	0,35	23,7	0,45	0,42	6,3
Spare parts	0,27	0,21	32,2	0,25	0,23	8,9
Maintenance (subcontracts)	0,16	0,15	11,6	0,19	0,19	2,9
Personnel	2,26	2,42	-6,9	2,33	2,43	-4,2
Aircraft Leases	0,65	0,68	-3,8	0,63	0,66	-4,2
Commercial	0,51	0,85	-39,5	0,56	0,78	-28,1
Air Traffic Levies and charges	0,67	0,66	0,3	0,68	0,68	-0,5
Navigation aids	0,44	0,45	-3,6	0,44	0,46	-3,4
In-flight services and catering materials	0,13	0,21	-36,3	0,15	0,22	-30,5
Rest	1,16	1,24	-6,8	1,23	1,29	-5,2
Net commercial cost / traffic passenger and cargo revenue (%) (b)	5,2	9,4	-44,3	5,7	8,2	-29,8
<b>Productivity</b>						
Average fleet utilization (block hours/aircraft/ day)	9,15	8,89	2,9	9,12	8,78	3,9
Annual average headcount	24.783	24.698	0,3	24.993	24.748	1,0
ASK / Employee	633	592	7,0	2.443	2.269	7,7
Ground	855	802	6,5	3.288	3.056	7,6
Ground (without handling)	1.643	1.507	9,0	6.365	5.702	11,6
Block hours / Technical crew	66,6	64,4	3,4	263,7	250,1	5,4
Block hours / Flight attendant	29,7	27,6	7,6	116,5	110,1	5,8

(a) Pro forma (excluding Iber-Swiss)

(b) Commercial expenses lowered by commission revenues.

## Operating Fleet

IBERIA GROUP (a)	December 2004	September 2004	December 2003
<b>Long Haul</b>	<b>29</b>	<b>28</b>	<b>27</b>
Owned	2	3	4
Financial lease	0	0	0
Operating lease	25	23	23
Wet lease	2	2	0
<b>Short and Medium Haul</b>	<b>125</b>	<b>126</b>	<b>122</b>
Owned	46	46	43
Financial lease	12	13	12
Operating lease	67	67	67
Wet lease	0	0	0
<b>Total</b>	<b>154</b>	<b>154</b>	<b>149</b>
Owned	48	49	47
Financial lease	12	13	12
Operating lease	92	90	90
<b>Long Haul</b>	<b>2</b>	<b>2</b>	<b>0</b>

(a) End of period



## Operational and Financial Performance

### Iberia Group Results

Iberia reached a consolidated income before tax in 2004 of €283.2 million, €84.2 million (42.3%) more than the previous year (compared on homogenous terms, after adjusting the base period to the exclusion of Iber-Swiss Catering from the Group). This is the second best profit ever posted by the company.

Operating profit rose 29.8% year on year to €203.3 million, thanks to the growth in the company's activity (8.8% in terms of ASK) and the improved unit operating margin, 19.3% higher than in 2003, due mainly to the substantial cost reductions achieved through the implementation of the measures designed in the Director Plan 2003/05 and, to a smaller extent, to the positive net effect of the depreciation of the dollar against the euro.

The EBITDAR grew 10.5% during the year to €766.9 million, and its margin on revenues was 16.0%, 0.9 percentage points up on the previous year.

The growth in profit was also achieved with the contributions of the financial results and the share in income of companies carried by the equity method, the aggregate balance of which improved by €35.3 million over 2003.

The consolidated profit after tax and minority interests was €18.4 million in 2004, with a year-on-year growth of 53%. This gives a margin over operating revenues of 4.5%, 1.4 percentage points higher than in 2003.

#### Fourth quarter

Iberia posted a consolidated net income of €53.4 million in the fourth quarter of 2004, a 53.1% year-on-year growth (on homogenous terms).

In a quarter hit by the high kerosene prices on international markets, Iberia posted an operating profit of €39.9 million, up 58% year on year, mainly thanks to the growing cost savings achieved through the progressive implementation of the actions established in the Director Plan, which offset the hike in fuel costs (37.1%), bringing the unit operating cost down by 4.5% from the fourth quarter of 2003. If fuel costs are excluded, this reduction is 9.0%. Operating revenues also increased, by 3.8% year on year.

The net exchange rate differences improved by around €20 million year on year, essentially due to the realization of some positive exchange rate hedges associated to fleet financing. A negative difference was recorded in a similar sum in the extraordinary items of the quarter, which included, among others, provisions made for extension of the redundancy plan (authorised up to end- 2007).

Iberia's income before tax rose by 41.7% year on year in the fourth quarter of 2004, to €62 million. This gives a margin on operating revenues of 5.1%, 1.4 points higher than the margin recorded in the last quarter of 2003.

### Capacity and demand

There was a strong growth (around 14%) in air traffic worldwide during 2004, continuing the trend that had begun towards the end of the previous year, rising above the levels recorded in 2000, before the commencement of the recession in the sector. Part of that growth is due to the recovery of demand after falling in 2003 due to the war in Iraq and the SARS (Severe Acute Respiratory Syndrome) epidemic. The traffic of European network companies grew by 9% year on year (according to figures published by the Association of European Airlines -AEA). This increase was slightly smaller than that obtained by the American and Asian operators, owing to the lower growth of the major European economies and the tough competition by European low cost carriers.

Iberia increased its capacity considerably in 2004, following the break that had to be made during the crisis of the air traffic sector. The available seat kilometres (ASK) rose by 8.8% over the equivalent in 2003, to over 61,000 million, beating the previous record set in 2001. Traffic, in terms of revenue passenger-kilometre (RPK), grew by 9.1% in the network as a whole, and 11.3% on international flights. The load factor rose to 75.2%, higher than the level recorded in the previous year, with the highest annual level the company has ever reached. Iberia carried some 26.7 million passengers, 4.2% more than in 2003; this is smaller than the increase in RPK, owing to a 4.7% growth in the average stage length, brought about by the greater progression on intercontinental routes.

In the long-haul sector, the load factor improved by one percentage point in respect of last year, to 81.6%. Traffic grew by 12.0%, against a 10.5% increase in capacity, while the class mix improved. The response of demand to the substantial increase in capacity was especially positive on South American routes, where it rose by 20.9%.

Since 1 October, Iberia has restructured its operations in Central America, with the aim of improving customer service and the company's income on this market. Iberia stopped operating own flights between its hub in Miami and different Central American countries, replacing them with direct flights from Madrid to Guatemala, San José de Costa Rica and Panama and connecting these three airports to the other destinations in the region with code-sharing flights operated by other carriers.

In the medium-haul sector, the increase in capacity was in line with the growth in demand, with increases of 9.8% and 9.7%, respectively, maintaining the load factor stable at 66.0%. Traffic increased by 7.2% year on year on flights between Spain and other European countries (91% of the company's capacity in this sector). In these markets there is strong competition from the low cost carriers. There was a particularly strong growth -more than 46% in terms of RPK- on flights to Africa and the Middle East, still a minority market for the company, with the aim of diversifying capacity and growing on less mature markets.

ASKs increased by 3.8% in the domestic sector overall, where the company redistributed its capacity to improve the network yield. During 2004 the capacity was gradually raised on mainland flights and reduced on flights to the Canary Islands (-5.9% in the last quarter of 2004). The load factor in the domestic sector was 71.5% in 2004, 1.5 points down, with a general downward trend over the year. The main reasons for this were: the tough competition; the gradual development of a more selective revenue management policy focusing primarily on improving the yield; and the above-mentioned redistribution of capacity, which caused a progressive decline in the weight of routes to the Canary Islands, which have a higher load factor than mainland flights.

In cargo, the revenue tonne kilometres (RTK) increased by 19% to 1,033 million in 2004, of which 80% corresponded to Atlantic routes and 94% was carried in the bellies of passenger aircraft. The cargo load factor improved 5.1 points to 73.5%.

## **Operating Revenues**

Consolidated operating revenues totalled €4,805.4 million in 2004, up 4.2% year on year on homogenous terms (i.e. excluding the company Iber-Swiss from the Group accounts in 2003). Passenger revenues, which accounted for 78.2% of total operating revenues, rose by 3.9% year on year, as a result of the growth in traffic. The performance of other activities led to a 5.2% increase in the aggregate of other operating revenues, amounting to €1,047.6 million in 2004, including a particularly good performance of revenues from handling services.

Passenger revenues totalled €3,757.8 million, €42.4 million more than the previous year. Of this sum, €3,432.1 million corresponds to revenues from tickets actually flown during the period, €75.3 million more than that recorded in 2003. Revenues from issued but unused tickets, revenues deriving from frequent flyer programmes, fees for direct sales in Spain (applicable for the first time in 2004), the leasing of seats to other carriers and accounting adjustments, amounted to €325.7 million in 2004, €67.1 million more than in 2003.

Passenger revenues for tickets actually flown during the period increased by 2.2% over the previous year. The 9.1% growth in air traffic brought an increase of €249.4 million in these revenues, which was partially offset by a 6.3% drop in yield (average revenues per RPK), which had a negative effect of €174.1 million on the network overall. The main reasons for this drop in yield were: the tough competition, especially on the domestic market and particularly on flights between Spain and Europe, where low cost carriers put considerable pressure on prices; the increase of the average stage length (by 4.7%) owing to the larger growth of capacity on intercontinental routes; and the depreciation of the dollar against the euro, which particularly affected revenues in the long-haul sector. Had exchange rates remained constant, the yield would have been reduced by 5.1% and passenger revenues corresponding to the period would have increased by 3.5% year on year.

Nevertheless, the yield of the network as a whole, which had dropped by 8.7% in the first half of 2004, improved progressively throughout the second half of the year and this reduction was cut to 3.6% in the last quarter, mainly due to a more selective revenue management in the domestic sector.

In the long-haul sector, the yield slid by 3.8%, largely due to the effect of the euro appreciation, while passenger revenues rose 7.7% to €1,106.9 million, thanks to the growth in demand, which responded favourably to the increased capacity. In Europe, the 7.1% reduction in yield was offset by the growth in traffic; revenues rose 0.9% year on year to €1,063.1 million. Competition also increased on the domestic market, where the yield dropped 2.7% year on year and passenger revenues fell 1.0% to €1,262.2 million.

Cargo revenues amounted to €261.6 million in 2004, up 2.7% year on year, due to the sharp increase in traffic (19%). The effect of this increase was partly offset by the reduction in cargo yield, which dropped by 11.6%, pulled down by the same factors (competition, depreciation of the dollar and average stage length) that affected the passenger yield.

Handling revenues increased by 11.5% year on year to €302.4 million, due to the growth in third parties services (7.9% in terms of weighted aircraft handled), new complementary services and the rise in unit prices.

Unit operating revenues (per ASK) slipped by 4.2% year on year, due primarily to the decline in passenger yield. However, they recorded a positive evolution over the year. The company managed to limit the year-on-year spread to 3.0% in the second half of 2004, compared to the 5.4% drop in the first half of the year.

#### Fourth quarter

Consolidated operating revenues rose 3.8% year on year in the fourth quarter, to €1,216.4 million. Total passenger revenues rose 3.0% to €948.8 million; while the aggregate amount of other operating revenues totalled €267.6 million, up 6.5% on the previous year. A particularly spectacular growth was recorded in revenues from maintenance services (36.7%) basically due to the increase in engines.

Passenger revenues from tickets actually flown in the fourth quarter of 2004 totalled €871.7 million, €13.7 million more than those obtained in the same period of last year. The growth in traffic (5.4%) brought revenues up €28 million, although just over half of this rise was offset by a 3.6% reduction in yield. The other items included in passenger revenues totalled €77.1 million in the fourth quarter of 2004, €14.2 million more than those recorded in the same period of 2003, essentially due to a greater recovery of advanced payments by customers and fees for direct sales in Spain.

The slower growth in traffic was partly offset by the upturn in the yield. Over 2004 the domestic sector yield gradually reduced its spread in respect of the previous year, recording a 3.6% increase in the last quarter, thanks to the gradual implementation of a revenue management policy focused on yield recovery, even though this could make it difficult to maintain the high load factor of the previous year. The long-haul yield reached the level of the previous year, in spite of the effect of the dollar depreciation and the significant growth in average stage length in this network (8.6%). On the contrary, the yield of European sector dropped by 7.4%, mainly due to the tough competition and, to a lesser extent, to the growth of the passenger average stage length.

### **Operating Expenses**

Operating expenses increased by 3.3% year on year to €4,602.1 million in 2004, (on homogenous terms, excluding Iber-Swiss from the Group in 2003). The fuel price hike and the growth of the company's activity, both in capacity (up 8.8%, measured in ASK) and in handling and maintenance for third parties, were the main causes of the increased costs, which were also pushed up by the raising of some airport fees. The effect of these factors was offset by the savings achieved through implementation of the measures established in the Director Plan 2003/05, particularly those relating to the new in-flight service in economy class on short and medium-haul flights, the improved employee productivity, the lowering of fleet insurance premiums and the new travel agency remuneration model. The dollar devaluation and the lowering of interest rates also had a favourable effect on expenses.

The cost of fuel rose by 17.4% year on year to €653.5 million in 2004, accounting for 14.2% of the total operating expenses of the Iberia Group (1.7 percentage points more than its weight in 2003). The causes behind this increase were the growth in traffic and, in particular, the hike in the price of oil and its refined products on the markets in 2004. Before hedging, the average annual dollar price of kerosene rose by more than 30% in respect of 2003 levels. The price hedges made by the company, which reduced the fuel costs by €80.7 million in 2004, together with the depreciation of the dollar and reduction of unit consumption, partly offset the increase caused by the rising prices. The unit cost of fuel was thus 1.07 euro cents per ASK, 7.9% more than last year.

The annual cost of fleet maintenance (including spare parts, sub-contracts and provisions for large repairs) rose 15.5% to €272.1 million. Excluding the increased capacity, the unit maintenance cost (per ASK) increased by 6.3%, for the following reasons: special work done on own aircraft, particularly to refurbish the interiors of aircraft used on short and medium-haul flights, and the return of aircraft, under the fleet renewal plan; an increase in activity for third parties, also reflected in technical assistance revenues (the greatest impact occurring in the last quarter of the year); and finally, reclassification of the maintenance reserves for the Boeing B-747/300 payable to the lessor, which were included in the aircraft rentals in 2003.

Personnel expenses totalled €1,423.3 million in 2004, rising 4.2% in comparison with the previous year, due mainly to the application of agreed pay rises (Consumer Price Index for 2004 plus consolidation of the increase corresponding to the Share in Improved Results 2003, together with the profit bonus for 2004), the effect of slippages and, to a lesser extent, the 1.0% rise in the headcount. Part of the increased cost due to these factors was offset by the improved salary mix achieved through the redundancy proceedings.

The unit personnel expense was brought down by 4.2% from 2003, mainly through more productivity in all staff categories. In 2004, the equivalent cabin crew headcount rose by 0.7%, while productivity (measured in commercial block hours per manpower equivalent) improved by 5.4% for technical crew and 5.8% for flight attendants. The average ground staff headcount grew by 1.1%, mainly to cover the increased handling services for third parties. If handling staff was excluded, the equivalent headcount of the remaining ground staff would be 2.6% less than in 2003, while its productivity (measured in ASK per employee) would improve by 11.6%.

Another of the strategic lines of the Director Plan is fleet utilisation. In 2004 the total average fleet utilisation increased by 3.9% year on year to 9.12 block hours per aircraft per day, with a 7.3% increase in the utilisation of own long-haul aircraft. In 2004 the Company started to increase the number of seats per aircraft, while maintaining the pitch, in the short and medium-haul fleet; by the end of 2004, 50 aircraft had been modified.

Commercial expenses were cut drastically, by €95.3 million (21.8%) in 2004, to €342.5 million. This was achieved mainly as a result of introducing the new remuneration model for travel agencies in Spain, which lowered the basic commission paid to them by Iberia to 3% in the first six months and 2% in the second half of the year (compared to 6.5% paid in 2003). Other measures that helped to reduce commercial costs were: the gradual extension of the policy for reducing commissions to other countries; the interline agreement between **oneworld** companies; and the increased turnover achieved through the direct sales systems (Iberia.com and Serviberia).

The ratio of net commercial expenses (lowered by commission revenues) to traffic revenues came down 2.5 percentage points to 5.7%; and the unit commercial cost (per ASK) fell by 28.1% year on year.

The aggregate cost of “In-flight services” and “Catering materials” was brought down by €29.6 million, or 24.4%, from the previous year. This was achieved mainly as a result of the new in-flight “à la carte” service, another of the cost saving measures contemplated in the Director Plan, which was introduced on 1 March in the economy class of most medium-haul international flights (those with a duration of less than three hours) and all domestic flights (as from 1 June on routes to the Canary Islands). In addition, the application of the global catering contract signed with Gate Gourmet and the renegotiation of other supply contracts further reduced the in-flight service expense, the unit cost of which (per ASK) dropped by 30.5% in respect of the previous year.

Finally, the insurance cost was also brought down substantially, by 28% year on year, mainly through renegotiation of the premiums.

The unit operating cost of the Iberia Group was 7.54 euro cents per ASK, down 5.0% from 2003. If the fuel cost is excluded in both years, the unit cost is down 6.8%, which means that significant progress has been made towards meeting the objective set in the Director Plan to reduce the unit cost.

#### Fourth quarter

Consolidated operating expenses increased by 2.6% in 2004, to €1,176.5 million in the last quarter of 2004. The growing savings achieved through the implementation of the measures of the Director Plan partly offset the increased costs generated by more activity and, above all, as a result of the sharp rise in fuel prices, which marked a new all-time high in October.

The fuel cost increased by €52.6 million in the fourth quarter of 2004, 37.1% year on year, in spite of the favorable effect of price hedging and dollar depreciation. In unit terms, the cost of fuel rose 27.7% from 2003 to 1.24 euro cents per ASK.

On the contrary, the unit costs of some items were reduced considerably during the last quarter of the year: the unit commercial cost came down 39.5% year on year, while the unit cost of in-flight services (including catering consumption) fell by 36.3%. Consequently, the unit operating cost fell by 4.5% in respect of the same period of 2003, to 7.49 unit cents per ASK. If fuel costs are excluded, the drop in unit cost is 9.0%, which is the largest quarterly reduction obtained during 2004.

## Financial, Extraordinary and Other Non-Operating Results

Iberia recorded a financial result of €20.8 million in 2004, more than €24 million up on than the balance recorded in the previous year, largely due to a €22.1 million improvement in the net balance of exchange differences, mainly in the last quarter, essentially due to the realization of some positive exchange rate hedges associated to fleet financing. The cumulative annual gain on exchange differences was €15.4 million.

Financial revenues totalled €42.1 million, down 21.5% on last year, while financial expenses were reduced by a greater proportion, 26.9%, to €36.7 million in 2004. In both cases, the recording of non-recurring items in 2003 was important: in financial revenues, a gross capital gain of €11.5 million had been recorded (corresponding to the sale of Iberia's stake in "Tiempo Libre" and the "Mundicolor" brands); and in expenses, provisions had been made for the value of €16.2 million (covering the interests held in the companies Opodo and Cordiem).

The net balance of Iberia's share in the income of companies carried by the equity method was €47.1 million in 2004, €3.2 million better than in 2003. This chapter corresponds basically to Iberia's participation in Amadeus, which increased its net income once again this year.

A net extraordinary income of €18.6 million was obtained in 2004, slightly up on the figure recorded in the previous year. Extraordinary revenues totalled €206.9 million, including the following most significant items: more than €34 million correspond to the sales of different buildings and premises; sales of interests held in Iber-Swiss Catering and Viva Tours, together with the trademark Viva Tours, generated revenues of over €34.6 million; approximately €22.6 million on the sale of flight simulators to the company Servicios Instrucción Vuelo; and the recovery of deferred revenues, in a sum of almost €25 million. Extraordinary expenses, totalling more than €188 million in 2004, included a provision of almost €106 million to adjust the funds in Iberia's redundancy plan and its extension made during 2004; they also include other expenses and amortizations relating to the fleet renewal plan (mainly deriving from the returns of B-757 aircraft and retirement of the B-747).

## Net Debt to Equity

On 31 December 2004, Iberia had a total shareholders' equity of €1,645.8 million, €222.5 million more than at the close of the previous year (on homogenous terms), as a result of increasing all the reserves, the improvement in the profit for the year compared to 2003 and, to a lesser extent, the capital increase made by the company, through successive issues of ordinary shares deriving from the employee stock option plan.

The in-balance sheet net debt increased considerably, amounting to -€1,152.9 million on 31 December 2004, compared to -€939.6 million at the close of 2003. In both cases, the balance of the financial accounts in current assets was greater than the amounts due to credit institutions, excluding the interest on leases. At the close of 2004, the liquid assets (short-term financial investments and cash) totalled €1,546.6 million, €170.7 million more than at year-end 2003. Interest-paying debt (not including interest payable on financial leases) totalled €393.7 million on 31 December 2004, down €42.6 million on the balance recorded at the close of 2003.

The adjusted net debt, which includes the capitalisation of operating leases, down 7.8% from December 2003, stood at €1,697.2 million, in spite of the incorporation of new fleet under operating lease. This reduction is basically due to the positive effect of the exchange and interest rates on the aircraft rentals. Leverage, measured as adjusted net debt over total resources, was down 5.6 percentage points from 31 December 2003, at 50.8%.

In December 2004 Iberia launched a structured financing transaction of 20 aircraft that will be used in the short and medium haul. It is a financial transaction derived from an issue of securitised bonds (Iberbond 2004), debt and Japanese equity.

## Operating Fleet and Variations

On 31 December 2004, Iberia's operating fleet consisted of 154 aircraft, used for passenger and cargo, five more than at the end of the previous year. The short and medium-haul fleet was made up of 125 aircraft, and 29 for long-haul flights.

The company proceeded with its fleet renewal and expansion plan during the year. With the two new aircraft (an A-321 and an A-319) that arrived in December, Iberia added a total of nine Airbus to its short and medium-haul fleet: four A-320, three A-321 and two A-319. It also added three A-340/600 to its long-haul fleet in the fourth quarter of 2004; and two Boeing B-747 have been operating under a wet lease since July.

Two A-320 and four B-757 under operating leases were retired during the year, three of them in the last quarter of 2004. Three owned B-747 were also retired (two of them during the fourth quarter of the year).

## **Subsidiaries and Other Business Interests**

The consolidation perimeter of the Iberia Group has been modified since the close of 2003. In April 2004, the Spanish antitrust authorities allowed the purchase by Gate Gourmet International of the 70% stake held by Iberia in Iber-Swiss Catering, S.A. This company was consequently excluded from the group of fully consolidated companies. On the other hand, Binter Finance joined the group. The inclusion of this company, which is responsible for Iberia's international cash positions, had an insignificant effect on the consolidated accounts of 2004.

Cacesa posted a profit before tax of €1.3 million in 2004, €0.2 million more than at year-end 2003. Savia obtained a profit before tax of €7.6 million in 2004, €0.3 million less than in 2003.

Iberia and CAE, a company specialising in the manufacturing of advanced simulation and control technologies and integrated training services, set up a flying instruction joint venture called Sociedad de Instrucción de Vuelo, S.L. in February 2004, under a preliminary agreement made in October 2003. The company started up in May 2004.

In early January, the reference shareholders of Amadeus Global Travel Distribution, S.A. (Iberia, Air France and Lufthansa) entered into negotiations with the consortium formed by BC Partners and Cinven, which had made them an offer to jointly, through a new company, launch a takeover bid (OPA) for 100% of the Class A shares of Amadeus GTD, at a price of 7.35 euro per share.

In January 2005, the Board of Directors approved the opening of negotiations, to sell the 66% stake held in Sistemas Automatizados Agencias de Viajes, S.A. (SAVIA) to the other owner of the subsidiary (Amadeus GTD).

Madrid, 28th February 2005