Full Year Results
January-December 2005

Main Figures (not audited) (a)

IBERIA GROUP	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
€ thousand	2005	2004	%	2005	2004	%
Revenues from operating activities	1.225.006	1.292.760	-5,2	5.603.060	4.964.838	12,9
Costs from operating activities	1.269.910	1.287.738	-1,4	5.225.421	4.786.682	9,2
Profit/loss from operating activities	-44.904	5.021	n.s.	377.639	178.157	112,0
EBITDAR (b)	157.484	187.821	-16,2	699.742	749.382	-6,6
Operating Income EBIT (b)	7.184	38.399	-81,3	116.416	181.116	-35,7
Consolidated income after taxes	-5.957	49.813	-112,0	395.845	199.872	98,0
Total shareholders' equity (c)	---	---	---	1.739.602	1.657.211	5,0
In-balance sheet net debt (c)	---	---	---	-1.159.702	-1.171.184	-1,0
Adjusted net debt x 8 (c)	---	---	---	1.721.812	1.678.916	2,6
ASK (million)	15.864	15.700	1,0	63.628	61.058	4,2
RPK (million)	12.082	11.398	6,0	49.060	45.924	6,8
Load factor (%)	76,2	72,6	3,6 p.	77,1	75,2	1,9 p.
Passenger revenues	920.674	871.665	5,6	3.610.040	3.432.140	5,2
Yield (€ cent)	7,62	7,65	-0,4	7,36	7,47	-1,5
Passenger Revenue / ASK (€ cent)	5,80	5,55	4,5	5,67	5,62	0,9
Operating revenue/ASK (€ cent)	7,97	7,74	3,1	7,75	7,85	-1,3
Operating expense/ASK (€ cent)	7,93	7,49	5,8	7,56	7,55	0,2
Operating expense (exc fuel)/ASK (€ cent)	6,25	6,25	0,0	6,20	6,48	-4,3

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 2005.
(b) Non recurrent revenues and expenses are not included.
(c) December 2005 v December 2004. (See notes page 3).
Number of shares as at 31-December 2005: 943.161.939; 31-Dec-2004: 937.467.468

Highlights

- IBERIA posted a consolidated income after tax of €395.8 million in 2005, up 98% year on year. This figure includes the gain obtained on the sale of Amadeus and SAVIA (€663 million) and two extraordinary provisions: one to cover the Redundancy Plan (€280 million) and the other to adjust the value of the short and medium haul fleet that has to be renewed (€105 million), both measures contemplated in the new Director Plan 2006/08.
- Operating income decreased by 35.7% year on year, due largely to the hike in fuel prices (around 42% before hedging) and the weak yields in the first half of the year, despite the good performance of the load factor in all sectors.
- Unit operating cost (excluding fuel) fell by 4.3% in accordance with the Director Plan forecast. Staff productivity (in terms of ASK/ employee) rose by 7%.
- In the last quarter of the year unit operating revenue had a better performance thanks to the strong demand and the improvement of the mix especially in the long haul. The results were negatively affected by the hike in fuel price, the single payment derived from the agreement with the ground staff and the change in the accounting criteria regarding the participation in WAM/Amadeus.
- Iberia has successfully achieved the cost savings targets contemplated in the Director Plan 2003-2005. In the last quarter of the year the Company approved a new three-year Plan which will allow Iberia to maintain a demanding level of profitability and return on assets.

Consolidated Statements of Income (not audited) (a)(d)

€ thousand	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2005	**2004**	**%**	**2005**	**2004**	**%**
Profit/loss from operations (b)	**-44.904**	**5.021**	**n.s.**	**377.639**	**178.157**	**112,0**
Revenues from operating activities	**1.225.006**	**1.292.760**	**-5,2**	**5.603.060**	**4.964.838**	**12,9**
Net sales	**1.218.225**	**1.166.150**	**4,5**	**4.759.413**	**4.601.665**	**3,4**
Passenger revenues (c)	986.084	948.830	3,9	3.883.866	3.757.800	3,4
Cargo revenues	93.385	69.874	33,6	313.278	261.630	19,7
Handling	71.205	70.726	0,7	322.088	302.435	6,5
Technical assistance to airlines	49.258	31.915	54,3	155.723	112.435	38,5
Other revenues	18.293	44.804	-59,2	84.458	167.366	-49,5
Other operating revenues	**6.780**	**126.610**	**-94,6**	**843.647**	**363.173**	**132,3**
Net gain on sales of non-current assets	-47.728	10.017	n.s.	656.750	94.461	n.s.
Sundry revenues	46.380	48.234	-3,8	169.714	190.882	-11,1
Other non recurrent revenues	8.129	68.359	-88,1	17.184	77.831	-77,9
Costs from operating activities	**1.269.910**	**1.287.738**	**-1,4**	**5.225.421**	**4.786.682**	**9,2**
Procurements	**313.648**	**249.683**	**25,6**	**1.061.624**	**851.945**	**24,6**
Aircraft fuel	265.426	194.294	36,6	865.935	653.518	32,5
Aircraft spare parts	37.038	43.163	-14,2	152.310	154.934	-1,7
Catering materials	5.654	5.322	6,2	23.246	22.694	2,4
Other purchases	5.530	6.904	-19,9	20.133	20.800	-3,2
Personnel expenses	**372.950**	**436.793**	**-14,6**	**1.733.209**	**1.542.176**	**12,4**
of which: Non recurrent	5.873	81.392	-92,8	290.873	113.892	155,4
Depreciation and amortization	**44.873**	**57.146**	**-21,5**	**282.330**	**199.959**	**41,2**
of which: Accelerated fleet depreciation	-	10.099	n.a.	104.600	16.099	n.s.
Variation in operating provisions	**527**	**1.604**	**-67,2**	**4.309**	**5.330**	**-19,2**
of which: Non recurrent	-	-5	n.a.	-	-5	n.a.
Other operating costs	**537.913**	**542.513**	**-0,8**	**2.143.949**	**2.187.271**	**-2,0**
Aircraft leases	105.426	102.375	3,0	405.596	384.405	5,5
Operating leases	88.632	91.647	-3,3	348.323	353.563	-1,5
Wet leases	13.073	6.729	94,3	42.477	15.525	173,6
Cargo wet leases	3.721	3.999	-6,9	14.797	15.317	-3,4
Other rent	19.351	20.484	-5,5	76.286	78.346	-2,6
Fleet maintenance (subcontracts)	38.913	24.819	56,8	142.621	111.919	27,4
Commercial expenses	64.119	79.133	-19,0	259.622	348.578	-25,5
Air traffic levies and charges	104.893	104.618	0,3	427.906	415.810	2,9
Navigation-other communication aids	68.586	68.712	-0,2	276.441	270.533	2,2
In flight services	16.154	15.234	6,0	63.178	68.967	-8,4
Booking systems	29.595	27.252	8,6	139.747	130.347	7,2
Insurance	8.390	8.829	-5,0	33.084	36.584	-9,6
Other expenses	82.484	91.057	-9,4	319.469	341.781	-6,5
of which: Non recurrent costs	6.616	20.267	-67,4	17.238	45.265	-61,9

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.
(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.

Miles de €	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2005	**2004**	**%**	**2005**	**2004**	**%**
Financial results	**9.268**	**20.671**	**-55,2**	**13.180**	**20.751**	**-36,5**
Financial revenues	22.741	13.535	68,0	58.904	42.124	39,8
Financial expenses	11.995	9.093	31,9	46.076	36.781	25,3
Exchange gains/losses	186	16.229	-98,9	-139	15.408	-100,9
Results from ineffective hedging instruments	-1.664	-	n.a.	492	-	n.a.
Income from investments accounted for using the equity method	**9.973**	**13.904**	**-28,3**	**2.508**	**45.352**	**-94,5**
Consolidated income before taxes	**-25.664**	**39.595**	**-164,8**	**393.327**	**244.260**	**61,0**
Taxes	19.707	10.218	92,9	2.518	-44.388	105,7
Consolidated income after taxes	**-5.957**	**49.813**	**-112,0**	**395.845**	**199.872**	**98,0**
Minorities	113	-77	246,5	230	1.587	-85,5
Attributed income for the period	-6.070	49.890	-112,2	395.615	198.286	99,5

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

(d)) 2004 figures elaborated, only for informative purposes, applying IAS 32 since 01/01/04, in reference to treasury stocks and convertible debentures, for a more homogeneous comparison year-on-year

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 31st of December 2005 implied an increase of Short term financial investments of 43,500 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. Annual Leases expenses amounted to €368,984 thousand in 2004 and €374,113 in 2005. The result is multiplied by 8 to get the capitalized operating leases. The figure for 2005 excludes the lower expense corresponding to the valuation of hedging (29,627 thousand €) as well as the leasing of five A340 which were incorporated in December (32,473 thousand €).

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 December 2005: 6% of 167.882 MM/ € x 8 = €80.583 thousand
For December 2004: 6% of 145.400 MM/ € x 8 = € 69.792 thousand

Consolidated Balance Sheet (not audited) (a)(b)

€ thousand	**Dec–2005**	**Dec–2004**
ASSETS	**5.565.002**	**4.763.239**
Fixed assets	**2.742.363**	**2.531.179**
Intangible assets	47.417	45.439
Property, plant and equipment	1.466.597	1.368.634
Long term financial investments	743.832	704.266
Iberbus loans	*167.882*	*145.400*
Iberbond bonds	*30.810*	*31.980*
Other	*545.140*	*526.886*
Long-term receivables	484.517	412.840
Deferred charges	**7.857**	**4.796**
Current assets	**2.814.782**	**2.227.264**
Inventories	114.681	87.420
Accounts receivable	647.268	551.798
Short term financial investments	1.207.869	1.000.632
Cash and cash equivalents	821.439	566.460
Accrual accounts	23.525	20.954
LIABILITIES	**5.565.002**	**4.763.239**
Shareholders´ equity	**1.739.602**	**1.657.211**
Capital stock	735.666	731.225
Stock premium	111.285	106.501
Reserves of the parent company	634.162	516.368
Reserves at consolidated companies	143.033	99.853
Translation differences	-176	-344
Income attributable to the parent company	395.615	198.285
Interim dividends	-281.026	-
Minorities	1.043	5.323
Deferred revenues	**31.850**	**22.656**
Provisions for contingencies and expenses	**1.381.179**	**1.211.160**
Long-term debt	**740.177**	**362.931**
Convertible debentures	8.728	16.649
Payable to credit entities	696.954	331.627
Other accounts payable	34.495	14.655
Current liabilities	**1.672.194**	**1.509.281**
Convertible debentures	8.728	8.324
Payable to credit entities	111.696	39.308
Other accounts payable	1.542.681	1.458.378
Accrual accounts	9.089	3.271

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 2005.

(b) 2004 figures elaborated, only for informative purposes, applying IAS 32 since 01/01/04, in reference to treasury stocks and convertible debentures, for a more homogeneous comparison year-on-year

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

€ thousand	Acumulado (Jan – Dec)	
	2005	**2004**
Income before taxes	**393.327**	**244.260**
Depreciation	282.330	199.959
Variation in provisions	370.658	216.490
Income from investments accounted for using the equity method	-2.508	-45.352
Adjustment of deferred revenues and charges	-46	-7.842
Application of provisions (b)	-189.986	-121.324
Other cash flow adjustments (c)	-719.506	-41.771
Cash Flow from operating activities	**134.269**	**444.420**
Net capital expenditures on tangible and intangible fixed assets	35.924	-186.574
Net capital expenditures on financial and other non current assets (c)	574.211	-66.135
Current financial assets and other	-166.692	-227.817
Cash Flow from investing activities	**443.443**	**-480.526**
Dividends paid	-322.482	-29.090
Capital increase	9.224	16.411
Movement in financial debt	-9.475	-45.258
Cash Flow from financing activities	**-322.733**	**-57.937**
Net Cash Flow	**254.979**	**-94.043**
Cash and cash equivalents at the beginning of period	566.460	660.503
Cash and cash equivalents at the end of period	821.439	566.460

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 2005.
(b) 2004 figures elaborated, only for informative purposes, applying IAS 32 since 01/01/04, in reference to treasury stocks and convertible debentures, for a more homogeneous comparison year-on-year
(c) Mainly Redundancy Plan and aircraft devolutions.
(d) Includes the sale of Amadeus and SAVIA.
(e) 5 A 340-300 under operating lease that have been incorporated to the balance sheet at the end of year 2005 and its corresponding debt are not included, as they do not generate any cash movement

Operating Statistics

IBERIA GROUP (a)	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2005	2004	%	2005	2004	%
SCHEDULED TRAFFIC						
Passengers (thousand)	**6.596**	**6.329**	**4,2**	**27.675**	**26.692**	**3,7**
Domestic	3.663	3.536	3,6	15.415	14.874	3,6
Medium Haul	2.059	1.944	5,9	8.745	8.307	5,3
Europe	1.930	1.838	5,0	8.231	7.909	4,1
Africa & Middle East	128	106	21,3	514	398	29,1
Long Haul	875	849	3,0	3.515	3.511	0,1
ASK (million)	**15.864**	**15.700**	**1,0**	**63.628**	**61.058**	**4,2**
Domestic	3.414	3.396	0,5	14.028	13.831	1,4
Medium Haul	4.116	4.075	1,0	16.664	16.060	3,8
Europe	3.673	3.675	-0,1	14.872	14.650	1,5
Africa & Middle East	443	400	10,7	1.792	1.410	27,1
Long Haul	8.334	8.229	1,3	32.936	31.168	5,7
RPK (million)	**12.082**	**11.398**	**6,0**	**49.060**	**45.924**	**6,8**
Domestic	2.437	2.305	5,7	10.219	9.883	3,4
Medium Haul	2.727	2.514	8,5	11.456	10.595	8,1
Europe	2.425	2.257	7,5	10.236	9.661	6,0
Africa & Middle East	302	257	17,6	1.220	933	30,7
Long Haul	6.917	6.579	5,1	27.385	25.446	7,6
Load factor (%)	**76,2**	**72,6**	**3,6 p.**	**77,1**	**75,2**	**1,9 p.**
Domestic	71,4	67,9	3,5 p.	72,8	71,5	1,4 p.
Medium Haul	66,3	61,7	4,6 p.	68,7	66,0	2,8 p.
Europe	66,0	61,4	4,6 p.	68,8	65,9	2,9 p.
Africa & Middle East	68,2	64,3	4,0 p.	68,1	66,2	1,8 p.
Long Haul	83,0	80,0	3,0 p.	83,1	81,6	1,5 p.
CARGO						
Cargo Tones	65.447	67.764	-3,4	234.586	238.142	-1,5
ATK (million)	412	382	7,9	1.589	1.406	13,1
RTK (million)	293	306	-4,1	1.033	1.033	-0,0
Load factor (%)	71,2	80,1	-8,9 p.	65,0	73,5	-8,5 p.
PASSENGER REVENUES						
Revenues (€ thousand)	920.674	871.665	5,6	3.610.040	3.432.140	5,2
Revenue / ASK (€ cent)	5,80	5,55	4,5	5,67	5,62	0,9
Revenue / RPK (€ cent)	7,62	7,65	-0,4	7,36	7,47	-1,5

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

KPI (not audited) (a)

IBERIA GROUP	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2005	2004	%	2005	2004	%
Unit Ratios (€ cent/ASK)						
OPERATING REVENUE	7,97	7,74	3,1	7,75	7,85	-1,3
OPERATING COST	7,93	7,49	5,8	7,56	7,55	0,2
Fuel	1,67	1,24	35,2	1,36	1,07	27,2
Fleet Maintenance	0,48	0,43	10,6	0,46	0,44	6,1
Spare parts	0,23	0,27	-15,1	0,24	0,25	-5,7
Maintenance (subcontracts)	0,25	0,16	55,2	0,22	0,18	22,3
Personnel	2,31	2,26	2,2	2,27	2,34	-3,1
Aircraft Leases	0,66	0,65	1,9	0,64	0,63	1,3
Commercial	0,40	0,50	-19,8	0,41	0,57	-28,5
Air Traffic Levies and charges	0,66	0,67	-0,8	0,67	0,68	-1,2
Navigation aids	0,43	0,44	-1,2	0,43	0,44	-1,9
In-flight services and catering materials	0,14	0,13	5,0	0,14	0,15	-9,5
Rest	1,16	1,17	-0,4	1,18	1,23	-3,8
Net fleet maintenance (b)	0,32	0,33	-2,4	0,34	0,34	-1,1
Net commercial cost / traffic passenger and cargo revenue (%) (c)	4,2	5,1	-0,9 p.	4,3	5,9	-1,6 p.
Productivity						
Average fleet utilization (block hours/aircraft/ day)	9,00	9,15	-1,6	9,13	9,12	0,1
Annual average headcount	23.845	24.783	-3,8	24.348	24.993	-2,6
ASK / Employee	665	633	5,0	2.613	2.443	7,0
Ground	899	855	5,2	3.518	3.288	7,0
Ground (without handling)	1.754	1.643	6,7	6.982	6.365	9,7
Block hours / Technical crew	66,6	64,5	3,2	265,2	254,3	4,3
Block hours / Flight attendant	30,3	29,7	1,7	120,4	116,5	3,3

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from 2005.
(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).

Flota operativa

IBERIA GROUP (a)	December 2005	September 2005	December 2004
Long Haul	**30**	**31**	**29**
Owned	5	0	2
Financial lease	0	0	0
Operating lease	23	27	25
Wet lease	2	4	2
Short and Medium Haul	**123**	**120**	**125**
Owned	40	41	46
Financial lease	14	13	12
Operating lease	65	64	67
Wet lease	4	2	0
Total	**153**	**151**	**154**
Owned	45	41	48
Financial lease	14	13	12
Operating lease	88	91	92
Wet lease	6	6	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 attributed income for the period (after tax and minority interests) totalled €395.6 million in 2005, an all-time best in the Iberia Group, practically doubling the income recorded last year. The accounts of both periods have been calculated in accordance with the International Financial Reporting Standards (IFRS), except IAS 39, which is applied as from January 2005.

Profit from operations was €377.6 million, €199.5 million more than in 2004, a growth of 112%. These profits include non-recurring revenues and expenses, with a positive net balance of €261.2 million in 2005.

Revenues from operating activities increased by 12.9% year on year, including non-recurring revenues of €673.9 million, corresponding largely to the capital gain generated on the sale of stakes in SAVIA and Amadeus (€663.3 million). Costs from operating activities were 9.2% higher than last year, including non-recurring expenses valued at €412.7 million in 2005. These expenses include a provision of €280 million for the redundancy plan contemplated in the Director Plan 2006/2008 and an extraordinary provision of €105 million for the write-off of the McDonnell Douglas fleet, to be replaced with new Airbus aircraft over the next two years.

The operating income, excluding non-recurring items, reached €116.4 million in 2005, down €64.7 million on last year, due mainly to the hike in fuel prices, which pushed this cost up by more than €212 million. Excluding fuel expenses, which rose by more than 27% in unit terms, the operating profit per ASK is 12.9% higher than in 2004. The Iberia Group generated an EBITDAR of €699.7 million, down 6.6% year on year.

Operating revenues were €4,929.1 million in 2005, 2.8% more than last year. Passenger revenues totalled €3.883,9 million, up 3.4% on 2004, due mainly to the growth in traffic. The aggregate amount of other operating revenues rose 1%, pulled back by the commission reduction policy and the exclusion of Savia from consolidation, the effect of which counteracted part of the increase in other business revenues, which had followed a positive trend, especially revenues from third party maintenance.

Operating expenses amounted to €4,812.7 million in 2005, 4.4% more than last year, due mainly to the afore-mentioned hike in the price of kerosene, which rose by around 42% on the European market. If we exclude the fuel expense in both years, the aggregate amount of the remaining operating expenses is down 0.3% year on year and the unit cost is down 4.3%.

The net balance of Iberia's share in the income from investments accounted for using the equity method was €2.5 million in 2005, almost €43 million less than the previous year's income (€45.4 million) due to the exclusion of Amadeus from the Group.

The company achieved a consolidated income before tax of €393.3 million in the period, a 61% year-on-year growth. Taxes helped to improve the net income for the year by €2.5 million, essentially through tax benefits coming from reinvestments. As a result, Iberia posted a consolidated net income of €395.8 million in 2005, up 98% year on year.

Fourth Quarter

The company recorded a consolidated loss of €6 million in the fourth quarter of 2005, against the net income of €49.8 million obtained in the same period of 2004. Part of this drop is due to the difference in the net balance of non-recurring revenues and expenses, of -€52.1 million in 2005, €18.7 million worse than the also negative result recorded in the fourth quarter of 2004 (-€33.4 million).

Iberia posted an operating income of €7.2 million in the fourth quarter of 2005, €31.2 million less than the figure recorded in the same period last year. Operating revenues totalled €1,264.6 million, up 4.1% year on year, with a 3.9% growth in passenger revenues, thanks to the increase in traffic and the significant improvement in unit revenues on international flights. Operating expenses totalled €1,257.4 million, 6.9% more than last year, pushed up mainly by the afore-mentioned increase in the fuel expense. Fuel unit cost of which rose by more than 35% year on year, despite hedging and a more efficient fleet.

The aggregate amount of financial result and shares in the income from investments accounted for using the equity method stood at €19.2 million in 4Q2005, €15.3 million less than the profits obtained in the same period of 2004, due mainly to the lower net balance of exchange differences. Iberia thus posted a consolidated net loss before tax of €25.7 million, against a profit of €39.6 million recorded in the same period of last year.

There was a significant change in the fourth quarter in the accounting principle applied to our stake in WAM, which is no longer recorded as an associated company (and, as such, consolidated by the equity method) but as an asset available for sale. This produced a negative adjustment of around €43 million in the net income; without this adjustment, the year-on-year variation in fourth quarter net income would have been only €12 million.

Capacity and demand

The load factor rose 1.9 percentage points year on year to 77.1%, an all-time best for the company. The revenue passenger kilometers (RPK) rose 6.8% over last year, compared to a 4.2% increase in capacity. The growth in traffic and improved load factor were somewhat better than the average recorded by the leading network European airlines; for the companies included in the Association of European Airlines (AEA), the year-on-year growth in RPK was 6.3%, while the load factor improved by 1.4 points.

In 2005 the company carried a total of 27.7 million passengers, almost one million more than last year, representing a 3.7% growth. The average stage length grew by 3% especially in the on long-haul flights (7.5%). The main cause of this development was the restructuring of Central American flights as from October 2004, closing the Miami hub, reducing the frequency of flights to this airport and the establishment of new direct connections between Spain and Central America (Costa Rica, Guatemala and Panama).

The reconfiguration of passenger cabins in several models of the fleet, increasing the number of seats per aircraft without reducing the pitch, accounts for part of the increase in capacity. It was thus possible to increase the available seat kilometers (ASK) by 1.3% over last year in the long-haul sector (through reconfiguration of the A340 fleet) and 3.7% in the short and medium-haul sectors (A319, A320, A321 and MD87 fleets), with an overall increase of 2.5% for the entire network.

Iberia adjusted its flight programme over 2005, aiming at the improvement of the network profitability. The year-on-year increase in capacity was greater in the first half (6.1%) than in the second half of the year (2.4%). Traffic showed a good performance on most markets.

The greatest increase in capacity in 2005 was on long-haul flights, where it was up 5.7% year on year. The RPK rose by 7.6% and the load factor by 1.5 points to 83.1%, the highest ever recorded by the company.

During 2005 Iberia continued to consolidate its leadership on the Europe-Latin America market, reaching a 17.5% share, 0.3 points higher than in 2004. The airline's share of business traffic on this market was 19.2% in 2005, also a 0.3 point improvement on 2004. The launching of the new Business Plus class in the spring of 2005 and the increase in frequencies and direct connections helped in these improvements.

Half of the increased capacity across all markets, in absolute terms, corresponded to the South Atlantic flights, which grew by 14.7% year on year, with a 13.3% increase in RPK and a load factor of 83.4%.

The performance of Central American flights was excellent following the above-mentioned restructuring, which greatly improved the product. With the new design, the routes operated by Iberia are complemented with extensive codesharing agreements with the TACA group and extended routes under the agreements with American Airlines and Mexicana. 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 5.1%, compared to a 1.8% increase in capacity, pushing the load factor up 2.6 points to over 83%.

The greatest increase in load factor (2.8 percentage points year on year) was recorded in the international medium-haul sector, thanks to the steady growth of traffic during 2005 (8.1%) and, in particular, to its outstanding performance in the second half of the year (up 9.1%). On flights between Spain and the rest of Europe, a highly fragmented market characterised by the boom of low cost carriers, the RPK rose by 6% year on year, against a 1.5% growth in capacity, producing a 2.9 points improvement in the load factor for the whole year, although the increase was by 4.8 points in the second half of 2005. The largest growths in traffic -in relative terms- corresponded to Denmark, Turkey, Portugal and Greece, while the Madrid-Moscow route has also maintained a positive evolution since it started in March 2005. In Africa and the Middle East, the increases in capacity and traffic were 27.1% and 30.7%, respectively.

The Spanish domestic market grew by 12% in 2005 (according to AENA data), partly due to the strong increases in capacity from other competitors. In this context, Iberia maintained its strategy of selective growth, with a 1.4% increase in capacity year on year. RPKs increased by 3.4%, improving the load factor by 1.4 percentage points to 72.8%. Both traffic and the load factor rose over 2005, with increases in the second half of 4.9% and 3.2 percentage points, respectively, over the same period of last year.

In cargo, the revenue tonne kilometers (RTK) totalled 1,033 million in 2005 (94% of which was carried in the bellies of passenger aircraft), remaining stable in respect of last year, due to the priority given to increasing the price rather than volume.

Fourth Quarter

The ASKs rose by 1.0% over the fourth quarter of 2004, while traffic growth kept up a good pulse, especially on short and medium haul flights; the RPKs increased by 6.0% year on year for the entire network. The largest increases in load factors were recorded in the fourth quarter, reaching company records. Load factor improved by 3.6 percentage points year on year, to 76.2%. Iberia carried 6.6 million passengers during this period, 4.2% more than in 2004.

The load factor on long-haul flights was 3.0 points higher than in 4Q2004, at 83.0%, while traffic increased by 5.1% and the capacity by 1.3%. This increase in capacity is considerably lower than that recorded up to September (7.2%), partly due to the progressive withdrawal of the B747 and its replacement with the A340/600 (a model with less seats). On South Atlantic flights, capacity and traffic increased by 5.8% and 8.7%, respectively, with a particularly outstanding growth on flights to Uruguay; the load factor improved by 2.3 points to 85.9%. On Mid-Atlantic flights, the load factor was up 3.2 points to almost 82%, with a 3.9% increase in capacity and 8.2% in traffic. In the North Atlantic sector, ASKs dropped by 16.2% and traffic by 12.1%, while the load factor improved by 3.7 percentage points to 79.9%.

The fourth quarter saw another impressive increase in the load factor in Europe, up 4.6 points year on year to 66.0%; capacity remained at a very similar level to last year, while RPKs rose by 7.5% practically across all markets. In Africa and the Middle East, capacity and traffic rose by 10.7% and 17.6%, respectively, improving the load factor by 4.0 percentage points year on year. Traffic increased by 8.5% for the medium haul sector as a whole, against a 1% increase in ASK, improving the load factor by 4.6 percentage points to 66.3%.

On the domestic market, RPKs increased by 5.7%, with a slight increase in capacity (0.5%) over last year, as a result of which the load factor improved by 3.5 points to 71.4%.

Revenues from operating activities

Revenues from operations totalled €5,603.1 million in 2005, €638.2 million (12.9%) more than last year. due to the increase in non-recurring revenues ("Net gain on sales of non current assets" and "Other non-recurring revenues"), amounting to €673.9 million in 2005 and €172.3 million in 2004.

The "Net gain on sales of non current assets " reached €656.8 million in 2005, including the capital gain of €663 million obtained on the sale of the stakes in SAVIA and Amadeus; the remaining sum corresponds mostly to fleet renewal transactions. In the same period of last year, net gains totalled €94.5 million, mainly deriving from capital gains on the sale of buildings and premises, flight simulators and stakes in Iber-Swiss Catering and Viva Tours.

Consolidated operating revenues (excluding non-recurring revenues) increased by 2.9% year on year to €4,929.1 million. Passenger revenues, accounting for almost 79% of the total operating revenues, grew 3.4% to €3,883.9 million. The aggregate sum of other operating revenues was more than €1,045 million, up 1.0% year on year, because the greater revenues generated by cargo, maintenance and handling services for third parties (€85.1 million overall, after homogenising the criteria for recording revenues from fuel and safety levies in the two years) were partially offset by the drop in other revenues (€74.6 million), due essentially to the reduced commissions and the effect of excluding SAVIA from the Group consolidation.

Passenger revenues on tickets actually flown in 2005 rose by €177,9 million (5.2%) in respect of last year, to €3,610 million. The aggregate sum of other passenger revenues was €273,9 million in 2005, down €51.8 million from 2004, due mainly to the lower revenues from cancellation of advance payments in issued but unused tickets.

Unit passenger revenue/ASK grew by 0.9% year on year, held back by the increase in average stage length (3.0%) and, to a lesser extent, by the depreciation of the dollar against the euro. Following a year-on-year drop of 2.0% in the first half of 2005, this unit revenue improved progressively over the second half of the year, increasing by 4.5% in the last quarter.

Passenger revenues in the long-haul sector were up 13.1% on 2004, at over €1,252 million, due to the increase in traffic (7.6%) and the considerable rise in unit revenues by 7.1% year on year, partly as a result of the improved mix. The 7.5% growth in average stage length and the depreciation of the dollar had an adverse effect on the unit revenue.

In the medium haul international sector, passenger revenues grew by 5.3% year on year to almost €1,120 million, with an 8.1% growth in traffic. The evolution of the yield was curbed by the strong competition from low-cost carriers on the Spain-Europe market and the increase in average stage length (2.7%). However, with the improved load factor (up 2.8 points over last year) the unit revenue was 1.5% higher than in 2004.

Competitors' capacity increased very significantly on the domestic market, making it more dynamic. Consequently, as from the end of March Iberia was forced into a more flexible revenue management and several promotions, the effect of which was partly offset by the improvement in load factor (1.4 points). The unit revenue dropped 3.3% as a result. Passenger revenues in the domestic sector totalled €1,238 million in 2005, down 1.9% year on year.

Cargo revenues reached €313.3 million in 2005, a 7.6% year-on-year growth. This increase has been calculated using the same grouping criteria for fuel surcharges and safety levies in both years and differ from those recorded on the profit and loss account. Last year those levies were included in "Other revenues" (in an aggregate sum of €29.5 million in 2004), and in "cargo revenues" as from January 2005. The quantity of tonnes-kilometer carried by Iberia in cargo and post was similar to last year, while the unit revenue improved by 7% (on homogenous criteria, including levies). The healthy performance of CACESA sales and excess baggage revenues also contributed to the increase in cargo revenues.

Handling revenues rose by 6.5% due to the growth in activity for third parties (3.4% in terms of weighted aircraft handled) and the improvement in unit revenues. In 2005 technical assistance revenues went up by 38.5%, owing to the vast increase in work done for other airlines, especially in engine overhauls.

"Other revenues" dropped by 38.8% (€53.4 million) compared to the previous year (after excluding cargo-related levies), mainly due to the exclusion of SAVIA from the Group consolidation in 2005 (had SAVIA been excluded in 2004, the consolidated revenues would have been reduced by €43.4 million that year). "Sundry revenues" fell by 11.1%, largely pulled down by the drop in passenger commissions, partly as the result of applying the new travel agency remuneration model in Spain. The interline commissions charged among the **one**world airlines have also been reduced.

Fourth Quarter

Revenues from operating activities dropped 5.2% to €1,225 million in the fourth quarter of 2005. This drop is due to the difference in the non-recurring revenues recorded in both periods (-€39.6 million in 2005, compared to €78.4 million in 2004). This big difference has to do, as it has already been said, with the adjustment of the gain obtained on the sale of shares in Amadeus originated by the change of accounting our stake in WAM from that of a "company carried by the equity method" to "asset available for sale".

The operating revenues (excluding non-recurring revenues) totalled €1,264.6 million, 4.1% more than the sum recorded in the fourth quarter of 2004. The operating revenues per ASK rose by 3.1% year on year, inverting the negative results of previous quarters.

Passenger revenues rose 3.9% to €986.1 million, of which €920.7 million corresponds to revenues from tickets actually flown in the fourth quarter of 2005, 5.6% more than last year. This effect was due to the increased traffic (up 6% in terms of RPK), achieved through the considerable improvement in the load factor (3.6 points). Throughout the network and on homogenous terms, eliminating the negative effect of the increased average stage length (1.7%), the yield was higher than last year's, after experiencing year-on-year reductions in several quarters. The unit passenger revenue (per ASK) increased by 4.5%, up 15% in the long haul sector and 7.6% in the international medium haul sector.

The aggregate sum of other passenger revenues was €65.4 million in the fourth quarter of 2005, €11.8 million less than the sum recorded in the same period of last year, owing to the lower revenue from cancellation of advance payments in issued but unused tickets.

Cargo revenues totalled €93.4 million in the fourth quarter of 2005, 15.6% more than a year earlier (applying the same grouping criteria for fuel and safety levies, €10.9 million aggregate in the fourth quarter of 2004, included in the item "Other revenues" on the profit and loss account). This was due mainly to the increase in unit revenues (including fuel and safety levies), which compensated for the drop in volume.

Technical assistance revenues recorded a year-on-year growth of 54.3%, increasing especially as a result of engine overhauls and work done for the Ministry of Defence. On the other hand, commission revenues and "Other revenues " decreased, because of the exclusion of SAVIA in 2005 (with an effect of around 13 million in the fourth quarter).

Costs from operating activities

Cost from operating activities totalled €5,225.4 million in 2005, €438.7 million higher than 2004. Non-recurring expenses rose by €237.4 million year on year to €412.7 million in 2005. This figure includes a provision of €280 million for the redundancy plan contemplated in the Director Plan 2006/2008. It also includes an extraordinary provision of €105 million for the write-off of the MD87/88 fleet, which is to be replaced with new Airbus aircraft over the next two years.

Operating expenses increased by €201.3 million over last year, a growth of 4.4%, due mainly to the hike in fuel prices and to a lesser extent, to the increases in capacity and technical assistance. The effect of these factors on the annual expenditure was partially offset by, the cost-cutting measures contemplated in the Director Plan 2003/05, including the development of the new agency remuneration system, the company's efficient hedging policy, the improved staff productivity and the favourable effect of the depreciation of the dollar against the euro.

The fuel expense was €865.9 million in 2005, €212.4 million more than last year, a 32.5% increase. In 2005, the tremendous impact of the fuel price hike on the international markets was toned down by €142.4 million through hedging. The dollar exchange rate hedges reduced the annual expense by a further €13.6 million. In contrast, the value of "non-effective" (in IFRS terminology) fuel price hedges increased the fuel expense by €2.8 million. Overall, the unit cost of fuel was 1.36 euro cents per ASK, 27.2% more 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 €294.9 million in 2005, 10.5% up on last year, due mainly to the increase in subcontracted services, related with technical assistance for other carriers. If the expenses estimated for the maintenance of third-party engines and aircraft are excluded from this aggregate cost, the net unit cost is 0.34 euro cents per ASK, 1.1% less than last year. This reduction was achieved partly as a result of the greater homogeneity of the fleet.

Personnel expenses increased by 12.4% year on year to €1,733.2 million. If non-recurring expenses are excluded (€290.9 million in 2005 and €113.9 million in 2004), personnel costs are €1,442.3 million in 2005, 1% higher than in 2004. The average equivalent headcount of the Iberia Group was 24,348 employees in 2005, 2.6% down on the previous year.

The Group's productivity, measured in ASK/employee, rose by 7% year on year, improving in all groups. Excluding handling employees, the productivity of the rest of the ground staff increased by 9.7% in comparison with 2004 levels. In the case of handling staff, the weighted aircraft handled increased by 1.5%, while the equivalent headcount decreased slightly over the period. The productivity of pilots and flight attendants -block hours per manpower equivalent- rose by 4.3% and 3.3%, respectively. As a result of this progressive increase in productivity, the unit cost of personnel (per ASK) was brought down by 3.1% to 2.27 euro cents per ASK.

Aircraft leasing costs increased by €21.2 million (5.5%) over 2004, due to the larger number of aircraft on operating lease (twelve new Airbus were added to the fleet during the year), the increase in aircraft operated under wet leases (which accounted for just over 3% of the total passenger block hours in 2005) and, to a smaller degree, the higher interest rates. The instruments used for exchange and interest hedging in "non-effective" aircraft leasing generated an increase in value of €29.6 million at 31 December, bringing down the aircraft leasing costs by the same amount in 2005. Consequently, the unit cost of aircraft leases was up 1.3% year on year to 0.64 euro cents per ASK.

Commercial costs (commissions, advertising and promotion & development expenses) totalled €259.6 million in 2005, €89 million (25.5%) less than the expense recorded last year. The largest savings were obtained on commissions, which were reduced by €73 million (36.6%) over the year, as a result of the successive cuts in the basic commission paid by Iberia to travel agencies in Spain (1% since July 2005), the gradual extension of this new model to other markets, the interline agreement among the **one**world airlines and the implementation of a new cargo agency remuneration model in 2005. The promotion and development expenses, which include sales incentives and the costs of developing frequent flyer programmes, were cut by €4.3 million (4.1%), while advertising and promotion expenses were brought down by €11.6 million (26.1%) year on year. The unit commercial cost (per ASK) was 28.5% down on 2004, at 0.41 euro cents per ASK. The ratio of net commercial costs (after deducting commission revenues) to traffic revenues was 4.3%, 1.6 percentage points less than the previous year.

The aggregate cost of "In-flight services" and "Catering materials" was €86.4 million in 2005, a year-on-year drop of 5.7%, due to the impact over the entire year of the new in-flight service in economy class introduced on short and medium-haul flights as from March 2004.. The unit cost (per ASK) of these items was 9.5% lower than in 2004, at 0.14 euro cents per ASK.

The Group's annual insurance cost was brought down by 9.6% over the year to €33.1 million in 2005. The improvements correspond to the positive evolution of the variables determining the company's risk and current market trends in premiums.

"Other expenses" totalled €319.5 million up to December 2005, 6.5% less than in 2004. This item includes non-recurring expenses in an aggregate sum of €17.2 million in 2005 and €45.3 million the previous year. The aggregate expense of recurring items was 1.9% up on last year. Contrasting with the reductions achieved in several items, the annual expense recorded for "Passenger and baggage compensations" increased by 43.1%, €10.7 million up on the sum recorded in 2004. The main cause for this was the entry into force as of 17 February 2005 of Regulation (EC) No 261/2004, which increased the compensation and assistance to passengers in the event of denied boarding due to overbooking and extended the compensations to passengers affected by long flight delays or cancellations and loss of baggage.

Fourth Quarter

Excluding non-recurring items, operating expenses rose by 6.9% in year-on-year terms to €1,257.4 million, due mainly to the fuel price hike. The unit operating cost, excluding fuel, held steady at last year's level (6.25 euro cents per ASK).

Fuel costs rose 36.6% year on year to €265.4 million in the fourth quarter of 2005. The company managed to reduce the expense in the last quarter by €34 million through fuel price and exchange rate hedgings.

The Group personnel expenses were reduced by 14.6% year on year to €373 million. Excluding non-recurring expenses (€5.9 million in 2005 and €81.4 million in 2004), personnel costs totalled €367.1 million, 3.3% higher than in the last quarter of 2004. The productivity of the Group's workforce increased by 5% in terms of ASK/employee. Flight crew productivity (block hours per manpower equivalent) improved by 3.2% for pilots and 1.7% for flight attendants.

Provisions for depreciation and amortisation reached €44.9 million, down 21.5% on the fourth quarter of 2004, owing to the recording in 2004 of an extraordinary provision of €10.1 million made for accelerated depreciation of the fleet.

Aircraft leasing costs recorded a year-on-year growth of 3%, totalling €105.4 million in the period October-December 2005. In the fourth quarter of 2005, five aircraft (two B747 and three B757) operated under wet leases for Iberia.

The aggregate cost of fleet maintenance was 11.7% higher than in the fourth quarter of 2004, at €76 million; in net terms (after deducting the additional expenses corresponding to third-party technical assistance revenues) the unit cost of maintenance was 2.4% down on the same period of last year.

Commercial costs amounted to €64.1 million in the fourth quarter of 2005, almost €15 million (19%) less than the previous year, due to the significant reduction of passenger and cargo commissions and advertising costs, which were 26.4% less than in 2004.

In the fourth quarter, the aggregate cost of "In-flight services" and "Catering materials" rose by 6.1% year on year, and 5% in terms of unit cost (per ASK). The item was affected by the significant increase in load factor on long haul flights (3.0 percentage points) and the improvements in service in the *Business Plus* class.

Financial and Other Non-Operating Results

Financial results of €13.2 million were achieved in 2005, €7.6 million less than the previous year. The main reason for this was the €15.5 million reduction in the net balance of exchange differences in respect of 2004. In pursuance of IAS 39, this year the financial results include the income from the valuation of hedging tools, amounting to €0.5 million at 31 December.

The net balance of Iberia's share in the income of companies carried by the equity method was €2.5 million in 2005, almost € 43 million less than the balance recorded last year (€45.4 million), owing to the exclusion of Amadeus from the Group.

Net Debt to Equity

The balance of liquid assets (short-term financial investments plus cash and other cash equivalent) was up €462.2 million on year-end 2004, amounting to €2,029.3 million at the end of 2005, primarily as a result of certain divestments (sale of stakes in Savia and Amadeus and sale and lease back operations). Short-term financial investments increased by €43.5 million due to the valuation of hedging operations (pursuant to IAS 39) at 31 December 2005.

Iberia's in-balance sheet net debt is still negative, which means that the sum of short-term financial investments plus cash and other cash equivalent (after deducting the above-mentioned value of hedging) exceeds the aggregate balance of interest-paying debt. The net debt was -€1,159.7 million at 31 December 2005, compared to -€1,171.2 million at year-end 2004, affected by the inclusion in the balance-sheet accounts of five A340/300 aircraft in December 2005, which had previously been held under operating leases. The adjusted net debt, which include the conversion to debt of operating leases and other balance-sheet adjustments, amounts to €1,721.8 million, 2.6% more than last year. Leverage, measured as adjusted net debt over total resources, was down 0.6 percentage points from 31 December 2004, at 49.7%.

At 31 December 2005, Iberia had a shareholders' equity of €1,739.6 million, €82.4 million more than the year before, due largely to the increase in reserves and the improved profit for the year.

Operating Fleet and Variations

At 31 December 2005 Iberia had an operating fleet of 153 aircraft, 45 of which were owned, 14 held on financial leases, 88 on operating leases and 6 contracted on a wet lease. The airline has 123 aircraft in its short and medium-haul fleet and 30 in its long-haul fleet.

During 2005 the company added twelve new aircraft to its fleet under operating leases: four A340/600 (one of them in October), four A321 (two in the fourth quarter), three A320 and one A319; it also added two A321 under financial leases (one of them in December). On the other hand, fifteen aircraft were retired: one A320, three B757, six MD87, two MD88 and three B747. The airline phased out its owned B747 as from May 2005; since then there is a single type of fleet, the Airbus A340. By year-end it only had two B747/400 operating under wet leases, which will be phased out in mid-2006 and replaced with two A340.

Iberia also made several changes during the year. Two A320 and one A340/600 that were owned at year-end 2004 were sold and subsequently leased (sale and lease back operations); three B757 aircraft held under operating leases (two) and owned (one) at 31 December 2004 are now operated for Iberia under wet leases (aircraft and crew) by Audeli (a carrier from the Gestair group); finally, five A340/300 aircraft previously held under operating leases were included in Iberia's balance sheet as from December 2005.

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 (reference shareholders of Amadeus) and Amadelux Investments, S.A. launched a takeover bid, through the new company WAM Acquisition, S.A. (WAM), over 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 their remaining shares 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 an 11.68% 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%.

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 2004 figures are also presented in accordance with the IFRS (included IAS 32), 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 2004 is €20.1 million lower than that published a year earlier under the NCA. The most significant changes are: the gains generated on aircraft sales (deferred revenues), amounting to €26.3 million are excluded (IAS 17); tax is also reduced by €18.9 million due to temporary reasons (in application of IFRS 12); the reversion of €6.6 million corresponding to the write-down of goodwill on consolidation under the NCA in 2004 (IAS 1); commercial expenses are increased by €6.1 million, certain advertising expenses may no longer be capitalised (IAS 38); personnel expenses are increased by €5.0 million, as a result of the valuation of the Stock Option Plan (IFRS 2); a lower recovery, of €3.5 million, from allocations for major repairs (IAS 16); €2.2 million improvement achieved by recording Amadeus by the equity method (IAS 28); finally the rest of changes generated a reduction in the net profit of €6.9 million.

One of the principal effects of applying the IFRS in 2005 is the €1.7 million increase in personnel expenses. IBERIA resolved to establish a Stock Option Plan for the executive directors on its board and managers. In pursuance of IFRS 2, the evaluation of stock options must be recorded in personnel expenses, crediting reserves accordingly, pro-rating the total value over the maturity period.

In accordance with the first transition rule of the IFRS, the goodwill on consolidation 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). The balance sheet reserves were increased by €125 million as of 1 January 2004, principally due to the adjustments made in the balance of provisions.

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

The measurement of hedges at 31 December 2005 set the value of financial assets on the balance sheet €66.8 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 medium and long-term dollar interest rates and the appreciation of the dollar against the euro. Of the total increase in value, €27.3 million has been recorded on the profit and loss account for 2005, corresponding to “ineffective” hedges according to the conditions established in the new standards. That amount, which constitutes an increase in profit, is broken down as follows: €29.6 million reduction of expense corresponding to the valuation of financial instruments related to aircraft operating leases; €0.5 million reduction of expense in the valuation of other financial instruments; and €2.9 million reduction of expense deriving from the temporary, statistical “ineffectiveness” (according to IFRS terminology) of part of the fuel hedges.

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