

## Contact

Subdirección Relaciones con los Accionistas

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# January - September 2004

## Highlights

IBERIA GROUP €thousand	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2004	2003 (a)	%	2004	2003 (a)	%
Operating Revenues	1.292.400	1.225.878	5,4	3.588.989	3.438.582	4,4
Operating Expenses	1.177.779	1.114.484	5,7	3.425.566	3.307.163	3,6
Operating Income EBIT	114.621	111.394	2,9	163.423	131.419	24,4
EBITDAR	259.250	237.343	9,2	578.411	527.704	9,6
Consolidated income after taxes	89.274	79.420	12,4	166.620	109.516	52,1
Total shareholders' equity (b)	---	---	---	1.585.046	1.423.244	11,4
In-balance sheet net debt (b)	---	---	---	-979.373	-939.627	4,2
Adjusted net debt x 8 (b)	---	---	---	1.813.086	1.841.322	-1,5
ASK (million)	16.053	14.819	8,3	45.359	41.524	9,2
RPK (million)	12.699	11.846	7,2	34.526	31.285	10,4
Load factor (%)	79,1	79,9	-0,8 p.	76,1	75,3	0,8 p.
Passenger revenues	927.162	905.608	2,4	2.560.475	2.498.820	2,5
Yield (€cent)	7,30	7,65	-4,5	7,42	7,99	-7,2
Operating revenue/ASK (€cent)	8,05	8,27	-2,7	7,91	8,28	-4,5
Operating expense/ASK (€cent)	7,34	7,52	-2,4	7,55	7,96	-5,2
Operating expense (exc fuel)/ASK (€cent)	6,26	6,57	-4,8	6,54	6,96	-6,1

Number of shares as at 30-Sep-2004: 931,290,867; 31-Dec-2003: 919,016,894

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

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

## Highlights

- Iberia posted a consolidated net income of €89.3 million euro in the third quarter of 2004, 12.4% up on the previous year.
- Capacity increased by 8.3%, especially in the long-haul flights, which had the best performance in terms of load factor and unit revenues.
- Operating unit revenues reduced only by 2.7% in the quarter while in the first nine months the reduction was 4.5%. The improvement in the trend has taken place not only in passenger revenues but also in cargo and maintenance.
- Operating unit costs were affected by the high fuel prices, reducing 2.4% against 5.2% in the first nine months. Without fuel unit costs would have decreased by 4.8%.
- Staff productivity increased more than 7% (in terms of ASK/employee) and fleet utilisation improved by 3.5%.(hour/aircraft/day) following the guidelines of the Director Plan.
- Iberia will achieve during 2004 60% of the cost savings forecasted in the Director Plan for 2005.
- In the first nine months consolidated net income improved 52% while adjusted net debt reduced in spite of the increase in number of planes.

## Highlights (Historic data)

IBERIA GROUP €thousand	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2004	2003 (a)	%	2004	2003 (a)	%
Operating Revenues	1.292.400	1.229.108	5,1	3.588.989	3.444.620	4,2
Operating Expenses	1.177.779	1.115.161	5,6	3.425.566	3.309.447	3,5
Operating Income EBIT	114.621	113.948	0,6	163.423	135.173	20,9
EBITDAR	259.250	240.571	7,8	578.411	533.491	8,4
Consolidated income after tax	89.274	80.247	11,3	166.620	111.029	50,1
Total shareholders' equity (b)	---	---	---	1.585.046	1.432.760	10,6
In-balance sheet net debt (b)	---	---	---	-979.373	-938.503	4,4
Adjusted net debt x 8 (b)	---	---	---	1.813.086	1.842.446	-1,6
Operating Revenue/ASK (€cent)	8,05	8,29	-2,9	7,91	8,30	-4,6
Operating Expense/ASK (€cent)	7,34	7,53	-2,5	7,55	7,97	-5,2
Operating Expense (exc fuel)/ASK (€cent)	6,26	6,58	-4,9	6,54	6,97	-6,2

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

## Consolidated Statements of Income (not audited)

€thousand	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2004	2003 (a)	%	2004	2003 (a)	%
<b>Operating income</b>	<b>114.621</b>	<b>111.394</b>	<b>2,9</b>	<b>163.423</b>	<b>131.419</b>	<b>24,4</b>
<b>Operating revenues</b>	<b>1.292.400</b>	<b>1.225.878</b>	<b>5,4</b>	<b>3.588.989</b>	<b>3.438.582</b>	<b>4,4</b>
<b>Net sales</b>	<b>1.243.311</b>	<b>1.165.755</b>	<b>6,7</b>	<b>3.435.702</b>	<b>3.277.705</b>	<b>4,8</b>
Passenger revenues (b)	1.013.209	962.141	5,3	2.808.970	2.694.480	4,2
Cargo revenues	63.923	57.848	10,5	191.756	180.798	6,1
Handling	94.220	87.066	8,2	231.708	207.973	11,4
Technical assistance to airlines	31.811	20.419	55,8	80.520	80.645	-0,2
Other revenues	40.147	38.281	4,9	122.748	113.809	7,9
<b>Other operating revenues</b>	<b>49.089</b>	<b>60.123</b>	<b>-18,4</b>	<b>153.288</b>	<b>160.877</b>	<b>-4,7</b>
Rents	2.400	1.900	26,3	5.807	5.434	6,9
Commissions	28.169	34.369	-18,0	84.013	90.301	-7,0
Other sundry revenues	18.521	23.854	-22,4	63.468	65.142	-2,6
<b>Operating expenses</b>	<b>1.177.779</b>	<b>1.114.484</b>	<b>5,7</b>	<b>3.425.566</b>	<b>3.307.163</b>	<b>3,6</b>
<b>Procurements</b>	<b>224.537</b>	<b>182.701</b>	<b>22,9</b>	<b>602.263</b>	<b>548.306</b>	<b>9,8</b>
Aircraft fuel	173.299	140.439	23,4	459.224	415.100	10,6
Aircraft spare parts	40.188	31.116	29,2	111.771	100.366	11,4
Catering materials	6.292	6.553	-4,0	17.372	19.661	-11,6
Other purchases	4.758	4.593	3,6	13.896	13.179	5,4
<b>Personnel expenses</b>	<b>361.005</b>	<b>345.706</b>	<b>4,4</b>	<b>1.069.164</b>	<b>1.011.727</b>	<b>5,7</b>
<b>Depreciation and amortization</b>	<b>45.962</b>	<b>42.410</b>	<b>8,4</b>	<b>132.958</b>	<b>126.227</b>	<b>5,3</b>
<b>Variation in operating provisions</b>	<b>824</b>	<b>-87</b>	<b>n.s.</b>	<b>3.779</b>	<b>2.784</b>	<b>35,7</b>
<b>Other operating expenses</b>	<b>545.452</b>	<b>543.754</b>	<b>0,3</b>	<b>1.617.404</b>	<b>1.618.119</b>	<b>-0,0</b>
Aircraft leases (c)	98.668	83.539	18,1	282.030	270.058	4,4
Operating leases	86.536	80.645	7,3	261.916	258.435	1,3
Wet leases	8.372	0	n.a.	8.796	0	n.a.
Cargo wet leases	3.760	2.895	29,9	11.318	11.623	-2,6
Other rent	21.281	18.132	17,4	57.862	55.888	3,5
Fleet maintenance (subcontracts)	32.375	25.575	26,6	91.544	83.326	9,9
Commercial expenses	81.801	111.079	-26,4	261.659	313.455	-16,5
Air traffic levies and charges	108.042	99.987	8,1	311.192	287.307	8,3
Navigation-other communication aids	68.848	66.954	2,8	201.821	191.191	5,6
In flight services	17.031	24.686	-31,0	53.733	71.527	-24,9
Booking systems	31.033	29.149	6,5	103.095	99.288	3,8
Insurance	9.284	12.052	-23,0	27.755	39.234	-29,3
Other expenses	77.089	72.601	6,2	226.713	206.846	9,6

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).

<b>Financial results</b>	<b>-847</b>	<b>-985</b>	<b>14,0</b>	<b>44</b>	<b>-3.810</b>	<b>101,1</b>
Financial revenues	9.412	21.769	-56,8	28.589	41.440	-31,0
Financial expenses	8.735	22.784	-61,7	27.725	42.432	-34,7
Exchange gains/losses	-1.524	31	n.s.	-821	-2.818	70,9
Share in income of companies carried by the equity method	7.981	7.806	2,2	30.840	21.157	45,8
Amortization of goodwill in consolidation	-1.653	-1.653	0,0	-4.960	-4.960	0,0
<b>Extraordinary results</b>	<b>-1.921</b>	<b>-2.417</b>	<b>20,5</b>	<b>31.878</b>	<b>11.483</b>	<b>177,6</b>
Extraordinary revenues	9.679	10.810	-10,5	106.758	43.443	145,7
Extraordinary expenses	11.600	13.226	-12,3	74.880	31.960	134,3
<b>Consolidated income before taxes</b>	<b>118.180</b>	<b>114.146</b>	<b>3,5</b>	<b>221.226</b>	<b>155.290</b>	<b>42,5</b>
Taxes	-28.907	-34.725	16,8	-54.605	-45.774	-19,3
<b>Consolidated income after taxes</b>	<b>89.274</b>	<b>79.420</b>	<b>12,4</b>	<b>166.620</b>	<b>109.516</b>	<b>52,1</b>
Minorities	342	239	43,0	1.663	1.635	1,7
<b>Attributed income for the period</b>	<b>88.932</b>	<b>79.181</b>	<b>12,3</b>	<b>164.957</b>	<b>107.881</b>	<b>52,9</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. 2003 Annual Leases expenses amounted to €61,171 thousand. To get an approximation of the annual value of aircraft rentals in 2004, leases expenses for the first half (€71,973 thousand, resulting from operating leases + 50% cargo leases) must be multiplied by 4/3, this is €62,631 thousand. The result is multiplied by 8 to get the capitalized operating leases.

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

**Iberbond bonds.** Long-term financial investment in the Iberbond 99 bond issue that have to be netted with the equivalent liability in the balance sheet.

**Iberbus loans.** Long-term loans to Iberbus companies. These loans bear 6% interest that Iberia receives and also pays as a part of aircraft rentals. The capitalised debt corresponding to this element of the aircraft rental must be deducted from the off-balance sheet debt (Aircraft rentals x 8).

For September 2004: 6% of 159.603 MM/ €x 8 = €76.609 million

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

## Consolidated Balance Sheet (not audited)

€thousand	Sep – 2004	Dec – 2003 (a)
<b>Assets</b>	<b>5.032.465</b>	<b>4.679.894</b>
<b>Fixed assets</b>	<b>2.503.941</b>	<b>2.417.957</b>
Start-up expenses	212	80
Net intangible fixed assets	410.102	429.078
Property, plant and equipment	971.507	918.306
Long-term financial investments	818.428	766.790
<i>Iberbuses loans</i>	<i>159.603</i>	<i>156.810</i>
<i>Iberbond bonds</i>	<i>31.980</i>	<i>33.150</i>
<i>Other</i>	<i>626.845</i>	<i>576.830</i>
Long-term receivables	303.689	303.703
<b>Consolidation goodwill</b>	<b>93.138</b>	<b>98.098</b>
<b>Deferred charges</b>	<b>77.082</b>	<b>85.230</b>
<b>Current assets</b>	<b>2.358.307</b>	<b>2.078.609</b>
Inventories	95.552	75.858
Accounts receivable	757.410	575.716
Shares of the parent company	32.373	20.066
Short-term financial investments	1.405.936	1.358.019
Cash	37.262	17.889
Accrual accounts	29.774	31.061
<b>Liabilities</b>	<b>5.032.465</b>	<b>4.679.894</b>
<b>Shareholders' equity</b>	<b>1.585.046</b>	<b>1.423.244</b>
Capital stock	726.407	716.833
Reserves of the parent company	495.998	412.496
Reserves at consolidated companies	197.952	151.432
Translation differences	-268	-284
Income attributable to the parent company	164.957	142.767
<b>Minority interests</b>	<b>5.401</b>	<b>8.543</b>
<b>Negative consolidation difference</b>	<b>1.783</b>	<b>1.494</b>
<b>Deferred revenues</b>	<b>49.011</b>	<b>56.805</b>
<b>Provisions for contingencies and expenses</b>	<b>1.249.658</b>	<b>1.249.459</b>
<b>Long-term debt</b>	<b>430.017</b>	<b>466.497</b>
Convertible debentures	27.532	27.532
Payable to credit entities	386.120	418.518
<i>Payable to credit entities</i>	<i>337.747</i>	<i>355.877</i>
<i>Future leasing interests payments</i>	<i>48.373</i>	<i>62.641</i>
Other accounts payable	16.365	20.447
<b>Current liabilities</b>	<b>1.711.549</b>	<b>1.473.852</b>
Convertible debentures	7.524	22.573
Payable to credit entities	105.974	46.458
<i>Payable to credit entities</i>	<i>91.022</i>	<i>30.299</i>
<i>Future leasing interests payments</i>	<i>14.952</i>	<i>16.159</i>
Other accounts payable	1.592.676	1.404.378
Accrual accounts	5.375	443

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

## Cash Flow Statement (not audited)

€thousand	Jan – Sep 2004	Jan – Sep 2003 (*)
<b>Attributed income for the period</b>	<b>164.957</b>	<b>108.723</b>
Depreciation	132.958	128.261
Provisions	119.242	68.745
Amortization of goodwill in consolidation	4.960	4.960
Minorities	1.663	2.306
Share in income of companies carried by the equity method	-30.840	-21.157
Adjustment of deferred revenues and charges	4.174	10.124
Changes in working capital	-167.199	-62.807
<b>Cash Flow from operating activities</b>	<b>229.915</b>	<b>239.155</b>
Net capital expenditures on tangible and intangible fixed assets	-136.534	-115.189
Net capital expenditures on long term financial investment	-26.356	-89.120
<b>Cash Flow from investing activities</b>	<b>-162.890</b>	<b>-204.309</b>
Dividends paid	-29.090	-38.341
Capital increase	10.918	0
Movement in financial debt	18.232	-42.679
<b>Cash Flow from financing activities</b>	<b>60</b>	<b>-81.020</b>
<b>Net Cash Flow</b>	<b>67.085</b>	<b>-46.174</b>
Cash and cash equivalents at the beginning of period	1.376.113	1.216.640
Cash and cash equivalents at the end of period	1.443.198	1.170.466

(\*) Historic data (including Iber-Swiss)

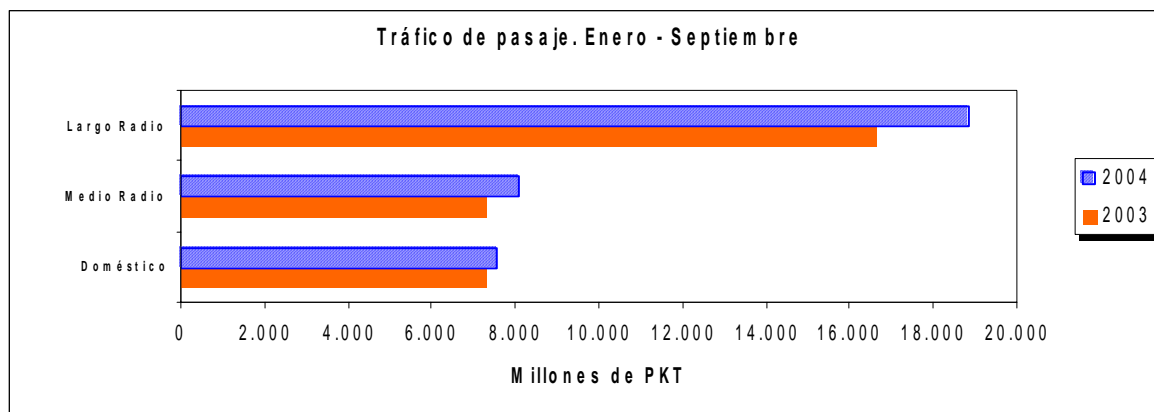
## Operating Statistics

IBERIA GROUP (a)	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2004	2003	%	2004	2003	%
<b>Scheduled traffic</b>						
<b>Passengers (thousand)</b>	<b>7.314</b>	<b>7.073</b>	<b>3,4</b>	<b>20.363</b>	<b>19.264</b>	<b>5,7</b>
Domestic	3.917	3.866	1,3	11.338	10.931	3,7
Medium Haul	2.427	2.289	6,0	6.364	5.906	7,8
Europe	2.306	2.200	4,9	6.071	5.701	6,5
Africa & Middle East	121	89	35,3	292	205	42,4
Long Haul	970	918	5,6	2.661	2.426	9,7
<b>ASK (million)</b>	<b>16.053</b>	<b>14.819</b>	<b>8,3</b>	<b>45.359</b>	<b>41.524</b>	<b>9,2</b>
Domestic	3.651	3.501	4,3	10.434	9.985	4,5
Medium Haul	4.217	3.807	10,8	11.985	10.831	10,7
Europe	3.826	3.540	8,1	10.975	10.141	8,2
Africa & Middle East	391	267	46,7	1.010	690	46,4
Long Haul	8.184	7.511	9,0	22.939	20.708	10,8
<b>RPK (million)</b>	<b>12.699</b>	<b>11.846</b>	<b>7,2</b>	<b>34.526</b>	<b>31.285</b>	<b>10,4</b>
Domestic	2.692	2.664	1,0	7.578	7.303	3,8
Medium Haul	3.105	2.852	8,9	8.081	7.317	10,4
Europe	2.817	2.654	6,1	7.404	6.855	8,0
Africa & Middle East	289	198	45,8	676	462	46,3
Long Haul	6.902	6.329	9,0	18.867	16.666	13,2
<b>Load factor (%)</b>	<b>79,1</b>	<b>79,9</b>	<b>-0,8 p.</b>	<b>76,1</b>	<b>75,3</b>	<b>0,8 p.</b>
Domestic	73,7	76,1	-2,4 p.	72,6	73,1	-0,5 p.
Medium Haul	73,6	74,9	-1,3 p.	67,4	67,6	-0,1 p.
Europe	73,6	75,0	-1,4 p.	67,5	67,6	-0,1 p.
Africa & Middle East	73,8	74,3	-0,4 p.	67,0	67,0	-0,0 p.
Long Haul	84,3	84,3	0,1 p.	82,2	80,5	1,8 p.
<b>Cargo</b>						
Cargo Tonnes	54.849	49.501	10,8	170.378	150.389	13,3
ATK (million)	341	325	5,1	1.024	928	10,4
RTK (million)	237	202	17,5	727	605	20,3
Load factor (%)	69,5	62,2	7,3 p.	71,0	65,2	5,9 p.
<b>Passenger revenues</b>						
Revenues (€thousand)	927.162	905.608	2,4	2.560.475	2.498.820	2,5
Revenue / ASK (€cent)	5,78	6,11	-5,5	5,64	6,02	-6,2
Revenue / RPK (€cent)	7,30	7,65	-4,5	7,42	7,99	-7,2

ASKs: Available Seat Kilometer; RPKs: Revenue Passenger Kilometer; ATK: Available Ton Kilometer; RTK: Revenue Ton Kilometer

Year on year variation in Load factor expressed in percentage points

Passenger revenues include only those revenues generated during the period. Therefore, revenues from the cancellation of customer advances as well as other minor accounting regularizations are excluded



## KPI

IBERIA GROUP	3rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2004	2003 (a)	%	2004	2003 (a)	%
<b>Unit Ratios (€cent/ASK)</b>						
Operating revenue	8,05	8,27	-2,7	7,91	8,28	-4,5
Operating cost	7,34	7,52	-2,4	7,55	7,96	-5,2
Fuel	1,08	0,95	13,9	1,01	1,00	1,3
Fleet Maintenance	0,45	0,38	18,2	0,45	0,44	1,3
Spare parts	0,25	0,21	19,2	0,25	0,24	1,9
Maintenance (subcontracts)	0,20	0,17	16,9	0,20	0,20	0,6
Personnel	2,25	2,33	-3,6	2,36	2,44	-3,3
Aircraft Leases	0,61	0,56	9,0	0,62	0,65	-4,4
Commercial	0,51	0,75	-32,0	0,58	0,75	-23,6
Air Traffic Levies and charges	0,67	0,67	-0,3	0,69	0,69	-0,8
Navigation aids	0,43	0,45	-5,1	0,44	0,46	-3,4
In-flight services and catering materials	0,15	0,21	-31,1	0,16	0,22	-28,6
Rest	1,19	1,21	-1,8	1,25	1,31	-4,6
Net commercial cost / traffic passenger and cargo revenue (%) (b)	5,0	7,5	-33,8	5,9	7,8	-23,7
<b>Productivity</b>						
Average fleet utilization (block hours/aircraft/ day)	9,31	9,00	3,5	9,11	8,75	4,1
Annual average headcount	25.839	25.580	1,0	25.059	24.764	1,2
ASK / Employee	621	579	7,2	1.810	1.677	7,9
Ground	826	773	6,8	2.434	2.254	8,0
Ground (without handling)	1.668	1.509	10,5	4.724	4.196	12,6
Block hours / Technical crew	67,9	64,8	4,8	197,0	185,7	6,1
Block hours / Flight attendant	30,2	28,2	7,2	86,8	82,5	5,2

(a) Pro forma (excluding Iber-Swiss)

(b) Commercial expenses lowered by commission revenues.

## Operating Fleet

IBERIA GROUP (a)	September 2004	December 2003	September 2003
<b>Long Haul</b>	<b>28</b>	<b>27</b>	<b>27</b>
Owned	3	4	5
Financial lease	0	0	0
Operating lease	23	23	22
Wet lease	2	0	0
<b>Short and Medium Haul</b>	<b>126</b>	<b>122</b>	<b>121</b>
Owned	46	43	43
Financial lease	13	12	12
Operating lease	67	67	66
Wet lease	0	0	0
<b>Total</b>	<b>154</b>	<b>149</b>	<b>148</b>
Owned	49	47	48
Financial lease	13	12	12
Operating lease	90	90	88
<b>Long Haul</b>	<b>2</b>	<b>0</b>	<b>0</b>

(a) End of period



## Operational and Financial Performance

### Iberia Group Results

In the first nine months of 2004, the Group posted a profit after tax and minority interests of €165 million, 52.9% up on the net profit recorded in the same period of 2003 (compared on homogenous terms, after adjusting the base period to the exclusion of Iber-Swiss Catering from the Group).

Operating revenues rose by €32.0 million year-on-year to €163,4 million as a result of the increase in capacity, by 9.2% in terms of available seat kilometres (ASK), and the 13.8% growth in the unit margin, which was 0.36 euro cents per ASK. The EBITDAR generated by the company rose to €578.4 million, and its margin on revenues was up by 0.8 percentage points to 16.1%.

#### Third quarter

Iberia reached a profit after tax and minority interests of €88.9 million in the third quarter of 2004, 12.3% up on the net profit of €79.2 million that it had posted in the same period of 2003.

The EBITDAR totalled €259.3 million, 9.2% up on that generated in the third quarter of last year. Operating income rose to €14.6 million, 2.9% up on the previous year.

### Capacity and demand

Air traffic picked up generally in the first nine months of 2004, especially on long-haul flights, after two years of recession. According to figures published by the Association of European Airlines (AEA), RPKs were up 10.2% on the same period of 2003, against a 7.6% increase in ASKs. The European market was marked by the growth in traffic and the expansion of low-cost carriers (LCC). On routes between Spain and Europe LCC expanded significantly increasing capacity by 40%. The number of passengers rose by 9.9% year-on-year on the Spanish domestic market (according to figures published by AENA, the Spanish Airport Authority), although the rate of growth eased off in the third quarter.

Iberia increased the RPKs of its entire network by 10.4% over the same period of last year, against an increased capacity of 9.2%, improving its passenger load factor by 0.8 points to 76.1%. The strong year-on-year growth in capacity and traffic levelled off over the first three quarters of this year, due partly to the gradual upturn in traffic as from June 2003.

The best performance was in the long-haul sector, with a 13.2% year-on-year growth in traffic and a 1.8 point improvement in the load factor, which rose to 82.2%, with continued improvement in the class mix. The growth in capacity on medium-haul flights was in line with the growth in traffic, up 10.7% and 10.4%, respectively, maintaining the load factor stable at around 67.5%. There was also a strong growth - in relative terms - on Africa and Middle East routes. Capacity increased by 4.5% on the domestic market in respect of the first nine months of last year, while RPKs rose 3.8%, bringing the load factor down by 0.5 points to 72.6%.

Over the period January-September 2004, Iberia increased its market share throughout its entire international network, with 17.1% of the market between Europe and Latin America, up 0.9% on last year, and improving by 1.7 points (according to MIDT) on the Spain-Europe market. Iberia increased its share in business class on the three markets (domestic, Spain-Europe and Europe-Latin America)

In Cargo, the revenue tonne kilometre (RTKs) for the first nine months of 2004 was €727 million, 80% of which was carried on Atlantic routes and more than 94% in the bellies of passenger aircraft. In year-on-year terms, cargo traffic increased by 20.3%, growing in all regions, while the available tonne kilometres (ATKs) rose by 10.4%, improving the load factor by 5.9 points to 71.0%.

#### Third quarter

The volume of traffic continued to grow in the third quarter of 2004, reaching an all-time high for Iberia both in terms of ASKs and RPKs. The load factor was 79.1% for the entire network, sliding 0.8 percentage points, mainly due to the growing competition on the domestic and European markets. The number of passengers rose 3.4% to over 7.3 million, spread across all markets, up 1.3% on domestic routes and 5.9% on international flights.

In the domestic market Iberia made a more selective revenue management, through which, although the load factor dropped, its yield picked up after the falls recorded in the first six months. Capacity rose by slightly less than in the first half of the year and the growth rate of demand slowed down, not only in Iberia but on the domestic market as a whole. The largest growth in capacity was recorded on mainland flights and Balearic Islands flights. Meanwhile, the load factor was maintained high, at above 82%, on routes between the mainland and the Canary Islands, where tough competition continued to grow.

The strongest growth in capacity was, once again, on medium-haul international routes, especially in the Mediterranean area. Traffic increased by 8.9%, reducing the load factor by 1.3 points to 73.6%. On the European market, capacity grew by 8.1%, although two percentage points are due to the fact that more seats have been added to some aircrafts. The load factor was 1.4 points down on last year. The figures for North and Central Africa and Middle East flights improved over the quarter, and the company succeeded in balancing the sharp increases in traffic and capacity over last year (around 46%).

The general growth of long-haul traffic continued and the class mix was improved, although the impact of several hurricanes in the Caribbean and south-east USA hit demand in September. In the third quarter, ASKs and RPKs both rose by 9.0% year-on-year, maintaining the load factor stable at 84.3%. The highest load factor, 85.7%, was recorded on North Atlantic flights, where traffic rose by 4.0%, more or less on a par with the increase in capacity. On Mid-Atlantic flights, the load factor improved by 0.7 percentage points to 83.3%; RPKs rose by 9.9% and ASKs by 9.0%. On South Atlantic flights, traffic increased by 13.3% and capacity rose by 14.5%, giving a load factor of 85.0%. In July, Iberia began to operate a direct flight between Madrid and Montevideo (Uruguay), with an average load factor of over 86%.

## Operating Revenues

The year-on-year growth in consolidated operating revenues in the first nine months of 2004 was 4.4% on homogenous terms (i.e. excluding the company Iber-Swiss from the Group accounts in 2003). That growth was achieved mainly as a result of the increase in passenger and cargo traffic. Handling revenues also rose considerably, by 11.4%.

Total passenger revenues rose by 4.2% year-on-year to €2,809 million. This sum includes: the revenues generated on flights operated over the nine months (up 2.5% to €2,560.5 million); the issued but unused tickets (€188.6 million); and, finally, revenues deriving from frequent flyer programmes (mainly Iberia-Plus and others offered by **oneworld** companies), fees for direct sales and other services related with the issuing of tickets in Spain (applied since January 2004), the leasing of seats to other companies and other adjustments, which totalled €59.9 million.

Passenger revenues from tickets actually flown during the first three quarters of 2004 increased by €61.7 million year-on-year. Traffic grew by 10.4% to €221.4 million, the effect of which was dampened by a 7.2% drop in yield (average revenue per RPK), which fell by €159.7 million. This drop in yield was due to the strong competition on short and medium-haul routes; the appreciation of the euro against the dollar, which caused a 1.3 point drop in the yield, hitting hard the revenues on long-haul flights and the increase in the average stage length (4.4%) accompanying the larger growth of capacity on international routes.

Unit passenger revenue including all items, was 6.19 euro cents per ASK, 4.6% down on the first nine months of 2003. With constant exchange rates, unit revenue would have fallen by 3.4% and the year-on-year increase in passenger revenues would have been 5.5%.

Handling revenues rose by €23.7 million year-on-year, due to the increased activity for third parties (6.1% in terms of weighted aircraft handled), the new complementary services and the improved unit revenues.

The amount of "Other Revenues" (invoicing of the reservations system, cargo terminal services, fuel and safety fees, among others) increased by 7.9% over last year, totalling €122.7 million. On aggregate, "Other Operating Revenues" dropped by 4.7%, due mainly to the smaller commissions on passenger revenues and sales of Mundicolor and Viva Tours (which Iberia sold in mid-2003 and early 2004, respectively) and the reduction as from July of the *interline* commission of the **oneworld** companies (from 9.2% to 2.0%), which also affected commercial expenses.

### Third quarter

Consolidated operating revenues increased by 5.4% over the third quarter of last year, while passenger revenues rose by 5.3%. A comparison of both year-on-year increases with those recorded in the first half (3.8% and 3.7%, respectively) reveals a significant improvement, made possible by the better evolution in passenger yield (which offset the smaller growth of traffic) and an increase in non-traffic revenues, mainly from maintenance for third parties.

Passenger revenues totalled €1,013.2 million in the third quarter of 2004, some €1.1 million more than the total recorded in the same period of 2003. Of this sum, €27.2 million corresponded to revenues from tickets actually flown, which increased by €21.6 million from the third quarter of last year. Revenues from issued but unused tickets totalled €68.2 million, rising €13.6 million. Passenger revenues also include revenues deriving from frequent flyer programmes, fees for direct sales in Spain, the leasing of seats to other companies and adjustments, in an aggregate total of €17.8 million, €15.9 million more than the amount recorded in the third quarter of 2003. On the basis of the total passenger revenues, the unit revenue was 6.31 euro cents per ASK, 2.8% down on the third quarter of 2003.

Passenger revenues from tickets actually flown during the quarter increased by 2.4% year-on-year, pushed up by the growth in traffic (7.2% in terms of RPK), causing a rise of €55.5 million, which was partially offset by a 4.5% reduction in the yield, with an impact of €33.9 million. This yield reduction, which is a clear improvement on the 8.7% drop in the first half of the year, was due to the tough price competition, the increase in the average stage length (3.7% overall) and the appreciation of the euro against the dollar. With constant exchange rates, the reduction of yield would have been 3.7% and the passenger revenues for the period would have risen by 3.2% year-on-year.

The reductions in passenger yield in the three sectors in respect of 2003 were smaller in the third quarter than those recorded in the preceding six months. There was a considerable improvement on long-haul flights and, excluding the negative effect of the depreciation of the dollar, the yield was slightly higher than in the third quarter of last year. On the domestic market, where Iberia focused its revenue management policy primarily on improving unit revenues, the spread of the yield against last year's levels was gradually reduced over the quarter and, despite the loss of load factor, the year-on-year decline in unit revenue per ASK was smaller than that recorded in the second quarter. Finally, although the rapid growth of low cost carriers on the Spain-Europe market continued to pull prices down, the unit revenue on these flights also improved moderately in respect of the decline in the first half of the year.

Cargo revenues were up by 10.5% to €63.9 million. Traffic grew by 17.5% in terms of RTK, and although the cargo yield, affected by the increase in average stage length and the depreciation of the dollar, was once again lower than that recorded in 2003, the difference was smaller than in the second quarter. The increased capacity was the main reason for the 8.2% rise in handling revenues, to over €4.2 million. The weighted aircraft handled for third parties increased by 6.6%.

Maintenance revenues were 55.8% up on 2003, due mainly to more engine overhauls for third parties, with a clear upturn in the prospects for this line of business. The total revenues from technical assistance to airlines in the first nine months of 2004 amounted to €80.5 million, similar to the amount obtained in 2003, in spite of the adverse effects of the dollar depreciation.

The aggregate total of other operating revenues was €89.2 million in the third quarter of 2004, down 9.3% on the previous year, mainly due to a reduction in commission revenues, which is partly due to the lowering of commissions between companies of the oneworld alliance. The company also reduced its in-house work in fixed assets in the third quarter of 2004.

## Operating Expenses

In the first nine months of 2004, consolidated operating expenses grew by 3.6% year-on-year (in homogenous terms, excluding Iber-Swiss). The increase in costs due to more activity, in both air traffic and airports, and the price rises, very sharp in the case of fuel, was partly offset by the cost-cutting measures contemplated in the Director Plan 2003/05, the favourable effects of the depreciation of the dollar against the euro and the fuel price hedging policy. As a result, the unit operating cost was 5.2% lower than in the same period of 2003, at 7.55 euro cents per ASK.

The measures designed in the Director Plan 2003/05 include a new model of remuneration for travel agencies in Spain, which lowered the basic commission paid by Iberia from 6.5% to 3% in the first half of 2004, and to 2.0% in the second half. Its implementation in Spain, together with the gradual extension of the new distribution model to other international markets, brought commercial expenses down 16.5% year-on-year. The ratio of net commercial expenses (after deducting the commission revenues) to traffic revenues was 5.9%, down 1.9 percentage points, while the unit commercial cost (per ASK) was down 23.6% on 2003.

The aggregate cost of "In-flight services" and "Catering materials" was brought down by €20.1 million from the same time last year, a 22.0% reduction, achieved through the new pay per mealservice in economy class, another of the cost-cutting measures established in the Director Plan. The new service was introduced on 1 March on most medium haul international flights and all domestic flights, and on 1 June on routes to the Canary Islands. The unit cost of the in-flight service (including catering materials) was brought down by 28.6% from the first nine months of 2003, to 0.16 euro cents per ASK.

The insurance cost was also reduced considerably, down 29.3% year-on-year to €1.5 million, through renegotiation of premiums and, to a lesser extent, depreciation of the dollar.

In contrast, the cost of aircraft fuel was 10.6% higher than in 2003. This increase was mainly caused by the progressive rise in kerosene prices on the market over the first nine months of 2004, which was partly offset by: Iberia's hedging, the depreciation of the dollar against the euro; and the reduction of unit consumption, achieved with the greater aircraft efficiency. The unit cost of fuel thus increased by only 1.3%, to 1.01 euro cents per ASK.

The unit cost of fleet maintenance also increased by 1.3% year-on-year. The aggregate cost of spare parts and maintenance (sub-contracts and provision for large repairs) was €203.3 million, €19.6 million more than a year earlier, due mainly to the special work done on Iberia's fleet, particularly the interior modification of aircraft for short and medium-haul flights and work on returned leased aircraft.

Personnel expenses for the period totalled €1,069.2 million, 5.7% up on the first nine months of last year, pushed up mainly by the application of agreed pay rises (3.3% according to the consumer price index estimated for 2004 and the share in profits for 2003 and 2004E), slippage and, to a smaller degree, the rise in headcount, of 1.2%. These increased costs were partly offset by the improved salary mix achieved through the redundancy plan. Thanks to the significant increase in productivity, the unit personnel cost was brought down by 3.3% to 2.36 euro cents per ASK.

During the period January-September 2004, the cabin crew increased by just 1.2%, while productivity grew by 6.1% in the case of pilots and 5.2% for flight attendants. The average headcount of ground staff also rose by 1.2%, in line with the increased handling services provided for third parties. If the handling staff is excluded, the rest of the ground staff decreased by 3.0% while its productivity –measured in ASK per employee- was 12.6% higher than last year.

Navigation aids and air traffic levies and charges (which comprise several variable items related to operations, such as landing fees, parking, handling or ramps) rose by 5.6% and 8.3%, respectively, due to the increased capacity (up 4.7% in terms of number of take-offs) and increased tariffs. Unit costs (per ASK), however, were down 3.4% and 0.8%, respectively.

### Third quarter

Consolidated operating expenses increased by 5.7% year-on-year, due mainly to the increase in capacity the hike in fuel prices. The unit operating cost dropped 2.4% to €7.34 euro cents per ASK. Excluding fuel costs, the unit cost was cut by 4.8%.

Fuel costs rose 23.4% due mainly to the sharp rise in the dollar price of kerosene, which reached an all-time high during the third quarter of the year. The average dollar price before hedging in the 3<sup>rd</sup> quarter was around 50% higher than the equivalent in 2003. This price rise was partially mitigated by the hedging policy of Iberia, the favourable effect of the dollar depreciation against the euro, the reduction in average consumption achieved through greater aircraft efficiency and an increased flight stage length. Through the combination of all these factors, the unit cost of fuel rose by 13.9% to 1.08 euro cents per ASK.

The total cost of fleet maintenance (spare parts, sub-contracts and provision for large repairs) was €72.6 million, €15.9 million higher than the cost recorded in the third quarter of last year, due to the sharp increase in services provided to third parties and the afore-mentioned special work on the Iberia fleet. The greatest increases were recorded in spare parts for the short and medium-haul aircraft and engines, and in sub-contracts for and own and third-party engine and aircraft maintenance. The net maintenance expense (netting technical assistance revenues) totalled 0.25 euro cents per ASK, 3.7% more than in the third quarter of 2003.

Personnel expenses were up 4.4% year-on-year, pushed up by the application of agreed pay rises, slippages and a small rise in headcount (1.0%), corresponding mainly to the increase in handling. The unit cost of personnel was down 3.6% to 2.25 euro cents per ASK, thanks to the considerable increase in productivity across the board.

The depreciation and amortisation costs were up 8.4% on the third quarter of 2003, due largely to investments in aircraft reparable and rotatable and, to a lesser extent, in hardware and software.

The aircraft leasing expense was 18.1% higher than in the third quarter of last year, because of the increase in the number of aircraft under operating lease (two more at 30th September than one year earlier) and the wet leases for two B-747. The average fleet utilisation improved by 3.5%.

Cumulative commercial costs for the period July-September 2004 decreased €29.3 million on last year, mainly thanks to the new distribution model established in Spain and its gradual extension to other markets. This difference, which represents a reduction of 26.4%, is the result of a €28.0 million cut in commissions and incentives and a €1.3 million increase in advertising expenses. The ratio of net commercial expenses (after deducting commission revenues) to traffic revenues was down 2.5 percentage points to 5.0%.

The introduction of the new pay for meal service helped to reduce the aggregate cost of “Catering material” and “In-flight services” by 25.3% year-on-year, to €23.3 million. The reduction was greater in unit terms; the unit cost per passenger was 27.8% lower than last year.

Air traffic levies and charges (comprising several variable items related to operation, such as landing and parking fees, handling overseas, aircraft cleaning and crew accommodation) totalled €108.0 million, 8.1% more than in the period July-September 2003, due to the increased capacity and, to a smaller extent, increased tariffs, mostly public. Unit costs were, however, down 0.3%.

## **Extraordinary, Financial and Other Non-Operating Results**

In the first nine months of 2004, Iberia recorded a net financial income (without exchange differences) of €0.9 million, a €1.9 million improvement on the losses recorded last year. Financial revenues dropped by 31%; financial expenses by a somewhat greater percentage (almost 35%). This was a result of the lowering of interest rates and, above all, the recording in the third quarter of 2003 of non-recurring items: a gross capital gain of €1.5 million was recorded (corresponding to the sale of Iberia’s holding in “Tiempo Libre” and the “Mundicolor” trademarks), and provisions of €4.4 million for trade investments (in Opodo and Cordiem).

The cumulative net balance of exchange differences improved by €2.0 million year-on-year, reducing losses to €0.8 million. As in the previous case, although the net improvement is small, the volume of both positive and negative exchange differences were significantly smaller than the cumulative figures recorded last year.

The share in income of companies carried by the equity method amounted to €30.8 million in the first half of the year. Most of the companies posted improved results, although the lion’s share of this increase in profits corresponded to the first-half profits of Amadeus (Iberia’s consolidated accounts for the third quarter of 2004 include an estimate of the Amadeus income for that quarter).

The Iberia Group posted an extraordinary profit of €31.9 million for the first nine months of 2004. Extraordinary revenues totalled €106.8 million, mostly obtained on fixed asset sales: almost €32 million corresponds to sales of different buildings and premises; sales of holdings in Iber-Swiss Catering and Viva Tours and of the Viva Tours trademark generated a gain of almost €20 million; and finally, proceeds of around €22.6 million were obtained on the sale of flight simulators to “Servicios Instrucción Vuelo” (a joint venture engaged in flight training, in which Iberia has a holding). Extraordinary expenses amounted €74.9 million. This included especially: the provisions set aside for the extension of the redundancy plan (€32.5 million); several items relating to the sales of holdings in subsidiaries and fixed asset disposals, in aggregate totalling almost €21 million; and provisions for expenses related with the return of B-757 aircraft and for the accelerated amortisation of the B-747 fleet, in a sum of €18 million.

## **Net Debt to Equity**

On 30th September 2004, the total shareholders’ equity of the Iberia Group was worth €1,585 million, €161.8 million more than at the close of 2003.

The in-balance sheet net debt stood at -€79.4 million on 30th September 2004, i.e. the available cash was higher than the interest-paying debt, any by a larger amount than at the end of the previous year. While interest-paying debt (not including interest on financial leases) increased by €27.5 million, to €463.8 million, available cash grew by €67.3 million, to over €1,443 million. The adjusted net debt, which includes capitalisation of operating leases, was 1.5% down on December 2003, at €1,813.1 million. Leverage, measured as adjusted net debt over total resources, was 53.4%, 3.0 percentage points down on 31st December 2003.

## **Operating Fleet and Variations**

On 30th September 2004, the Iberia Group’s operating fleet was made up of 154 aircraft, 49 of which were owned, 13 under financial lease, 90 on operating leases and 2 on wet lease

During the third quarter of 2004, Iberia added two new Airbus aircraft to its short and medium-haul fleet: an A-320 in July, which it owns; and an A-319 in August, which it will operate under an operating lease. In August and September two B-757 under operating lease were retired. As a result, on 30th September the company’s short and medium-haul fleet consisted of 126 aircraft; plus a further 28 used for long-haul flights, following the addition of two B-747/400 on wet lease.

## Subsidiaries and Other Business Interests

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

During the first nine months of 2004, Cacesa posted a profit before tax of €0.7 million, €0.3 million up on last year, while Savia recorded a €8.6 million profit before tax, similar to that obtained in last year.

## Highlights subsequent to 30th September and prospects

- As from 1st October, Iberia has restructured its operations in Central America, ceasing to operate its own flights between its distribution centre in Miami and different Central American countries and replacing them with direct flights from Spain to Guatemala, San José de Costa Rica and Panama, and connecting these three airports with the other destinations in the region with code-sharing flights operated by other airlines. The main reason for this decision is to improve customer service, while at the same time optimising the company's income in the region.
- On 2nd November, the Board of Directors of Aeropuertos Españoles y Navegación Aérea (AENA), assembled in an extraordinary meeting, awarded the largest share of the New Terminal Area T-4 of the Madrid-Barajas airport to Iberia and its partners in the **oneworld** alliance.
- In 2004, Iberia hopes to achieve an EBITDAR margin of the order of 15.5% and consolidated income before extraordinary items and tax of over €200 million.

Madrid, 15th November 2004