FIRST QUARTER RESULTS
JANUARY-MARCH 2006

Main figures (not audited) (a)

IBERIA GROUP	1st Quarter (Jan – Mar)		
€ thousand	2006	2005	%
Revenues from operating activities	1.206.816	1.118.517	7,9
Costs from operating activities	1.271.518	1.154.059	10,2
Profit/loss from operating activities	-65.428	-31.208	-109,7
EBITDAR (b)	100.213	107.913	-7,1
Operating Income EBIT (b)	-63.513	-31.124	-104,1
Profit after taxes	-44.964	-16.097	-179,3
Total shareholders' equity (c))	1.693.615	1.738.233	-2,6
In-balance sheet net debt (c)	-1.169.179	-1.142.390	2,3
Adjusted net debt x 8 (c)	1.848.430	1.739.125	6,3
ASK (million)	15.689	15.261	2,8
RPK (million)	11.876	11.421	4,0
Load factor (%)	75,7	74,8	0,9 p.
Passenger revenues	884.567	810.854	9,1
Yield (€ cent)	7,45	7,10	4,9
Passenger Revenue / ASK (€ cent)	5,64	5,31	6,1
Operating revenue/ASK (€ cent)	7,69	7,32	5,0
Operating expense/ASK (€ cent)	8,10	7,53	7,5
Operating expense (ex fuel)/ASK (€ cent)	6,45	6,37	1,4

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS),
(b) Non recurrent revenues and expenses are not included.
(c) March 2006 v December 2005. (See notes page 9).
Number of shares as at 31-March-2006: 947.893.931; 31-Dec-2005: 943.161.939

Highlights

- IBERIA posted a consolidated loss of €45 million, down €29 million year on year, due mainly to the fuel price hike (expense increased by €80 million in the first quarter of 2006).
- The unit operating revenue rose by 5.0% year on year, continuing the improvement started in the second half of 2005, mainly as a result of the significant increase in unit passenger revenues on international flights.
- The load factor improved by 0.9 points in comparison with the first quarter of 2005, despite the different Easter calendar. It is worth noting the good performance of international flights.
- Unit operating expense ex fuel was up 1.4% year on year. It was affected by the costs of transferring operations to Terminal 4 at Madrid airport, the appreciation of the dollar and the positive impact that IFRS had in 2005 on aircraft leasing costs.
- Despite the significant fall in operating income, the EBITDAR only dropped by 7% and its margin stood at 8.3%.
- Staff productivity (measured as ASK per employee) rose 4% year on year while fleet utilisation improved by 1.6%.

Operating Statistics

IBERIA GROUP (a)	1st Quarter (Jan – Mar)		
	2006	**2005**	**%**
SCHEDULED TRAFFIC			
Passengers (thousand)	**6.300**	**6.181**	**1,9**
Domestic	3.408	3.467	-1,7
Medium Haul	2.012	1.844	9,2
Europe	1.885	1.733	8,8
Africa & Middle East	127	111	14,7
Long Haul	880	871	1,1
ASK (million)	**15.689**	**15.261**	**2,8**
Domestic	3.416	3.408	0,2
Medium Haul	4.105	3.946	4,0
Europe	3.680	3.548	3,7
Africa & Middle East	425	399	6,6
Long Haul	8.168	7.907	3,3
RPK (million)	**11.876**	**11.421**	**4,0**
Domestic	2.215	2.285	-3,1
Medium Haul	2.649	2.395	10,6
Europe	2.351	2.130	10,4
Africa & Middle East	298	265	12,4
Long Haul	7.011	6.740	4,0
Load factor (%)	**75,7**	**74,8**	**0,9 p.**
Domestic	64,8	67,1	-2,2 p.
Medium Haul	64,5	60,7	3,8 p.
Europe	63,9	60,0	3,9 p.
Africa & Middle East	70,0	66,4	3,6 p.
Long Haul	85,8	85,2	0,6 p.
CARGO			
Cargo Tones	56.068	58.869	-4,8
ATK (million)	379	380	-0,3
RTK (million)	250	263	-5,0
Load factor (%)	65,9	69,3	-3,3 p.
PASSENGER REVENUES			
Revenues (€ thousand)	884.567	810.854	9,1
Revenue / ASK (€ cent)	5,64	5,31	6,1
Revenue / RPK (€ cent)	7,45	7,10	4,9

(a) Iberia L.A.E. traffic
ASK: Available Seat Kilometre; RPK: Revenue Passenger Kilometre; ATK: Available Ton Kilometre; RTK: Revenue Ton Kilometre.
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.

Traffic and Passenger Revenues

The overall network load factor was 0.9 percentage points higher than in the first quarter of last year, at 75.7%, the company's best ever in this quarter. These figures are more significant considering that in 2006 Easter was in April, whereas in 2005 it was in March, which is unfavourable for year-on-year comparison. Traffic, measured in RPK, was 4% higher than in the first quarter of 2005, against a 2.8% increase in capacity, due mainly to the reconfiguration of passenger cabins, that has led to an increase in the number of seats without reducing the pitch.

The increases in traffic and capacity of Iberia in the first quarter of 2006 were more moderate than the average growth recorded by the European network carriers (according to figures published by the Association of European Airlines-AEA, RPK were up 4.7% and ASK by 4.4% year on year), although the load factor growth outstripped the AEA average by 0.7 percentage points.

On Iberia international flights, ASK rose by 3.5% and the load factor improved by 1.6 points year on year. In the domestic sector, however, the capacity remained stable while the load factor slid 2.2 points, consequently the average stage length grew by 2.0%, explaining why the increase in the number of passengers (1.9%) was smaller than the growth in RPK.

Passenger revenues on tickets actually flown in the first quarter of 2006 increased by 9.1% in comparison with last year. The increased capacity and improved load factor account for just over one-third of this increase, while yield rose 4.9%. Revenue per ASK for the network as a whole was 6.1% better than in 2005.

The **long-haul** sector maintained a high load factor, rising to 85.8%, 0.6 points up on last year, while the mix also improved. The growth of the Latin American networks offset the reductions on North Atlantic flights, where capacity and traffic dropped by around 16%. On Mid-Atlantic flights, the load factor rose to 86%, up 0.6 points, against a 3.9% increase in capacity. Performance was particularly outstanding in Ecuador. The load factor on South Atlantic flights was high, at 89.5%, 1.4 points up on the first quarter of 2005, with a sharp increase also in capacity (9.9%). Uruguay and Brazil improved considerably, in the latter case helped by the increase in frequencies of flights to Rio de Janeiro, a daily flight since November 2005.

Passenger revenues on long-haul flights rose 19.8% year on year, owing to the increase in traffic and the 16% rise in unit revenues per ASK, in turn partly due to the appreciation of the dollar and the fuel surcharges.

The **medium haul** international sector experienced the greatest progression, in terms of both ASK (4%) and RPK (10.6%). The performance of traffic was good at most destinations, with an especially remarkable growth on flights to Italy, Denmark, Greece and Russia (one year after its launching the evolution of the Madrid-Moscow flights is positive). The yield dropped 1.7%, pulled down by the tough competition on the European markets and the longer average stage length (1.3%). However, the improvement of the load factor (3.8 points) offset this decline, giving a year-on-year growth of 4.6% in unit revenue per ASK.

On the **domestic market**, where competitors' capacity is growing at a significant rate, Iberia maintains its strategy of redistributing capacity and a commercial policy focused on improving the yield, with the aim of enhancing the network profitability. Consequently, in the first quarter of 2006, the yield rose by 1.9%, partly offsetting the effect of the lower load factor.

The cargo revenue tonne kilometres (RTK) dropped 5.0% and the load factor was down 3.3 points year on year. Of the 250 million RTK, 93.5% was carried in the bellies of passenger aircraft (compared to 94.3% last year), 80% on Atlantic routes.

Consolidated Statements of Income (not audited) (a)

€ thousand	1st Quarter (Jan – Mar) 2006	2005	%
Profit/loss from operations (b)	**-65.428**	**-31.208**	**-109,7**
Revenues from operating activities	**1.206.816**	**1.118.517**	**7,9**
Net sales	**1.162.466**	**1.076.473**	**8,0**
Passenger revenue (c)	949.840	872.839	8,8
Cargo revenue	75.936	74.953	1,3
Handling	64.704	68.399	-5,4
Technical assistance to airlines	48.591	38.400	26,5
Other revenues	23.395	21.881	6,9
Other operating revenues	**44.351**	**42.044**	**5,5**
Recurring	44.269	41.374	7,0
Non-recurring	82	670	-87,8
Costs from operating activities	**1.271.518**	**1.154.059**	**10,2**
Procurements	**312.679**	**227.546**	**37,4**
Aircraft fuel	257.554	177.309	45,3
Aircraft spare parts	44.736	39.606	13,0
Catering materials	5.223	5.715	-8,6
Other purchases	5.167	4.915	5,1
Personnel expenses	**348.024**	**363.396**	**-4,2**
of which: Non recurring	-	5.000	n.a.
Depreciation and amortization	**52.202**	**44.762**	**16,6**
Other operating costs	**558.613**	**518.355**	**7,8**
Aircraft leases	111.523	94.275	18,3
Dry lease	96.046	85.361	12,5
Wet lease	11.688	5.382	117,1
Cargo lease	3.789	3.531	7,3
Other rentals	18.559	18.569	-0,1
Fleet maintenance (subcontracts)	36.162	36.124	0,1
Commercial expenses	59.552	62.744	-5,1
Traffic services	109.459	102.268	7,0
Navigation charges	70.471	67.749	4,0
In flight services	15.429	14.926	3,4
Booking systems	45.566	38.069	19,7
Insurance	7.939	7.831	1,4
Other expenses	83.952	75.801	10,8
of which: Non recurring	1.271	89	n.m.
Net gains on disposals of non-current assets	-726	66.034	n.m.
Impairment losses	-	61.700	n.a.

n.a.: not applicable; n.m.: not meaningful
(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS).
(b) Profit/loss from operations includes operating income as well as non recurring revenues and costs.
(c) Passenger revenues include issued but unused tickets, previously accounted in current liabilities as customer advances, together with other minor adjustments.

€ thousand	1st Quarter (Jan – Mar) 2006	2005	%
Financial results	**-2.821**	**825**	**n.m.**
Financial revenues	13.314	9.502	40,1
Financial expenses	15.346	10.535	45,7
Exchange gains/losses	-357	2.382	n.m.
Other revenues and expenses	-432	-523	17,5
Share of results of associates	**1.290**	**7.017**	**-81,6**
Profit before taxes	**-66.958**	**-23.366**	**-186,6**
Taxes	21.994	7.269	202,6
Profit after taxes	**-44.964**	**-16.097**	**-179,3**
Attributable to shareholders of the parent company	-44.998	-16.126	-179,0
Attributable to minority interests	34	29	17,2
Basic earnings per share (euros)	-0,048	-0,017	-177,0

n.a.: not applicable; n.m.: not meaningful
Average weighted nº of shares 1st quarter 2006: 944.266.070 en 2006; 1st quarter 2005: 937.467.468

KPI (not audited) (a)

IBERIA GROUP	1st Quarter (Jan – Mar) 2006	2005	%
Unit Ratios (€ cent/ASK)			
OPERATING REVENUE	7,69	7,32	5,0
OPERATING COST	8,10	7,53	7,5
Fuel	1,64	1,16	41,3
Fleet Maintenance	0,52	0,50	3,9
Spare parts	0,29	0,26	9,9
Maintenance (subcontracts)	0,23	0,24	-2,6
Personnel	2,22	2,35	-5,5
Aircraft Lease	0,71	0,62	15,1
Commercial	0,38	0,41	-7,7
Traffic services	0,70	0,67	4,1
Navigation charges	0,45	0,44	1,2
In-flight services and catering materials	0,13	0,14	-2,7
Rest	1,35	1,24	8,7
Net fleet maintenance (b)	0,36	0,37	-2,6
Net commercial cost / traffic passenger and cargo revenue (%) (c)	4,0	4,5	-0,5 p.
Productivity			
Average fleet utilization (block hours/aircraft/ day)	9,11	8,97	1,6
Annual average headcount	23.772	24.044	-1,1
ASK / Employee	660	635	4,0
Ground	895	864	3,5
Ground (without handling)	1.743	1.662	4,9
Block hours / Technical crew	66,4	63,0	5,5
Block hours / Flight attendant	29,7	28,7	3,7

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS)
(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).

Revenues from operating activities

Revenues from operating activities were up 7.9% year on year to €1,206.8 million in the first quarter of 2006. Of this sum, €1,025.8 million (85% of the total) corresponded to passenger and cargo revenues, 8.2% higher than in 2005. The remaining revenues from operating activities (generated mainly on handling services and maintenance for third parties) totalled €181 million, 6.0% up on the €170.7 million recorded one year earlier.

Passenger revenues totalled €949.8 million, €77 million (8.8%) up on last year. Of this sum, €884.6 million correspond to revenues on tickets actually flown during the period. The aggregate sum of other passenger revenues (cancellation of advance payments from customers for issued but unused tickets, revenues from frequent flyer programmes, leasing to other carriers and other regularisations) totalled €65.3 million, up €3.3 million on the first quarter of 2005.

Cargo revenues were up 1.3% on the amount recorded in the first three months of 2005. The yield improved by 7.7%, benefiting from the dollar appreciation against the euro, which offset the adverse effect of the decline in volume of traffic.

Revenues generated on **handling** services totalled €64.7 million, down 5.4% year on year, due to the drop in activity for third parties (9.4% in terms of weighted aircraft handled) following the discontinuation of the services provided to Binter Canarias as from October 2005. Just as in the last quarter of 2005, there was a strong growth in technical assistance revenues (26.5%), which rose to €48.6 million in the first quarter of 2006. "Other revenues" rose 6.6% year on year, pushed up by the €2.5 million increase in booking system revenues (Amadeus, mainly).

"**Other operating revenues**" were up 5.5% on the first quarter of 2005, due to the increased revenues on leases and in-house work on fixed assets, offsetting the drop in commission revenues and the recovery of provisions for major repairs.

Costs from operating activities

Costs from operating activities increased by €117.5 million (10.5%) year on year, of which €80.2 million correspond to the higher fuel expense. Other factors pushing operating costs up were the appreciation of the dollar, rising interest rates, capacity increase and commencement of operations at the new Terminal 4 in Madrid.

The **fuel** expense totalled €257.6 million in the first quarter of 2006, 45.3% more than in the same period of 2005 and now accounts for 20.3% of the operating costs. Brent prices moved at levels far higher than last year, peaking at over 66$/barrel at the end of March, more than 32% up on the average price in dollars (before hedging) in the first quarter of 2005. Costs were also pushed up by the appreciation of the dollar and, to a smaller extent, the increase in flight hours.

Through the hedging contracts Iberia was able to secure the price with bands between 50-60$/barrel for 50% of the kerosene consumption and a 30% at an average price equivalent of 54$/barrel. Consequently, the hedging tools managed to curb the increase in expense by almost 6 million euro in the first quarter of the year. Similarly, the positive effect of exchange rate hedges partially offset the increase in cost (€4.2 million). Fleet efficiency in terms of fuel consumption improved and had a positive impact of €10 million saving. Despite all this, the unit fuel cost (per ASK) rose by 41.3%.

Unit **personnel** costs were brought down by 5.5% year on year by reducing the headcount and freezing salaries. The average headcount of flight staff was lowered by 2.4%, while productivity -measured in block hours per manpower equivalent- of pilots and flight attendants increased by 5.5% and 3.7%, respectively. The average headcount of ground staff was cut by 0.7%, while its productivity -measured in ASK/employee- rose by 3.5%.

Aircraft leasing costs increased by 18.3% (15.1% in unit terms) over the same period of 2005, due largely to the negative impact of valuation of the hedging financial tools for exchange rate and interest rate risks in aircraft rentals. As a result of applying IAS 39 at 31 March 2006, aircraft leasing costs were raised by €6.1 million. In contrast, the valuation of derivative instruments made at the end of the first quarter of 2005 registered an increase in value which reduced the aircraft leasing costs for the period by €10.8 million. Excluding these effects leasing costs would have been similar than in 2005 due to the larger number of aircraft operated under wet leases which was offset by the lower leasing costs of five A 340-600 (incorporated in the balance sheet in December 2005). This change led to a 16% increase in amortizations. Excluding the effect of the different hedging valuation and 50% of the wet lease, ownership costs (aircraft leasing + amortizations) increased by 3.2%.

The unit cost of **fleet maintenance** (including spare parts, maintenance sub-contracts and provisions for major repairs of aircraft on operating leases) was 3.9% higher than in the first quarter of 2005, owing to the growth in spare parts as a consequence of the increase in activity, especially in the engines. But if the costs estimated for third-party engine and aircraft maintenance are deducted from the total aggregate expense, the net unit cost is down 2.6% year on year, largely as a result of the greater homogeneity of the fleet.

Commercial costs were down 5.1% on last year, mainly due to the development of the new remuneration model for travel agencies.

The **booking system** cost was up €7.5 million (19.7%) year on year. The new structure and contents of the booking system tariffs for 2006 brought a net increase in the average price, which was boosted in the first quarter by the rise in advance bookings (different dates for Easter and several advertising campaigns for the spring). Nevertheless, this increased cost must be considered together with the larger revenues deriving from the deductions agreed with some booking systems, particularly Amadeus (recorded under “Other revenues”).

“Other expenses” totalled €84 million in the first quarter of 2006, up 10.8% on last year. Excluding non-recurring items, the increase was 9.2%. Compensations, one of the items included within this concept, amounted to a cumulative €12.2 million in the first three months of 2006, up by almost 35% on last year, due partly to the teething troubles at Terminal T4 and the coming into force of the EU Regulation 261/2005 of 17 February 2006, which raised compensations and assistance to passengers in the event of denied boarding due to overbooking and extended the compensations to passengers affected by delays or cancellations and loss of baggage.

Financial and Other Non-Operating Results

A **financial loss** of €2.8 million was recorded in the first quarter of 2006 due to the €2.7 million reduction in the net balance of exchange differences in respect of the same period of last year. In pursuance of IAS 39, the valuation of hedging tools led to a reduction of the financial result by €0.4 million in the first quarter of 2006, similar to the -0.5 million reduction last year.

The net balance of Iberia’s **share of results of associates** was €1.3 million in the first quarter of 2006, €5.7 million less than the positive balance recorded last year, owing to the exclusion of Amadeus from the consolidated group.

The “**Net gains on the disposals of non-current assets**” was a loss of €0.7 million in the first quarter of 2006, compared to a net income of €66 million recorded in the same period of the preceding year, corresponding mainly to the sale of Iberia’s stake in SAVIA.

An extraordinary provision of €61.7 million was made for the “**Impairment losses**” in the first quarter of 2005 to meet the accelerated depreciation of the McDonnell Douglas (MD-87/88) aircraft, intended to adjust the book value of this fleet to its market value.

Operating Fleet

IBERIA GROUP (a)	March 2006	December 2005	March 2005
Long Haul	**32**	**30**	**31**
Owned	5	5	1
Financial lease	0	0	0
Operating lease	25	23	28
Wet lease	2	2	2
Short and Medium Haul	**122**	**124**	**123**
Owned	40	41	44
Financial lease	14	14	12
Operating lease	63	66	67
Wet lease	5	3	0
Total	**154**	**154**	**154**
Owned	45	46	45
Financial lease	14	14	12
Operating lease	88	89	95
Wet lease	7	5	2

(a) End of period, excluding inactive aircraft
Additionally, as at 31-March-2006 Iberia has two Airbus A-320 leased to other airline.

Operating Fleet and Variations

At 31 March 2006, Iberia had an operating fleet of 154 aircraft, 59 of which were on-balance sheet and 95 off-balance sheet (under operating leases or wet leases).

During the first quarter of 2006 the company added two A-340/600 under operating leases to its long haul fleet, which now has 32 aircraft available. The short and medium haul fleet consisted of 122 aircraft at the end of the quarter. A B-757 under operating lease was withdrawn in January and a further two aircraft of the same model, also under operating leases, have been operated for Iberia under wet leases since March. An MD87 owned by the company has been phased out, according to the plan to retire this fleet.

Consolidated Balance Sheet (not audited) (a)

€ thousand	**March 2006**	**December 2005**
ASSETS	**5.682.500**	**5.543.918**
Non-current assets	**2.700.591**	**2.747.206**
Intangible assets	45.321	47.417
Property, plant and equipment	1.449.355	1.463.584
Investments in associates	13.402	12.126
Non-current financial assets	700.653	731.711
Iberbus loans	*163.624*	*167.879*
Iberbond bonds	*30.810*	*30.810*
Other	*506.219*	*533.022*
Deferred tax assets	484.528	484.513
Other non-current assets	7.332	7.855
Non-current assets held for sale	**3.013**	**3.013**
Current assets	**2.978.896**	**2.793.699**
Inventories	112.435	114.682
Accounts receivable	823.964	643.380
Current financial investments	1.214.965	1.190.673
Cash and cash equivalents	801.954	821.439
Other current assets	25.578	23.525
EQUITY AND LIABILITIES	**5.682.500**	**5.543.918**
Equity	**1.693.615**	**1.738.233**
Share capital	739.357	735.666
Share premium	115.260	111.285
Reserves of the parent company	892.397	631.417
Reserves at fully consolidated companies	-10.490	143.034
Translation differences and differences due to adjustment of capital to euros	1.012	1.025
Profit attributable to the parent company	-44.998	395.789
Interim dividend	0	-281.026
Minority interests	1.077	1.043
Non-current liabilities	**2.084.017**	**2.121.781**
Convertible debenture issue	9.153	9.153
Bank borrowings and non-current obligations under finance leases	672.435	696.954
Long term provisions	1.374.502	1.381.179
Other liabilities	27.927	34.495
Current liabilities	**1.904.868**	**1.683.904**
Convertible debenture issue	1.488	9.153
Bank borrowings and current obligations under finance leases	111.770	111.696
Deferred income	32.328	31.850
Other liabilities	1.759.282	1.531.205

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS).

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

In Balance-Sheet Net Debt: (Convertible debenture issues + bank borrowings and obligations under finance leases) – (Current financial investments + Cash and cash equivalents).
Does not include the value of financial instruments for hedging included in Current financial investments (IAS 39) which amounted to 52,894 thousand euros as of 31-Mar-2006 and 42,766 thousand euros as of 31-Dec-2005.

Capitalized leases: This concept is used to calculate Adjusted Net Debt. It includes the amount of dry lease (excluding the value of non efficient hedging) + 50% of wet leases + 50% cargo lease. Annual Leases expenses amounted to €374,113 thousand in 2005. To get an approximation of the annual value of aircraft rentals in 2006, leases expenses for the first quarter (€97,717thousand) must be multiplied by 4, this is €390,870 thousand. The result is multiplied by 8 to get the capitalized operating leases.

The financial investments in lessor companies created by Iberia to acquire fleet under operating or financial leasing (Iberbus and Iberbond) must be deducted from the total adjusted debt in order to avoid duplicities, as they are already computed as debt.
Iberbond bonds. Long-term financial investment in the Iberbond 99 bond issue that has to be netted with the equivalent liability in the balance sheet.
Iberbus loans. Long-term loans to Iberbus companies. These loans bear 6% interest that Iberia receives and also pays as a part of aircraft rentals. The capitalised debt corresponding to this element of the aircraft rental must be deducted from the off-balance sheet debt (Aircraft rentals x 8).
For March 2006: 6% of 163.624 MM/ € x 8 = € 78.540 million
For December 2005: 6% of 167.879 MM/ € x 8 = € 80.582 million

Consolidated Cash Flow Statements (not audited) (a)

€ thousand	Jan-Mar 2006	Jan-Mar 2005
Consolidated profit before tax	**-66.958**	**-23.366**
Depreciation and amortisation charge and impairment losses	52.202	106.462
Period provisions (net) (+/-)	21.332	25.295
Provisions used (-)	-28.010	-62.814
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)	726	7.803
Gains/Losses on disposal of investments (+/-)	-	-73.837
Results of associates accounted for using the equity method (+/-)	-1.290	-7.017
Gains/Losses on hedging transactions (+/-)	4.450	-
Effect of exchange rate changes not giving rise to cash flows	-452	621
Other adjustments of the cash-flow (+/-)	13.095	15.008
Net change in assets/liabilities not giving rise to cash flows	67.764	26.205
Taxes paid	-14.315	-48.650
Cash flow from operating activities	**48.544**	**-34.290**
Net investment in subsidiaries, jointly controlled entities and associates	-	82.350
Net investment in property, plant and equipment, intangible assets and investment property	-51.727	177.131
Net investment in non-current investments	-	-20.290
Net investment in investments and other current financial assets	-26.876	-109.902
Net investment in other assets	11.082	6.165
Dividends and interest received (+)	16.132	7.094
Net investment in treasury shares (+/-)	-4.208	-2.369
Cash flow from investing activities	**-55.597**	**140.179**
Dividends paid (-)	-	-
Changes in bank borrowings and other financial liabilities (+/-)	-11.866	30.441
Interest paid on debt (-)	-8.288	-423
Other debt	56	58
Capital increase	7.666	-
Cash flow from financing activities	**-12.432**	**30.076**
Net cash flow	**-19.485**	**135.965**
Cash and cash equivalents at beginning of year	821.439	566.461
Cash and cash equivalents at end of year	801.954	702.426

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS)

Net Debt to Equity / Cash Flow

The in-balance sheet net debt is still negative (the balance of short-term financial assets exceeds the total interest-paying debt), standing at -€1,169.2 million at 31 March 2006, with a 2.3% improvement thanks to the reduction of the debt. The adjusted net debt, which includes annualized operating lease capitalisation, increased by 6.3% over last year-end. Leverage, measured as adjusted net debt over total resources, was 2.2 percentage points higher than at 31 December 2005, at 52.2%.

Equity totalled €1,693.6 million at 31 March 2006, €44.6 million down on year-end, due largely to the result recorded in the quarter. The balance of consolidated company reserves has come down as a result of the distribution of the 2005 profits, deriving from the sale of Amadeus.

In March, Iberia increased its capital by 0.5% by issuing 4.7 million ordinary shares, on the third date for exercising options under the stock option plan approved by the General Meeting in 2002. The company now has 947,893,931 shares. As a result of that capital increase, the share premium increased by almost €4 million over year-end 2005.

During the first quarter of 2006, Iberia generated a positive cash flow from operating activities of €48.5 million, €82.8 million more than the net cash flow generated during the same period of last year. However, the net cash flow from investment activities was €84.6 million down on that generated in the first quarter of 2005, since the latter included the sale of Savia shares and sale and lease back operations.

Principal effects of applying the IFRS

At 31 March 2006, the derivatives included in the financial assets on the balance sheet were valued at €65.4 million, of which €52.9 million are included in current financial investments. In comparison with the valuation made at year-end 2005, the value of derivatives has fallen, pulling down the profit before taxes by €4.5 million. The rest of the change in value has been carried to reserves. Most of the reduction in value is due to the evolution of the dollar/euro exchange rate from the revaluation price at December 2005 (1.1794) to the revaluation price at March 2006 (1.2104). The evolution of interest rate curves over the quarter and their effect on cross-currency swaps also had an adverse effect. The reduction in the result is distributed as follows on the profit and loss account 1Q2006: €6.1 million as increased expense corresponding to the valuation of financial instruments linked to the aircraft operating lease; €2.0 million reduction in fuel expense; and €0.4 million as increased expense in the valuation of other financial instruments. On the contrary, the valuation of hedging operations at 31 March 2006 reduced expenses on the profit and loss account by €11.6 million (or improved result before taxes).

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