

Main figures (not audited) (a)

IBERIA GROUP € thousand	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2006	2005	%	2006	2005	%
Revenues from operating activities	1.447.041	1.214.228	19,2	2.653.858	2.332.745	13,8
Costs from operating activities	1.396.996	1.154.678	21,0	2.668.514	2.308.737	15,6
Profit/loss from operating activities	48.863	60.154	-18,8	-16.565	28.946	n.s
EBITDAR (b)	218.296	194.659	12,1	318.509	302.572	5,3
Operating Income EBIT (b)	49.264	59.597	-17,3	-14.248	28.473	n.s.
Operating Income EBIT (ex IAS 39) (c)	58.471	41.843	39,7	-1.022	-1.377	25,7
Profit after taxes	35.726	45.337	-21,2	-9.238	29.241	n.s.
Total shareholders' equity (d)	---	---	---	1.625.324	1.738.233	-6,5
In-balance sheet net debt (d)	---	---	---	-1.410.889	-1.142.390	23,5
Adjusted net debt x 8 (d)	---	---	---	1.690.490	1.739.125	-2,8
ASK (million)	16.809	15.843	6,1	32.498	31.105	4,5
RPK (million)	13.420	11.939	12,4	25.296	23.359	8,3
Load factor (%)	79,8	75,4	4,5 p.	77,8	75,1	2,7 p.
Passenger revenues	1.037.240	888.720	16,7	1.921.808	1.699.574	13,1
Yield (€ cent)	7,73	7,44	3,8	7,60	7,28	4,4
Passenger Revenue / ASK (€ cent)	6,17	5,61	10,0	5,91	5,46	8,2
Operating revenue/ASK (€ cent)	8,29	7,66	8,2	8,00	7,50	6,7
Operating expense/ASK (€ cent)	7,99	7,28	9,7	8,04	7,40	8,6
Operating expense (ex fuel)/ASK (€ cent)	6,19	6,10	1,4	6,32	6,23	1,4

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

(b) Non recurrent revenues and expenses are not included.

(c) Excluding the effect of IAS 39 in every period

(d) June 2006 v December 2005 (See notes pages 12 and 13).

Number of shares as at 30-June-2006: 947.893.931; 31-Dec-2005: 943.161.939

n.m.: not meaningful

Highlights

- Second-half revenues rose more than 19% year on year, pushed up by a strong growth in yield and load factor on international markets.
- Business class behaved very positively both in the long haul, accumulating an improvement of 9.6 points in the first six months of the year, and in Europe.
- EBITDAR grew by 12% over the year, despite the hike in fuel prices (fuel expense up €116 million).
- Operating income totalled €49.2 million, down 17.3% on the second quarter of last year, mainly due to the adverse effect on the year-on-year comparison of applying IAS 39. Without this effect operating income would have improved 40% with respect to last year.
- Unit operating costs (excluding fuel) rose by 1.4% in the second quarter, but without the adverse effect of IAS 39 they would have been down 1%, with significant improvements in personnel and commercial expenses.
- Staff productivity grew by 7.5% in ASK/employee compared to the second quarter 2005. Operating revenue per employee went up 16.3% in the second quarter and 12.9% in the first half.
- Thanks to the favourable behaviour of traffic in our main markets during the second quarter and the success of the new services offered, the decline in principal operating margins recorded in the last few quarters levelled off, despite a major fuel price hike during the quarter. We expect this new trend will consolidate in forthcoming months.

Operating Statistics

IBERIA GROUP (a)	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2006	2005	%	2006	2005	%
SCHEDULED TRAFFIC						
Passengers (thousand)	7.461	7.242	3,0	13.761	13.423	2,5
Domestic	3.996	4.174	-4,3	7.404	7.641	-3,1
Medium Haul	2.501	2.248	11,2	4.513	4.092	10,3
Europe	2.355	2.125	10,8	4.240	3.858	9,9
Africa & Middle East	147	123	19,4	274	234	17,2
Long Haul	964	819	17,6	1.844	1.690	9,1
ASK (million)	16.809	15.843	6,1	32.498	31.105	4,5
Domestic	3.416	3.548	-3,7	6.832	6.955	-1,8
Medium Haul	4.272	4.239	0,8	8.377	8.186	2,3
Europe	3.806	3.778	0,7	7.486	7.326	2,2
Africa & Middle East	466	461	1,0	891	860	3,6
Long Haul	9.121	8.056	13,2	17.289	15.964	8,3
RPK (million)	13.420	11.939	12,4	25.296	23.359	8,3
Domestic	2.600	2.691	-3,4	4.815	4.977	-3,2
Medium Haul	3.299	2.933	12,5	5.949	5.328	11,6
Europe	2.961	2.640	12,1	5.313	4.771	11,4
Africa & Middle East	338	292	15,6	636	557	14,1
Long Haul	7.521	6.315	19,1	14.532	13.055	11,3
Load factor (%)	79,8	75,4	4,5 p.	77,8	75,1	2,7 p.
Domestic	76,1	75,9	0,3 p.	70,5	71,6	-1,1 p.
Medium Haul	77,2	69,2	8,0 p.	71,0	65,1	5,9 p.
Europe	77,8	69,9	7,9 p.	71,0	65,1	5,8 p.
Africa & Middle East	72,6	63,4	9,2 p.	71,4	64,8	6,5 p.
Long Haul	82,5	78,4	4,1 p.	84,1	81,8	2,3 p.
CARGO						
Cargo Tones	57.725	56.727	1,8	113.794	115.596	-1,6
ATK (million)	407	392	3,8	786	772	1,8
RTK (million)	259	246	5,3	509	509	-0,0
Load factor (%)	63,7	62,8	0,9 p.	64,8	66,0	-1,2 p.
PASSENGER REVENUES						
Revenues (€ thousand)	1.037.240	888.720	16,7	1.921.808	1.699.574	13,1
Revenue / ASK (€ cent)	6,17	5,61	10,0	5,91	5,46	8,2
Revenue / RPK (€ cent)	7,73	7,44	3,8	7,60	7,28	4,4

(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

Following the strategy established in the Director Plan 2006/08, the commercial programme for the summer season (commencing 26 March) boosted the growth of capacity in the long-haul sector, with selective adjustments in the short and medium-haul networks. Consequently, in the **second** quarter of 2006, the available seat kilometres (ASK) on the entire network grew by 6.1% year on year. This increase was due mainly to more frequencies and the use of larger aircraft (A340-600) on long-haul flights, together with the cabin reconfiguration programme, that increased the number of seats without reducing the pitch, thereby improving passenger comfort.

The total revenue passenger-kilometres (RPK) were 12.4% higher than in the second quarter of 2005. The greater increase in traffic on international flights (17%) was the main reason behind the significant growth in the average stage length (9.1%), which explains why the increase in RPK was so much greater than the growth in the total number of passengers (3%). Load factor improved by 4.5 points year on year, to 79.8%, an all-time Q2 high for the company. The improvements in traffic and load factor were partly favoured by the different dates of Easter.

The increases in traffic and capacity and the improved load factor of Iberia in the second quarter of 2006 outstripped the average growth recorded by the European network carriers. According to provisional figures published by the Association of European Airlines (AEA) ASK were up 4.1% and RPK by 7.1% year on year, while the load factor grew by 2.2 percentage points on average.

Passenger revenues on tickets actually flown in the second quarter of 2006 increased by 16.7% in comparison with last year. The growth in traffic, due to the significant improvement in load factor and increased capacity, accounts for just over half of this increase. The yield rose by 3.8%, despite the growth in the average stage length. The average revenue per ASK increased by 10% year on year.

In the **long haul** sector, the company increased its capacity by 13.2%, four times more than in the first quarter (3.3%), obtaining a good response from demand in most countries, with a 17.6% increase in the number of passengers. The load factor improved by 4.1% year on year to 82.5%; this improvement was even greater in the *Business Plus* class, where the load factor improved by 11.3 points over last year.

Traffic increased and load factor improved in all three large areas of America (North, Centre and South). The performance of South Atlantic flights was particularly impressive, with a 34.8% growth in RPK and a 6.4 point rise in load factor. Traffic growth was also strong in Costa Rica, Panama, Puerto Rico and South Africa. In North America, the increased frequencies to New York and the improved utilisation of the A-340/600 led to a 4% growth in capacity compared to the second quarter of 2005, with a 10.1% increase in traffic, contrasting with the reductions recorded in the first quarter of 2006 (around 16%).

Passenger revenues on long-haul flights rose 38.7% year on year, owing to the increase in traffic (19.1%) and the 16.4% increase in yield, which benefited from the sustained improvement in the mix, fuel surcharges and, to a smaller extent, the appreciation of the dollar. The unit revenue per ASK rose 22.5% year on year, or 20.6% without the positive effect of the dollar appreciation, rather more moderate than in the first quarter.

The load factor in the **medium haul** international sector continued the favourable trend that began in the second half of 2005, improving by 8.0 points to 77.2%. Against a small increase in capacity (0.8%), due to the reconfiguration of passenger cabins, RPK increased considerably (12.5%). Yield rose by 1% year on year, in spite of the longer average stage length (1.1%), improving the unit revenue per ASK, which grew by 12.8%. Traffic and revenues grew on most European Union markets and all destinations in Africa and the Middle East. In relative terms, traffic increased considerably in Denmark (49%), Greece (72%), Israel (28%) and Morocco (39%). Among the larger markets, performance was particularly good in Germany, France and Italy.

On the **domestic market** Iberia maintains its strategy of selective reduction of capacity and a commercial policy focused on improving unit revenues, with the aim of enhancing the network profitability. Consequently, in the second quarter of 2006, the average revenue per ASK rose by 5.1% year on year, due largely to the increased yield (4.8%) and to a lesser extent by a slight improvement in the load factor (0.3 points), to 76.1%.

Although traffic fell by 0.6% on flights between the mainland and the Canary Islands, against a 1.1% increase in capacity, passenger revenues grew by almost 13%. In the rest of the domestic sector (flights to and from the Balearic Islands and mainland destinations) the RPK fell by less than ASK (5.0% and 6.2% respectively) improving unit revenue.

The **cargo** business improved in the second quarter of 2006, with a 5.3% increase in revenue tonne kilometres (RTK) and a 0.9 percentage point improvement in load factor. Both these items had fallen in the previous three quarters. Of the 259 million RTK, 94% were carried in the bellies of passenger aircraft, 80% on Atlantic routes.

In the **first half** of 2006 the company increased its RPK by 8.3% over the same period of last year while improving its load factor by 2.7 percentage points to 77.8%. Both these rises were above the average posted by the European network carriers, i.e. 5.9% in traffic and 1.2 points in load factor (according to provisional figures published by the AEA). In absolute terms, the bulk of the increase in capacity and traffic was in the long-haul sector, although the medium haul international sector recorded the largest increase in traffic in relative terms (11.6%), thanks to the strong growth of demand over this six-month period. The greater weight of intercontinental flights in the network was behind the 5.6% growth in the average stage length, explaining why the increase in the number of passengers (by 2.5%) was smaller than the increase in RPK. The longer average stage length affects the year-on-year comparison of the average passenger revenue per RPK (4.4%) and ASK (8.2%) for the network as a whole. Passenger revenues on tickets actually flown in the first half of 2006 increased by 13.1% in comparison with last year.

The load factors of the three large sectors improved their year-on-year variation in the quarter on quarter. The yields of these three sectors also improved during the six-month period, producing a generally rising trend in passenger revenues. Passenger revenues for the network as a whole increased by 16.7% in the second quarter, compared to a 9.1% increase in the first three months of the year.

In the **long-haul** sector, revenues were 29.1% higher than those recorded in the first half of 2005, due partly to the increase in traffic (up 11.3% in terms of RPK), with an 8.3% increase in capacity and a 2.3 point improvement in the load factor. The load factor of the Business Plus class improved by 9.6 percentage points year on year. The significant increases in yield obtained in all the American networks pushed up the average revenues per ASK by 19.2%. The greatest growth in capacity was recorded in the South Atlantic, up 16.4% year on year, with a 21.4% increase in traffic and a load factor of 85.%, 3.5 percentage points up on last year.

On **medium haul** international flights, the load factor was 71%, 5.9 points better than in the first half of last year. This rise was the main force behind the increased revenues, which grew by 11.4%, while average revenues per ASK increased by 8.9%.

In the **domestic** sector, the 3.5% increase in yield was partly offset by the drop in load factor (-1.1 points). Consequently, unit revenue per ASK increased by 1.9% year on year, while passenger revenues were similar to those recorded last year.

Consolidated Statements of Income (not audited) (a)

€ thousand	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2006	2005	2006	2005	2006	%
Profit/loss from operations (b)	48.863	60.154	-18,8	-16.565	28.946	n.m.
Revenues from operating activities	1.447.041	1.214.228	19,2	2.653.858	2.332.745	13,8
Net sales	1.342.394	1.172.857	14,5	2.504.859	2.249.329	11,4
Passenger revenue (c)	1.104.022	960.982	14,9	2.053.862	1.833.821	12,0
Cargo revenue	79.189	72.921	8,6	155.125	147.874	4,9
Handling	82.722	81.834	1,1	147.426	150.233	-1,9
Technical assistance to airlines	54.343	35.393	53,5	102.934	73.794	39,5
Other revenues	22.118	21.726	1,8	45.513	43.608	4,4
Other operating revenues	104.647	41.372	n.m.	148.998	83.416	78,6
Recurring	50.487	40.658	24,2	94.755	82.031	15,5
Non-recurring	54.161	714	n.m.	54.243	1.384	n.m.
Costs from operating activities	1.396.996	1.154.678	21,0	2.668.514	2.308.737	15,6
Procurements	381.244	234.544	62,5	693.924	462.089	50,2
Aircraft fuel	303.039	186.806	62,2	560.593	364.115	54,0
Aircraft spare parts	66.718	37.659	77,2	111.453	77.265	44,2
of which: Non recurring	26.415	-	n.a.	26.415	-	n.a.
Catering materials	6.336	5.559	14,0	11.560	11.273	2,5
Other purchases	5.151	4.520	14,0	10.318	9.435	9,4
Personnel expenses	377.508	354.572	6,5	725.532	717.968	1,1
of which: Non recurring	25.800	-	n.a.	25.800	5.000	n.m.
Depreciation and amortization	53.855	43.585	23,6	106.057	88.347	20,0
Other operating costs	584.388	521.978	12,0	1.143.001	1.040.333	9,9
Aircraft leases	115.177	91.477	25,9	226.700	185.752	22,0
Dry lease	99.680	77.013	29,4	195.727	162.375	20,5
Wet lease	12.816	11.124	15,2	24.504	16.507	48,4
Cargo lease	2.680	3.339	-19,7	6.469	6.871	-5,8
Other rentals	17.798	20.294	-12,3	36.357	38.863	-6,4
Fleet maintenance (subcontracts)	46.537	32.932	41,3	82.699	69.055	19,8
of which: Non recurring	1.000	0	n.a.	1.000	0	n.a.
Commercial expenses	64.007	64.036	-0,0	123.559	126.780	-2,5
Traffic services	117.168	107.004	9,5	226.626	209.271	8,3
Navigation charges	72.675	69.254	4,9	143.146	137.003	4,5
In flight services	16.632	15.558	6,9	32.061	30.484	5,2
Booking systems	40.522	38.537	5,2	86.088	76.605	12,4
Insurance	8.070	8.266	-2,4	16.010	16.097	-0,5
Other expenses	85.803	74.621	15,0	169.755	150.422	12,9
of which: Non recurring	164	761	-78,4	1.436	850	68,9
Net gains on disposals of non-current assets	-1.182	604	n.m.	-1.908	66.638	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	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2006	2005	%	2006	2005	%
Financial results	2.385	593	n.m.	-436	1.419	n.m.
Financial revenues	17.635	12.620	39,7	30.949	22.122	39,9
Financial expenses	14.828	11.496	29,0	30.174	22.031	37,0
Exchange gains/losses	420	-3.111	n.m.	63	-728	n.m.
Other revenues and expenses	-842	2.580	n.m.	-1.274	2.056	n.m.
Share of results of associates	532	6.059	-91,2	1.823	13.075	-86,1
Profit before taxes	51.780	66.805	-22,5	-15.178	43.440	n.m.
Taxes	-16.054	-21.469	25,2	5.940	-14.199	n.m.
Profit after taxes	35.726	45.337	-21,2	-9.238	29.241	n.m.
Attributable to shareholders of the parent company	35.654	45.276	-21,3	-9.344	29.151	n.m.
Attributable to minority interests	72	60	18,8	106	90	18,3
Basic earnings per share (euros)	0,0383	0,0491	-22,0	-0,0101	0,0316	n.s.
Diluted earnings per share (euros)	0,0381	0,0485	-21,5	-0,0100	0,0312	n.s.

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

Average weighted n° of shares 2nd quarter: 931.340.895 in 2006 and 922.996.860 in 2005; 1st half: 929.258.233 in 2006 and 921.664.051 in 2005.

KPI (not audited) (a)

GRUPO IBERIA	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2006	2005	%	2006	2005	%
Unit Ratios (€ cent/ASK) (Recurring)						
OPERATING REVENUE	8,29	7,66	8,2	8,00	7,50	6,7
OPERATING COST	7,99	7,28	9,7	8,04	7,40	8,6
Fuel	1,80	1,18	52,9	1,72	1,17	47,4
Fleet maintenance	0,51	0,45	14,6	0,51	0,47	9,1
Spare parts	0,24	0,24	0,9	0,26	0,25	5,3
Maintenance (subcontracts)	0,27	0,21	30,3	0,25	0,22	13,2
Personnel	2,09	2,24	-6,5	2,15	2,29	-6,1
Aircraft lease	0,69	0,58	18,7	0,70	0,60	16,8
Commercial	0,38	0,40	-5,8	0,38	0,41	-6,7
Traffic services	0,70	0,68	3,2	0,70	0,67	3,6
Navigation charges	0,43	0,44	-1,1	0,44	0,44	0,0
In-flight services and catering materials	0,14	0,13	2,5	0,13	0,13	-0,0
Rest	1,26	1,19	5,2	1,30	1,22	6,9
Iberia fleet maintenance (b)	0,62	0,69	-10,1	0,63	0,70	-9,8
Net commercial cost / traffic passenger and cargo revenue (%) (c)	3,7	4,2	-0,6 p.	3,8	4,4	-0,5 p.
Productivity						
Average fleet utilization (block hours/aircraft/	9,04	9,23	-2,0	9,08	9,10	-0,3
Annual average headcount	24.109	24.435	-1,3	23.940	24.240	-1,2
ASK / Employee	697	648	7,5	1.357	1.283	5,8
Ground	945	872	8,4	1.840	1.736	6,0
Ground (without handling)	1.902	1.732	9,8	3.643	3.394	7,4
Block hours / Technical crew	68,9	67,0	2,9	135,3	129,9	4,2
Block hours / Flight attendant	30,0	30,4	-1,3	59,8	59,1	1,2
Operating revenue per employee (€ thousand)	57,8	49,7	16,3	108,6	96,2	12,9

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

(b) Unit fleet maintenance cost of Iberia (excluding costs for third party services)(€ cents per ASK) includes labour, spare parts, subcontracts, etc.

(c) Commercial expenses lowered by commission revenues (variation in percentage points).

Revenues from operating activities

In the **second quarter** of 2006 income from operations and operating income were similar, approx. €49 million, since the net balance of non-recurring items (including the income from asset disposals) was more or less balanced.

Revenue from operations amounted to €1,447 million, 19,2% higher than in the same period last year, partly due to the growth of non recurrent items.

Operating revenues, excluding non-recurring revenues, rose by 14.8% year on year. They grew across the board, particularly maintenance for third parties. Performance also improved in comparison with the first quarter of this year, with aggregate revenues of €1,392.9 million. 85% of this sum corresponded to passenger and cargo revenues (€1,183.2 million), which grew by 14.4% year on year. Other operating revenues rose 16.7% from the €179.6 million recorded this time last year to €209.7 million.

Passenger revenues totalled €1,104 million, €143 million (14.9%) more than last year. Of that sum, €1,037.2 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 €66.8 million.

Cargo revenues were up 8.6% year on year, due to the increase in traffic (5.3% measured in RTK) and the improvement in yield, favoured by the appreciation of the dollar in comparison with the second quarter of 2005.

Revenues generated on **handling** services totalled €82.7 million, rising 1.1% year on year, as a result of the 7.6% improvement in unit revenue (in terms of weighted aircraft handled). This offset the 6.5% drop in activity for third parties, following the discontinuation of the services provided to Binter Canarias as from October 2005. Comparing the two periods in homogenous terms (without billing to Binter Canarias in 2005), this revenue item grew by almost 8%.

In the second quarter of 2006 there was a sharp increase in revenues from **technical assistance** (53.5%), due largely to the increased number and larger value-added of engine overhauls, surpassing even the outstanding results obtained in the first quarter of the year.

Recurring "**other operating revenues**" were up 24.2% on the second quarter of 2005, due to the increased revenues on in-house work on fixed assets, recovery of provisions for major repairs and fleet and engine leasing revenues.

Non recurring "Other operating revenues" amounted to €54.2 million, most of them due to a different accounting treatment of engine repairable parts more adequate for the volume and characteristics of these parts, which were considered inventories as from the second quarter of 2006, instead of items subject to depreciation. As a result of this change in accounting policies, a sum of €53.3 million was recovered from the depreciation provision made for engine repairable parts.

In the **first half** of 2006, revenues from operating activities totalled €2,653.9 million, up 13.8% year on year. Excluding non-recurring revenues, which totalled €54.2 million in 2006 and €1.4 million in 2005, we get operating revenues of €2,599.6 million, 11.5% more than the cumulative sum in the first six months of last year.

Passenger revenues totalled €2,053.9 million in the first half of 2006, €220 million (12%) more than in the first half of 2005. Cargo revenues totalled €155.1 million, up 4.9% year on year, with similar traffic. Handling revenues were slightly down (1.9%), due to the drop in activity for third parties following the discontinuation of the services provided to Binter Canarias, although in homogenous terms they grew by 5%. Technical assistance increased by 39.5% to €102.9 million, due mainly to the increase in number and value of engine maintenance for third parties. Recurring "other operating revenues" increased by €12.7 million (15.5%) over last year, due mainly to the greater revenues from in-house work on fixed assets and aircraft (two A-320 leased to Mexicana de Aviación since April 2005) and engine leases.

Costs from operating activities

Costs from operating activities increased by 21% (€242.3 million) in the **second quarter**, although 4.5 percentage points are due to the increase in **non-recurring expenses** caused by two extraordinary provisions. On the one hand, a sum of €25.8 million provisioned to meet future payments for the redundancy plan, due to the larger number of ground staff who are to leave the company in 2006 (1,298 lay-offs, compared to the 1,052 contemplated in the Director Plan for this year (partly due to bringing forward the layoffs initially planned for 2007)). On the other hand, a sum of €26.4 million was set aside as a provision for obsolete inventories, following reclassification of engine repairable parts and to adjust the value of the spare parts.

Recurring **operating expenses** increased by 16.4% over the second quarter of 2005 (€189.7 million), due mainly to the higher fuel expense and the growth in production (transport and maintenance). Consequently, the unit operating cost (per ASK) rose by 9.7%, just 1.4% if fuel expense is excluded. If we also deduct the impact of applying the IFRS (specifically IAS 39) to the values of financial instruments, unit operating expenses (ex fuel) would be down 1.0%. (See page 14 for more explanations on this subject)

The total **fuel** expense was over €116 million more than the same period last year, a 62.2% increase, due mainly to the fuel price hike and the smaller contribution in relative terms of the hedges made. Brent prices moved at very high levels, more than 60\$/barrel for most of the quarter rising to almost 75\$/barrel in early May, approximately 35% above the average price recorded in the same period of last year. Through hedging contracts, Iberia was able to secure the kerosene price within a band of 50-60\$/barrel for approximately 90% of consumption. Consequently, the hedging tools managed to curb the increase in expense by almost €10 million in the second quarter of 2006. Part of the increased cost (€1.6 million) was also offset through exchange rate hedges. During the same period last year, hedges had softened the increase in fuel expense by €57.4 million. The appreciation of the dollar against the euro, compared to the average exchange rate in the second quarter of last year, was responsible for more than €13 million of the increased expense. The unit fuel expense increased by 52.9%, to 1.80 euro cents per ASK.

Unit **personnel** costs were brought down by 6.5% year on year, continuing the progression with a significant improvement on the first quarter, thanks to the increased productivity achieved by cutting the group's headcount (-1.3%) and freezing salaries. The average headcount of flight staff rose 1% due to the higher number of flight attendants, in turn due mainly to the greater need for such attendance on long-haul flights, where block hours increased by 7.4%, although it dropped for other sectors. Productivity, measured in block hours per manpower equivalent, increased by 2.9% for pilots and dropped 1.3% for flight attendants, due to the fleet mix. The average headcount of ground staff was cut by 2.2%, while their productivity, measured in ASK/employee, rose by 8.4%. Furthermore, operating revenues per employee grew by 16.3% year on year in the second quarter.

Provisions for **depreciation and amortisation** were increased by 23.6% during the quarter; partly due to the addition of five A-340/300 aircraft to the balance sheet in December 2005 (they had previously been held under operating lease).

Aircraft leasing costs increased by 25.9% (18.7% in unit terms) over the same period of 2005, due largely to the different impacts of applying IAS 39 at 30 June 2006 and 2005. As a result of the revaluation of hedging financial tools for exchange rate risks and interest rate risks in aircraft rentals, aircraft leasing costs were raised by €4.8 million in the second quarter of 2006. In contrast, the revaluation of derivative instruments made at the end of the second quarter of 2005 reduced aircraft leasing costs for the period by €18.6 million. Excluding these effects, leasing costs would have been practically on a par with the second quarter of 2005.

The unit cost of **fleet maintenance** (including recurring expenses corresponding to spare parts, maintenance sub-contracts and provisions for major repairs of aircraft on operating leases) was 14.6% higher than in the second quarter of 2005, owing to the increase in services for third parties, especially in engine maintenance. If the costs generated on third-party engine and aircraft maintenance are deducted from the total maintenance expense, the net unit cost is only up 4.5% year on year.

Unit **commercial** costs were down 5.8% on last year, mainly due to the development of the new remuneration model for travel agencies.

"**Other expenses**" totalled €85.6 million in the second quarter of 2006 (after excluding non-recurring expenses), up €11.8 million on last year. The main cause of this growth lay in passenger and baggage compensations, which rose by €6.2 million over last year, due partly to the troubles at Terminal T4 and the coming into force of the EU Regulation 261/2005 of 17 February 2005, 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.

In the **first half** of 2006 costs from operating activities increased by 15.6% over the same period of last year, to €2,668.5 million. Excluding the non-recurring expenses recorded in both periods (€54.6 million in 2006 and €5.9 million in 2005), we obtain cumulative operating costs of €2,613.9 million in the first six months of this year, €311 million (13.5%) more than last year. The unit cost (per ASK) was up 8.6%, due mainly to the fuel price hike.

The **fuel** expense was €196.5 million greater than the cost recorded in the first half of 2005, an increase of 54%. This item now represents 21.4% of the consolidated operating costs and 24% if we consider just the operating costs of the passenger and cargo business. This sharp increase was caused essentially by the rise in the Brent price in dollars: on average 32% higher (before hedging) than the average price in the first half of 2005. Through hedging the kerosene price and dollar/euro exchange rate, Iberia was able to curb the fuel cost by €21.6 million in the first six months of 2006, contrasting with a €74.5 million saving in the same period of last year. This was also adversely affected by the appreciation of the dollar against the euro, causing an increase of more than 9% in the expense. The greater expense attributable to the activity increase was more than offset by the positive effect of the lower unit consumption (around 6%) due to a more efficient renewed fleet and smaller fuel consumption. All in all, the unit fuel cost (per ASK) rose by 47.4% year on year.

Recurring **personnel** costs totalled €699.7 million, down 1.9% year on year by freezing salaries and reducing the headcount, despite the activity increase. The unit personnel cost was thus reduced by 6.1%, mainly by increasing the average productivity (5.8% in terms of ASK per employee).

The unit cost of **depreciation and amortisation** provisions increased by 14.9% year on year, due mainly to the increased value of depreciable fleet elements and the different accounting treatment of five A-340 aircraft as from December 2005.

Unit aircraft **leasing** costs increased by 16.8% over 2005, due largely to the adverse effect of applying IAS 39 (which increased the aircraft leasing cost by €10.9 million in 2006, compared to a reduction of €29.4 million in 2005). If this effect is excluded, unit aircraft rentals were reduced by 4% year on year.

The aggregate cost of **fleet maintenance** was €166.7 million (excluding the extraordinary provision for obsolescence of engine repairable parts and other non-recurring expenses deriving from aircraft returns), up 14% year on year, mainly due to the increased activity for third parties. In net terms (after deducting the expenses corresponding to third-party technical assistance revenues) the unit cost of maintenance per ASK was up 0.8% year on year, affected by the appreciation of the dollar.

Unit **commercial** costs were down 6.7% on last year and the ratio of net commercial cost to traffic passenger and cargo revenue improved by 0.5 percentage points, to 3.8%. On the contrary, the **booking systems** cost rose by €9.5 million year on year (7.6% in terms of unit cost per ASK), partly due to the new structure and contents of the booking system tariffs for 2006. However, a significant part of the increase was offset by the greater revenues deriving from the deductions agreed with some booking systems (€3,7 million).

"**Other expenses**" rose by €18.7 million (12.5%) year on year excluding non-recurring expenses. Almost half that increase (€9.3 million) corresponded to the increase of passenger and baggage compensations, due partly to teething troubles at Terminal T4, and the coming into force of the new legislation on compensations and assistance to passengers.

Financial and Other Non-Operating Results

In the first half of 2006, the **financial result** stood at -€0.4 million, €1.9 million less than the balance recorded this time last year. This difference is due to the valuation of "non-efficient" hedging tools of financial instruments at 30 June 2006 and 2005 made in pursuance of IAS 39; the difference is recorded in "Other revenues and expenses" on the profit and loss account, amounting to a reduction of €3.3 million on last year's financial result.

Financial revenues and expenses are more or less on a par (€30.9 and €30.2 million respectively), with similar increases to those recorded last year, leading to a **net financial result** of €0.8 million, €0.7 million more than the net balance of the previous year. Financial revenues increased by approximately 40%, in both the first half and the second quarter, due mainly to the larger volume of current financial investments and the higher interest rates. The latter factor also pushed up financial expenses (37% in the first half and 29% in the second quarter), which were further affected by the increased long-term debt relating to the fleet renewal plan.

The revenues and expenses deriving from **exchange differences** recorded in the first half of 2006 practically set each other off, producing a positive balance of €0.1million, compared to the loss of €0.7 million recorded in the first half of 2005.

In the second quarter of 2006, the **financial result** was €2.4 million was recorded, €1.8 million up on the profit obtained last year. This difference is the fruit of the improvements in the net balance of exchange gains and losses (€3.5 million) and net financial result (€1.7 million), which was partially offset by a negative difference of €3.4 million, deriving from the valuation of financial instruments made in pursuance of IAS 39.

The **share of results of associates** was €0.5 million in the second quarter and €1.8 million in the first half. In both cases, the profit is much lower than last year (down €5.5 million in the quarter and €11.3 million in the half-year), due largely to the exclusion of Amadeus from the consolidated group.

The **“Net gains on the disposals of non-current assets”** was a loss of €1.9 million in the first half of 2006, corresponding mainly to the disposal of different fixed assets, compared to a net income of €66.6 million recorded last year, which included the gain obtained on the sale of Iberia’s stake in SAVIA.

An extraordinary provision of €61.7 million was made for the **“Impairment losses”** in the second 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)	June 2006	December 2005	Junio 2005
Long Haul	32	30	31
Owned	5	5	0
Financial lease	0	0	0
Operating lease	25	23	27
Wet lease	2	2	4
Short and Medium Haul	126	124	123
Owned	40	41	42
Financial lease	14	14	13
Operating lease	66	66	68
Wet lease	6	3	0
Total	158	154	154
Owned	45	46	42
Financial lease	14	14	13
Operating lease	91	89	95
Wet lease	8	5	4

(a) End of period, excluding inactive aircraft

Additionally, as at 30-June-2006 Iberia has two Airbus A-320 leased to other airline.

Operating Fleet and Variations

At 30 June 2006, Iberia had an operating fleet of 158 aircraft, 59 of which were in-balance sheet and 99 off-balance sheet (under operating leases or wet leases). The company continues it fleet renewal and homogenisation in accordance with its plan.

During the first half of 2006, the company added three A-340/600 under operating lease to its **long-haul fleet**, two in the first quarter and the third in April. In June a B747 on wet lease was withdrawn and a A-340/300 under operating lease began operating under a wet lease. At the beginning of July, the company withdrew the last B747, operating under a wet lease, and a second A-340/300 on operating lease began operating under a wet lease.

A total of four new Airbus aircraft were added to Iberia’s **short and medium-haul fleet** during the second quarter of 2006: two A-321 (April and May) and two A-320 (May and June) under operating lease. In addition, three B-757 under operating lease were changed to wet leases for Iberia, two from March and the other from May. By the end of June it had a total of six B-757 operating under wet lease. In the first quarter of the year, a B-757 on operating lease and an MD-87 owned by the company were withdrawn.

Consolidated Balance Sheet (not audited) (a)

€ thousand	June 2006	December 2005
ASSETS	5.931.287	5.543.918
Non-current assets	2.570.072	2.747.206
Intangible assets	43.543	47.417
Property, plant and equipment	1.396.488	1.463.584
Investments in associates	15.847	12.126
Non-current financial assets	622.684	731.711
<i>Iberbus loans</i>	<i>155.785</i>	<i>167.879</i>
<i>Iberbond bonds</i>	<i>29.640</i>	<i>30.810</i>
<i>Other</i>	<i>437.259</i>	<i>533.022</i>
Deferred tax assets	484.528	484.513
Other non-current assets	6.982	7.855
Non-current assets held for sale	0	3.013
Current assets	3.361.215	2.793.699
Inventories	168.185	114.682
Accounts receivable	879.159	643.380
Current financial investments	1.526.514	1.190.673
Cash and cash equivalents	761.405	821.439
Other current assets	25.952	23.525
EQUITY AND LIABILITIES	5.931.287	5.543.918
Equity	1.625.324	1.738.233
Share capital	739.357	735.666
Share premium	115.260	111.285
Reserves of the parent company	788.632	631.417
Reserves at fully consolidated companies	-10.490	143.034
Translation differences and differences due to adjustment of capital to euros	878	1.025
Profit attributable to the parent company	-9.344	395.789
Interim dividend	0	-281.026
Minority interests	1.031	1.043
Non-current liabilities	2.109.855	2.121.781
Convertible debenture issue	9.153	9.153
Bank borrowings and non-current obligations under finance leases	640.370	696.954
Long term provisions	1.388.807	1.381.179
Other liabilities	71.525	34.495
Current liabilities	2.196.108	1.683.904
Convertible debenture issue	1.488	9.153
Bank borrowings and current obligations under finance leases	190.758	111.696
Deferred income	41.457	31.850
Other liabilities	1.962.405	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 35,261 thousand euros as of 30-Jun-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 half (€200,362 thousand) must be multiplied by 2, this is €400,725 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 June 2006: 6% of 155.785 MM/ € x 8 = € 74.777 million

For December 2005: 6% of 167.879 MM/ € x 8 = € 80.582 million

Consolidated Cash Flow Statements (not audited) (a)

€ thousand	Jan-Jun 2006	Jan-Jun 2005
Consolidated profit before tax	-15.178	43.440
Depreciation and amortisation charge and impairment losses	106.057	150.047
Period provisions (net) (+/-)	66.208	45.222
Provisions used (-)	-58.422	-97.684
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)	-24.956	7.202
Gains/Losses on disposal of investments (+/-)	-	-73.837
Results of associates accounted for using the equity method (+/-)	-1.823	-13.075
Gains/Losses on hedging transactions (+/-)	14.391	-31.907
Effect of exchange rate changes not giving rise to cash flows	-803	1.122
Other adjustments of the cash-flow (+/-)	27.086	39.839
Net change in assets/liabilities not giving rise to cash flows	175.890	54.092
Taxes paid	-12.545	-4.661
Cash flow from operating activities	275.905	119.800
Net investment in subsidiaries, jointly controlled entities and associates	-2.435	82.343
Net investment in property, plant and equipment, intangible assets and investment property	-95.080	157.577
Net investment in non-current investments	-	-29.062
Net investment in investments and other current financial assets	-316.472	-119.934
Net investment in other assets	31.486	-8.212
Dividends and interest received (+)	26.962	19.686
Net investment in treasury shares (+/-)	-6.809	-4.481
Cash flow from investing activities	-362.348	97.917
Dividends paid (-)	-18.619	-41.353
Changes in bank borrowings and other financial liabilities (+/-)	47.968	35.400
Interest paid on debt (-)	-10.752	-11.161
Other debt	146	263
Capital increase	7.666	9.109
Cash flow from financing activities	26.409	-7.742
Net cash flow	-60.034	209.975
Cash and cash equivalents at beginning of year	821.439	566.461
Cash and cash equivalents at end of year	761.405	776.436

(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 -€1,410.9 million at 30 June 2006, with a 23.5% improvement on year-end 2005, thanks to the considerable increase in current financial investments. The adjusted net debt, which includes capitalised leases, was reduced by 2.8% over last year-end, to €1,690.5 million. The increase in capitalised aircraft leases (calculation of which does not include the effect of valuation of “non-efficient” hedges) counteracts part of the improvement in the in-balance sheet net debt. Leverage, measured as adjusted net debt over total resources, was one percentage point higher than at 31 December 2005, standing at 51.0%.

Equity totalled €1,625.3 million at 30 June 2006, €112.9 million down on year-end. The balance of reserves at consolidated companies has come down €153.5 million as a result of the distribution of the 2005 profits deriving from the sale of Amadeus. On 30 June 2006 Iberia distributed a final dividend of 0.02 euro per share against 2005 profits.

The increase in inventories (€53.5 million) is due to the different accounting principle applied to engine repairable parts (see page 7), which are now considered inventories instead of items subject to depreciation. As regards financial assets, the divestments correspond to Iberbus loans for adjusting translation differences and the refund of advance payments on the A-340 and A-321 fleet, the latter included in long-term deposits. 20% of Iberia’s stake in Catair, the low-cost carrier created jointly with Cobra, Iberostar, Nefinsa and Quercus, was recorded in May with a value of €1.9 million.

During the first half of 2006, Iberia generated a positive cash flow from operating activities of €275.9 million, €156.1 million more than the net cash flow generated in the same period of last year.

Principal effects of applying the IFRS

Iberia uses different derivatives for its hedging policies regarding exchange rates, interest rates and kerosene prices. These derivatives are mainly applied to operating leasing and fuel procurement activities.

Most of these derivatives (more than 80%) are effective under IAS; consequently, the impairment variations are registered in reserves accounts, without any impact on the statement of income. Nevertheless, some derivatives are ineffective and hence have an impact on the statement of income.

Regarding the hedging for operating leases, the derivatives hedge the exchange rates (usd) and interest rates risks. During the second quarter of 2005 the rise in interest rates of the dollar generated an overvaluation of these hedging, having a positive impact of €20.3 million. In comparison, during the second quarter of 2006, the evolution of the interest rate of the dollar against the euro, together with the evolution of fuel derivatives reduced the aforementioned overvaluation, generating an opposite effect and impacting negatively in €10 million

The aforementioned effects represent an important part of operating leasing costs variations, which do not show the real evolution of these rentals. The rest of the negative impact is associated with derivatives applied to fuel hedging (around €4 million).

In summary, for the quarter the impairment variation amounts to -€53.5 million in reserves and -€10 million in the statement of income.

For the first half, the revaluation of derivatives also had a negative impact in the profit before taxes in both years: in 2006 a higher expense by €14.5 million (i.e. lower profit) due to the aforementioned reasons; on the contrary, in 2005 there was a lower expense by €31.9 million (i.e. better profit) due to the evolution of the interest rates differential of the dollar and the euro.

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