

Main figures (not audited) (a)

IBERIA GROUP € thousand	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2006	2005	%	2006	2005	%
Revenues from operating activities	1.438.712	1.340.831	7,3	4.092.570	3.673.576	11,4
Costs from operating activities	1.339.820	1.542.174	-13,1	4.008.335	3.850.911	4,1
Net gains on disposals of non-current assets and impairment losses	-112	594.940	-100,0	-2.021	599.878	-100,3
Profit/loss from operating activities	98.780	393.597	-74,9	82.215	422.543	-80,5
EBITDAR (b)	257.383	239.686	7,4	575.892	542.259	6,2
Operating Income EBIT (b)	87.734	80.758	8,6	73.486	109.232	-32,7
Operating Income EBIT (ex IAS 39) (c)	97.618	78.397	24,5	96.595	77.020	25,4
Profit after taxes	75.557	372.562	-79,7	66.318	401.802	-83,5
Total shareholders' equity (d)	---	---	---	1.712.836	1.738.233	-1,5
In-balance sheet net debt (d)	---	---	---	-1.386.478	-1.142.390	21,4
Adjusted net debt x 8 (d)	---	---	---	1.679.597	1.739.125	-3,4
ASK (million)	16.846	16.659	1,1	49.344	47.764	3,3
RPK (million)	14.065	13.619	3,3	39.361	36.979	6,4
Load factor (%)	83,5	81,8	1,7 p.	79,8	77,4	2,3 p.
Passenger revenues	1.052.305	989.792	6,3	2.974.113	2.689.366	10,6
Yield (€ cent)	7,48	7,27	2,9	7,56	7,27	3,9
Passenger Revenue / ASK (€ cent)	6,25	5,94	5,1	6,03	5,63	7,0
Operating revenue/ASK (€ cent)	8,45	8,00	5,5	8,15	7,67	6,3
Operating expense/ASK (€ cent)	7,93	7,52	5,4	8,00	7,44	7,5
Operating expense (ex fuel)/ASK (€ cent)	6,15	6,10	0,8	6,26	6,19	1,2

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

Number of shares as at 30-September-2006: 948.066.632; 31-Dec-2005: 943.161.939

Highlights

- Iberia posted an operating profit of € 87.7 million in the third quarter, up 8.6% year on year, in spite of the adverse effect of the industrial disputes in July. EBITDAR amounted to €257.4 million, rising 7.4%.
- If the effect of applying IAS 39 is eliminated, operating income would have totalled €97.6 million in the third quarter, almost 25% more than the same period last year.
- Operating revenues rose by 6.7% across the board. The unit passenger revenue increased by 5.1%, bolstered by the improvement in the load factor (1.7 points overall in the network), the strong growth of business traffic on international flights and network restructuring.
- The unit operating expense rose by 5.4%, hard hit by the 25.1% hike in unit fuel expense. If the fuel expense and the effect of applying IAS 39 were deducted, the unit operating expense would have been down 0.2%, with considerable improvements in personnel, commercial and own-fleet maintenance expenses.
- The unit operating margin (per ASK) increased by 7.4% year on year, while revenue per employee grew by almost 10% in the same period.
- During the first nine months of 2006, Iberia's operations generated a cash flow of €310 million, more than tripling the amount recorded a year earlier. Adjusted net debt was reduced by 3.4%.

Operating Statistics

IBERIA GROUP (a)	3 Rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2006	2005	2006	2005	2006	%
SCHEDULED TRAFFIC						
Passengers (thousand)	7.354	7.656	-3,9	21.115	21.079	0,2
Domestic	3.729	4.110	-9,3	11.132	11.752	-5,3
Medium Haul	2.593	2.595	-0,1	7.106	6.687	6,3
Europe	2.436	2.443	-0,3	6.676	6.301	6,0
Africa & Middle East	156	152	2,6	430	386	11,4
Long Haul	1.032	950	8,6	2.877	2.641	8,9
ASK (million)	16.846	16.659	1,1	49.344	47.764	3,3
Domestic	3.320	3.659	-9,3	10.152	10.614	-4,4
Medium Haul	4.246	4.363	-2,7	12.624	12.548	0,6
Europe	3.774	3.873	-2,6	11.260	11.199	0,5
Africa & Middle East	473	489	-3,4	1.364	1.349	1,1
Long Haul	9.279	8.638	7,4	26.568	24.601	8,0
RPK (million)	14.065	13.619	3,3	39.361	36.979	6,4
Domestic	2.519	2.805	-10,2	7.334	7.782	-5,8
Medium Haul	3.421	3.401	0,6	9.369	8.729	7,3
Europe	3.065	3.041	0,8	8.378	7.811	7,3
Africa & Middle East	355	360	-1,3	991	917	8,1
Long Haul	8.125	7.413	9,6	22.658	20.468	10,7
Load factor (%)	83,5	81,8	1,7 p.	79,8	77,4	2,3 p.
Domestic	75,9	76,7	-0,8 p.	72,2	73,3	-1,1 p.
Medium Haul	80,6	78,0	2,6 p.	74,2	69,6	4,7 p.
Europe	81,2	78,5	2,7 p.	74,4	69,7	4,7 p.
Africa & Middle East	75,2	73,6	1,6 p.	72,7	68,0	4,7 p.
Long Haul	87,6	85,8	1,7 p.	85,3	83,2	2,1 p.
CARGO						
Cargo Tones	58.210	53.543	8,7	172.003	169.139	1,7
ATK (million)	432	405	6,6	1.218	1.177	3,5
RTK (million)	270	230	17,1	779	740	5,3
Load factor (%)	62,4	56,8	5,6 p.	63,9	62,8	1,1 p.
PASSENGER REVENUES						
Revenues (€ thousand)	1.052.305	989.792	6,3	2.974.113	2.689.366	10,6
Revenue / ASK (€ cent)	6,25	5,94	5,1	6,03	5,63	7,0
Revenue / RPK (€ cent)	7,48	7,27	2,9	7,56	7,27	3,9

(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 total revenue passenger kilometres (RPK) grew by 3.3% in the **third quarter** of 2006, against a 1.1% increase in available seat kilometres (ASK), giving a load factor of 83.5%, an improvement of 1.7 percentage points and a new third-quarter record for the company. This increase in the load factor outstripped the average obtained by European network carriers by 1.6 percentage points.

The growth in the company's activity and revenues in the third quarter was stunted by the effects of the strike called by the Spanish Union of Airline Pilots (SEPLA) between 10 and 16 July and the illegal industrial action taken by the handling staff at Barcelona airport on 28 July. These incidents caused numerous flight cancellations, especially in the short and medium-haul network; also affecting reserves and unit revenues, especially on European flights. However this market gradually recovered, especially in the month of September.

Following the strategy defined in the Director Plan 2006/08, growth in capacity continued to be channelled at long-haul routes, where ASK were up 7.4% on the third quarter of 2005, while adjustments continued on short and medium-haul routes, especially in the domestic sector. As a result of the growing weight of intercontinental flights in the network, together with the improved aggregate traffic on international flights (up 6.8% year on year) the average stage length increased considerably (7.5%).

The global network yield rose by 2.9% in the third quarter of 2006, although this was negatively affected by the aforementioned growth in the average stage length. Revenue per ASK increased by 5.1%, or 6.1% eliminating the effect of exchange rate fluctuations. Passenger revenues on tickets actually flown in the third quarter increased by 6.3%, boosted by the improved load factor and the increased yield.

In the **long-haul** sector the company carried 82,000 more passengers than in the same quarter of 2005 and improved its load factor by 1.7 points, to an impressive 87.6%. The growth in traffic (9.6%) outstripped the increase in capacity by 2.2 percentage points, with the increased weekly frequency of flights to several destinations (Sao Paulo, Rio de Janeiro, Montevideo and Johannesburg) and the use of larger capacity aircraft, thanks to the A-340 fleet cabin reconfiguration programme completed in July.

The largest growth was on South Atlantic flights, which increased their RPK by 29% and improved their load factor by 7.1 points year on year to 90.8%. The volume of traffic on Mid-Atlantic flights remained more or less on a par with last year, with a load factor of 86%. On North America flights, capacity and traffic grew by 3.0% and 3.3%, respectively, slightly improving the load factor to over 87%.

Passenger revenues in the long-haul network rose by 22.9% year on year, pushed up by the increased traffic and the improved yield (up 12.1%), which was in turn strongly boosted by the sustained improvement in the class mix (the number of Business Class passengers rose by more than 28%). The unit revenue was up 14.4% year on year, or 16.2% after eliminating the adverse effect of the depreciation of the dollar.

The load factor of the **medium-haul** international sector stood at 80.6% (2.6 points higher than that recorded in the third quarter of 2005). RPK rose by 0.6%, against a 2.7% reduction in capacity, mainly due to selective adjustments to the commercial programme and the flight cancellations caused by the aforementioned strikes. The yield dropped by 3.8% year on year, pulled down by the tough competition on the European markets and the adverse effect of the industrial disputes. Nevertheless, the improved load factor offset most of this drop and unit revenue per ASK slid by only 0.5% (rising 0.2% if we eliminate the adverse effect of exchange rate fluctuations).

Traffic grew considerably in some countries (Greece, Italy, Denmark and Turkey) and fell in others (Germany and Portugal), with an overall growth for Europe of 0.8%. The performance of traffic was good for the destinations in Africa, almost entirely offsetting the slump in the Middle East, due to the fighting in northern Israel and Lebanon and the general insecurity of this area.

On the **domestic** market, Iberia has continued developing a strategy focused on enhancing profitability, by raising the unit revenue and through a selective reduction of capacity. This sector was also hard hit by the cancellations in July, with third-quarter capacity down 9.3% year on year, in terms of both capacity and number of passengers. The capacity adjustments were greater on flights between the mainland and the Balearic Islands (16.2%) and Canary Islands (10.2%), than on flights between mainland destinations, where ASK dropped by 7.6% year on year. The load factor for the sector was 75.9%, down 0.8 points. However, there was an upturn in traffic in September, when the load factor improved by 0.7 points. Yield maintained a positive trend improving by 8.4% on last year, while unit revenue per ASK rose 7.2%.

The **cargo** business improved significantly during the year. In the third quarter revenue tonne kilometres (RTK) increased by 17.1% (compared to the 5.2% growth recorded in the second quarter) and the load factor improved by 5.6 percentage points. Of the 270 million RTK, 94% was carried in the bellies of passenger aircraft, more than 81% on Atlantic routes.

In the aggregate **January-September 2006**, the passenger load factor across the network improved by 2.3 points year on year to 79.8% and RPK rose 6.4%. Iberia has achieved a larger growth than the average for European network carriers (5.2% increase in traffic and 0.7 point improvement in load factor, according to AEA figures). Most of Iberia's activity increase was carried out in the long-haul sector, raising the average stage length (by 6.3%). This increase in the average stage length should be taken into account when assessing the increases in passenger yield (3.9%) and revenue per ASK (7.0%) for the entire network. The revenue on tickets actually flown was 10.6% up on last year.

The cumulative RPK on **long haul** flights was 10.7% up, with an 8.0% increase in capacity and a 2.1 point improvement in the load factor, to 85.3%. Performance of the Business Class was spectacular in all the networks; the number of passengers rose by more than 23% year on year, while the load factor in this class rose by 10 percentage points. This contributed to the 14.4% increase in yield in the sector, with a 16.3% growth in unit revenue per ASK and 26.7% in passenger revenues.

Traffic on South Atlantic routes grew by 24.0% year on year, in a remarkable response to the increased capacity (17.3%), taking the load factor to 87.2%, 4.7 points higher than last year. The load factor also improved on North Atlantic flights (2.0 points) and Mid-Atlantic routes (1.0 point).

The load factor on **medium haul** international flights rose 4.7 points year on year to 74.2%, while traffic grew by 7.3%. Revenues increased by 5.8% and average revenue per ASK by 5.2%, as the improved load factor offset a small reduction in yield (-1.4%), due to tough competition, especially on routes within the European Union, which account for 82% of the traffic in this sector.

The company has made several capacity adjustments in the **domestic** sector over the first nine months of 2006, as planned, reducing the ASK by 4.4% in comparison with the cumulative figure for the same period of 2005. The yield was raised by 5.2% year on year, rising progressively over the year. The unit revenue per ASK was 3.7% up on the revenue recorded in the period January-September 2005.

Consolidated Statements of Income (not audited) (a)

€ thousand	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2006	2005	%	2006	2005	%
Profit/loss from operations (b)	98.780	393.597	-74,9	82.215	422.543	-80,5
Revenues from operating activities	1.438.712	1.340.831	7,3	4.092.570	3.673.576	11,4
Net sales	1.369.411	1.291.858	6,0	3.874.271	3.541.187	9,4
Passenger revenue (c)	1.115.907	1.063.961	4,9	3.169.768	2.897.782	9,4
Cargo revenue	79.449	72.019	10,3	234.574	219.893	6,7
Handling	105.088	100.650	4,4	252.514	250.883	0,7
Technical assistance to airlines	52.050	32.671	59,3	154.984	106.465	45,6
Other revenues	16.918	22.557	-25,0	62.431	66.165	-5,6
Other operating revenues	69.301	48.974	41,5	218.299	132.389	64,9
Recurring	53.395	41.303	29,3	148.150	123.334	20,1
Non-recurring	15.906	7.671	107,4	70.149	9.055	n.s.
Costs from operating activities	1.339.820	1.542.174	-13,1	4.008.335	3.850.911	4,1
Procurements	345.988	285.887	21,0	1.039.912	747.977	39,0
Aircraft fuel	299.127	236.394	26,5	859.719	600.509	43,2
Aircraft spare parts	35.651	38.007	-6,2	147.104	115.272	27,6
of which: Non recurring	-	-	n.a.	26.415	-	n.a.
Catering materials	6.255	6.319	-1,0	17.815	17.592	1,3
Other purchases	4.956	5.168	-4,1	15.274	14.603	4,6
Personnel expenses	351.602	642.291	-45,3	1.077.135	1.360.259	-20,8
of which: Non recurring	-	280.000	n.a.	25.800	285.000	-90,9
Depreciation and amortization	55.300	44.510	24,2	161.357	132.857	21,5
Other operating costs	586.930	569.486	3,1	1.729.931	1.609.819	7,5
Aircraft leases	114.350	114.418	-0,1	341.049	300.170	13,6
Dry lease	99.046	97.316	1,8	294.772	259.691	13,5
Wet lease	12.501	12.897	-3,1	37.004	29.404	25,8
Cargo lease	2.804	4.205	-33,3	9.273	11.075	-16,3
Other rentals	18.878	18.072	4,5	55.235	56.935	-3,0
Fleet maintenance (subcontracts)	46.458	40.653	14,3	129.157	109.709	17,7
of which: Non recurring	-	6.000	n.a.	1.000	6.000	-83,3
Commercial expenses	62.797	68.723	-8,6	186.356	195.503	-4,7
Traffic services	119.460	113.741	5,0	346.086	323.012	7,1
Navigation charges	72.614	70.851	2,5	215.760	207.854	3,8
In flight services	18.329	16.540	10,8	50.390	47.024	7,2
Booking systems	33.098	33.547	-1,3	117.819	110.152	7,0
Insurance	7.322	8.597	-14,8	23.331	24.694	-5,5
Other expenses	93.625	84.344	11,0	264.747	234.766	12,8
of which: Non recurring	4.748	3.772	25,9	6.184	4.622	33,8
Net gains on disposals of non-current assets	-112	637.840	-100,0	-2.021	704.478	-100,3
Impairment losses	-	42.900	n.a.	-	104.600	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	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2006	2005	%	2006	2005	%
Financial results	6.195	2.494	n.s.	5.759	3.913	47,2
Financial revenues	22.607	14.041	61,0	53.556	36.163	48,1
Financial expenses	14.797	12.049	22,8	44.971	34.080	32,0
Exchange gains/losses	-1.805	404	n.s.	-1.742	-325	n.s.
Other revenues and expenses	190	99	91,1	-1.084	2.156	-150,3
Share of results of associates	1.803	-20.540	n.s.	3.626	-7.465	n.s.
Profit before taxes	106.778	375.552	-71,6	91.600	418.992	-78,1
Taxes	-31.221	-2.990	n.s.	-25.282	-17.190	-47,1
Profit after taxes	75.557	372.562	-79,7	66.318	401.802	-83,5
Attributable to shareholders of the parent company	75.524	372.534	-79,7	66.180	401.685	-83,5
Attributable to minority interests	32	27	18,4	138	117	18,3
Basic earnings per share (euros)	0,0811	0,4011	-79,8	0,0712	0,4347	-83,6
Diluted earnings per share (euros)	0,0811	0,4011	-79,8	0,0706	0,4294	-83,5

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

Average weighted n° of shares 3rd quarter: 931.015.129 in 2006 and 928.813.439 in 2005; nine months: 929.843.865 in 2006 and 924.047.180 in 2005.

KPI (not audited) (a)

IBERIA GROUP	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2006	2005	%	2006	2005	%
Unit Ratios (€ cent/ASK) (Recurring)						
OPERATING REVENUE	8,45	8,00	5,5	8,15	7,67	6,3
OPERATING COST	7,93	7,52	5,4	8,00	7,44	7,5
Fuel	1,78	1,42	25,1	1,74	1,26	38,6
Fleet maintenance	0,49	0,44	11,8	0,50	0,46	10,0
Spare parts	0,21	0,23	-7,2	0,24	0,24	1,3
Maintenance (subcontracts)	0,28	0,21	32,6	0,26	0,22	19,6
Personnel	2,09	2,17	-4,0	2,13	2,25	-5,4
Aircraft lease	0,68	0,69	-1,2	0,69	0,63	10,0
Commercial	0,37	0,41	-9,6	0,38	0,41	-7,7
Traffic services	0,71	0,68	3,9	0,70	0,68	3,7
Navigation charges	0,43	0,43	1,4	0,44	0,44	0,5
In-flight services and catering materials	0,15	0,14	6,4	0,14	0,14	2,2
Rest	1,24	1,14	8,2	1,28	1,19	7,4
Iberia fleet maintenance (b)	0,65	0,70	-7,0	0,63	0,70	-9,0
Net commercial cost / traffic passenger and cargo revenue (%) (c)	3,5	4,3	-0,8 p.	3,7	4,3	-0,6 p.
Productivity						
Average fleet utilization (block hours/aircraft/	9,04	9,32	-3,0	9,06	9,17	-1,2
Annual average headcount	24.349	25.069	-2,9	24.076	24.516	-1,8
ASK / Employee	692	665	4,1	2.049	1.948	5,2
Ground	922	883	4,3	2.762	2.620	5,4
Ground (without handling)	1.951	1.835	6,3	5.592	5.228	7,0
Block hours / Technical crew	70,0	68,9	1,6	205,3	201,0	2,1
Block hours / Flight attendant	30,4	31,1	-2,3	90,1	90,1	-0,0
Operating revenue per employee (€ thousand)	58,4	53,2	9,9	167,1	149,5	11,8

(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

Revenues from operating activities increased by 7.3% year on year in the **third quarter** of 2006, and operating revenue (only recurring items) rose by 6.7% to €1,422.9 million, 84% (€1,195.4 million) of which corresponded to passenger and cargo revenues, which were 5.2% up on the third quarter of 2005. The rest of operating revenues totalled €227.5 million, 15.4% up on the €197.2 million recorded one year earlier, with an impressive increase of €19.4 million in maintenance for third parties.

Passenger revenues totalled €1,115.9 million, €51.9 million (4.9%) up on the third quarter of last year. Revenue on tickets actually flown during the period grew €62.5 million (un 6.3%) to €1,052.3 million, while the aggregate sum of other passenger revenues (cancellation of advanced payments from customers for issued but unused tickets, revenue from frequent flyer programmes, leasing to other carriers and agreements with other carriers, among others) dropped by €10.6 million to €63.6 million.

Cargo revenues were up 10.3% on the third quarter 2005, largely due to the significant increase in traffic (up 17.1% measured in RTK), far outweighing the decline in unit revenues, which were dented by the longer average cargo stage length (7.7%) and the depreciation of the dollar against the euro in comparison with the third quarter 2005.

Handling revenues totalled €105.1 million, up 4.4% year on year, due to the 12.3% improvement in the unit revenue (in terms of weighted aircraft handled). This offset the 6.4% decrease in activity for third parties, following the discontinuation of the services provided to Binter Canarias as from October 2005. If Binter Canarias is excluded, the number of weighted aircraft handled increased by 5.3% year on year.

The sharp increase in **technical assistance** revenues (59.3%) continued in the third quarter of 2006, largely due to the increased number and larger value-added of engine overhauls.

Recurring "**other operating revenues**" were up 29.3% on the third quarter of 2005, due mainly to the increases in: recovery of provisions for major repairs, commission revenues and fleet leasing revenues, following the addition as from July of a third A-320 to supplement the two aircraft leased to Mexicana de Aviación since April 2005.

Non-recurring "other operating income" totalled €15.9 million, mostly corresponding to revenue and profit brought forward, €14.7 million corresponding to the gain on the sale of Iberia's stake in Musini, a former insurance company owned by SEPI, in which Iberia participated.

In the **first nine months** of 2006, revenues from operating activities totalled €4,092.6 million, 11.4% up on the same period of the previous year. Excluding non-recurring revenues, operating revenues rose 9.8% to €4,022.4 million.

Passenger revenues increased by 9.4%, €272 million more than the previous year, totalling €3,169.8 million in the first nine months of 2006. Revenues on tickets actually flown during the period increased by €284.7 million, due largely to the growth of the long-haul sector, while other passenger revenues were down €12.7 million year on year.

Cargo revenues were up 6.7% on the same period of 2005, with a 5.3% increase in RTK and a progressive growth in the volume of cargo. **Handling** revenues rose slightly (0.7%) due to the increase in unit revenues, which offset the drop in activity for third parties following the discontinuation of the services provided to Binter Canarias. **Technical assistance** revenues increased by 45.6% to €155 million, boosted by the higher quantity and value of engine overhauls for other carriers. Recurring "**other operating revenues**" rose by €24.8 million (20.1%) year on year, largely as a result of the increased in-house work on fixed assets, increased fleet and engine leasing revenues and the larger recovery of provisions for major repairs.

Non-recurring revenues totalled €70.1 million in 2006 and €9.1 million in 2005. The amount of the current year includes €53.3 million corresponding to the recovery of the depreciation provision made for engine reparable.

Costs from operating activities

Costs from operating activities in the **third quarter** of 2006 were 13.1% down year on year, due to the greater non-recurring expenses recorded in the same period of 2005, including an extraordinary provision of €280 million for personnel expenses made to fund the extension of the Social Plan.

Operating expenses, excluding non-recurring items, totalled €1,335.1 million, up 6.6% (€82.7 million) on the third quarter of last year, three-quarters of this difference corresponding to the increased fuel expense. The increased activity (air and technical assistance) and the application of IAS 39 also contributed, albeit to a smaller extent, to the increase in expenses. The unit operating expense rose by 5.4%, which would have been only 0.8% excluding the fuel expense. If we also eliminate the effect of IAS 39, the unit operating expense (excl. fuel and IAS 39) is just 0.2% year on year, largely due to the 4% reduction in the unit personnel expense.

The total **fuel** expense was €62.7 million more than that recorded in the third quarter of 2005, a 26.5% increase, due mainly to the fuel price hike. Brent prices reached their highest levels in August, occasionally rising above 78\$/barrel, with an average price in the third quarter approximately 2% higher than last year. The impact of the price hike was partially eased by the depreciation of the dollar against the euro in comparison with the average exchange rate in the third quarter of last year, improved fleet efficiency in terms of fuel consumption and hedging. Through different hedging tools, approximately 90% of the consumption was secured at an average price of just over 60\$/barrel, curbing the increase in expense by almost €29 million over the period July-September 2006.

The unit fuel expense was up 25.1% year on year at 1.78 euro cents per ASK. Although this increase is considerable, it is smaller than that recorded in the first half of the year (47.4%).

Recurring **personnel** expenses were brought down by 3.0% year on year by freezing salaries and reducing the group's headcount by 2.9%. The average headcount of technical crew was cut by 3.1%, and their productivity, measured in block hours per manpower equivalent, improved by 1.6%. The average headcount of flight attendants was lowered by 1.8%, while productivity dropped by 2.3%, mainly due to the growth in long-haul activity and the gradual withdrawal of the B-757 fleet from operation on Iberia flights (completed in September), causing a temporary gap between the reduction of block hours and the cutting of equivalent headcount. The average headcount of ground staff was cut by 3.1%, while their productivity, measured in ASK/employee, rose by 4.3%. Operating revenue/employee grew by almost 10% in the quarter.

Provisions for **depreciation and amortisation** were increased by 24.2% during the quarter, largely due to the addition of five A-340/300 aircraft to the balance sheet in December 2005 (they had previously been under an operating lease).

Aircraft leasing costs totalled €114.4 million, practically the same as in the third quarter of last year. However, if we exclude the effect of IAS 39, this is the valuation of "non-efficient" hedging tools (€9.8 million additional expense this year and €1.0 million smaller expense in 2005 in dry lease costs), this expense item is 9.4% smaller than last year, affected also by the change of the five A-340 mentioned in the previous paragraph.

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 11.8% higher than in the third quarter of 2005, owing mostly to the significant increase in activity for third parties. If the costs generated on third-party maintenance are deducted from the total expense, the unit maintenance cost of Iberia is actually down 7.0% year on year. Moreover, a sum of €6 million was recorded in the third quarter of 2005 as non-recurring maintenance costs corresponding to the return of B-757 aircraft.

Unit **commercial** costs were down 9.6% year on year, with reductions in both commissions and advertising expense. The unit cost of traffic services was up 3.9%, mainly due to the larger operating costs at Terminal 4 of Madrid airport (particularly as a result of the majority use of fingers) and the increased expense incurred in interrupted journeys and assistance to passengers in stopovers, mostly due to the industrial action in July. The unit cost of the **in-flight and catering services** rose by 6.4% as a result of the increased traffic on long haul flights and the larger number of passengers in business class.

"**Other recurring expenses**" totalled €88.9 million in the third quarter of 2006, up €8.3 million (10.3%) year on year. This item includes the cost of passenger and baggage compensations, which increased by €5.9 million, largely due to the industrial action by the Barcelona handling staff in July.

The costs from operating activities in the **first nine months** of 2006 totalled €4,008.3 million, a growth of 4.1%. If non-recurring items are deducted (€62 million in 2006 and €415.2 million in 2005), operating costs for the nine-month period totalled €3,948.9 million, up 11.1% on the 2005 equivalent. The fuel price hike was the main cause of this increase, which was heightened by the effects of applying IAS 39, the growth in activity and, to a lesser extent, the appreciation of the dollar. The unit operating expense (per ASK) increased by 7.5%, although it was down 1.2% if the fuel expense is excluded. If the effect of applying IAS 39 is also eliminated, the unit operating expense is 6.22 euro cents per ASK, 0.5% down on last year.

The **fuel** expense, which accounts for 21.8% of the Group's operating costs up to September, was 43.2% (€259.2 million) higher than in the same period of 2005. This sharp increase was mainly due to the massive rise of Brent prices on the markets, causing an average rise in dollars (before hedging) of approximately 30% year on year. Iberia managed to reduce the cumulative increase in fuel expense over the first nine months of 2006 by €44.7 million through kerosene hedging contracts. The greater efficiency of the new fleet in terms of fuel consumption also had a positive effect, achieving a saving of more than 5% on the expense. This was partly counteracted by the appreciation of the dollar, causing a 4.5% increase in the cumulative 9-month expense. All in all, the unit fuel expense rose by 38.6% year on year to 1.74 euro cents per ASK.

Recurring **personnel** expenses were brought down 2.2% to €1,051.3 million by freezing salaries and reducing the headcount (by 1.8%). It is estimated that by year-end some 1,298 employees will have been laid off, moving ahead of schedule. The unit personnel expense (per ASK) was down 5.4%, while the average productivity improved by 5.2% (in terms of ASK/employee). Moreover, operating revenue/employee was 11.8% higher than the cumulative figure for last year.

Provisions for **depreciation and amortisation** were up 21.5% (or 17.6% in unit terms) on the cumulative provisions at September 2005, due to the addition of five A-340/300 aircraft to the balance sheet in December 2005 (they had previously been flown under an operating lease) and the increased value of fleet elements subject to depreciation. The unit **aircraft leasing** cost was 10.0% higher than last year, owing to increased wet leases, according to plan, and especially due to the adverse effect of applying IAS 39 (which caused a €20.6 million increase in the leasing cost in 2006, compared to a €30.4 million reduction in 2005). If this effect is eliminated, the unit aircraft leasing cost was down 6.2% on the first nine months of 2005. The unit cost of the sum of aircraft leasing cost (excl. IAS 39) and amortisation provisions was 0.98 euro cents per ASK, just 0.6% up on last year.

The aggregate recurring **fleet maintenance** cost totalled €248.8 million in the first nine months of the year, up 13.6% on 2005, due mainly to the increased expense incurred in sub-contracted services, which are necessary to meet the increased activity for third parties, especially in the engine workshop. The unit cost of fleet maintenance exclusively in the transport business was reduced by 9.0% to 0.63 euro cents per ASK.

Unit **commercial** costs were down 7.7%, at 0.38 euro cents per ASK. The ratio of net commercial costs (after deducting commission revenues) to traffic revenues was 3.7%, down 0.6 percentage points on last year.

"Other recurring expenses" rose 12.3% (€28.4 million) year on year, largely due to the increase (by €15.2 million) in passenger and baggage compensations deriving from teething troubles at Terminal T4, the industrial action in July and the coming into force of the EU Regulation 261/2005 of 17 February 2005, which raised compensation 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.

Non-recurring expenses totalled €59.4 million in the first nine months of the year, compared to €295.6 million in the same period of 2005. The major items this year were the provision for obsolete engine parts, in a sum of €26.4 million, and the provision for future payments in the lay-off proceedings, in a sum of €25.8 million. A sum of €280 million had been set aside for the lay-off proceedings in 2005.

Financial and Other Non-Operating Results

Iberia posted a **financial result** of €5.8 million in the first nine months of 2006, €1.8 million more than in the same period of 2005. The financial result was €6.2 million in the third quarter of the year, €3.7 million more than the profit obtained in the same quarter of last year.

Financial revenues and expenses totalled a cumulative €53.6 and €45.0 million, respectively, in the first nine months of 2006, giving a **net financial result** of €8.6 million, €6.5 million more than in the same period of last year. Financial revenues increased year on year by 48.1% in the cumulative result up to September, and 61.0% in the third quarter, due largely to the higher interest rates. This item includes €3.6 million in the last quarter, corresponding to the 2005 dividends on Iberia's stake in WAM, company in which it holds an interest of 11.68%. Financial expenses, which increased by 32.0% on a cumulative level and 22.8% in the third quarter, were also affected by the higher interest rates.

The net balance of **exchange differences** was a loss of €1.7 million over the first nine months of 2006, against a loss of €0.3 million in the same period of last year. The improvement in the net financial result was negatively affected by the different result, on applying IAS 39, of the valuation of "non-efficient" hedging tools at 30 September 2006 and 2005. This valuation is recorded in "other revenues and expenses" on the profit and loss account, down €3.2 million on the value recorded in 2005.

The net balance of Iberia's **share of results of associates** was €1.8 million in the third quarter and a cumulative €3.6 million up to September. Both these balances represent a significant improvement on the results recorded last year (€22.3 million in the quarter and €11.1 million cumulative). These differences are largely due to the recording in the third quarter of 2005 of the losses sustained in WAM Acquisition, S.A. and the regularisation of the profits estimated for Amadeus in the first half of that year, following Iberia's sale of its stake in the latter company.

The "**net gains on the disposals of non-current assets**" was a loss of €2 million in the first nine months of 2006, compared to a net income of €704.5 million in the same period of the preceding year. The latter figure essentially includes the gains obtained on the sale of Iberia's stake in SAVIA and sale of the Amadeus stake.

An extraordinary provision of €104.6 million was made for "**impairment losses**" in the first nine months of 2005 (€42.9 million in the third quarter) 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)	September 2006	December 2005	September 2005
Long Haul	31	30	31
Owned	5	5	0
Financial lease	0	0	0
Operating lease	24	23	27
Wet lease	2	2	4
Short and Medium Haul	119	124	120
Owned	40	41	41
Financial lease	14	14	13
Operating lease	60	66	64
Wet lease	5	3	2
Total	150	154	151
Owned	45	46	41
Financial lease	14	14	13
Operating lease	84	89	91
Wet lease	7	5	6

(a) End of period, excluding inactive aircraft

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

Operating Fleet and Variations

At 30 September 2006 Iberia had an operating fleet of 150 aircraft, 91 of which were held under operating leases or wet leases.

Since early July, all **long-haul** flights have been operated with a single family of aircraft, the Airbus A-340, after withdrawing two B-747 that had been operating under wet leases, one in June and the other in July. They were replaced with two A-340/300, changed from operating leases to wet leases. Iberia also added three A-340/600 under operating leases in the first four months of 2006.

The company has proceeded with its plan for renewal and homogenisation of its **short and medium-haul** fleet. Along these lines, in the first nine months of the year it added seven new Airbus aircraft under operating leases: two A-321 (April and May), two A-320 (May and June) and three A-319 (one in August and two in September). During the same period, a total of twelve aircraft were retired: one MD-87 owned by the company in the first quarter; five B-757, four of which were under operating leases (one in the first quarter and three in the third) and the other operated under a wet leases (owned and withdrawn in July); and six A-320 held under operating leases (all in the third quarter of 2006). In addition, three B-757 contracted under operating leases were changed to wet leases for Iberia, two from March and the other from May. Consequently, since September Iberia owns and operates two types of fleet (the A-320 and MD-87/88 families) on short and medium-haul routes, while the B-757 fleet is now operated exclusively under wet leases.

Consolidated Balance Sheet (not audited) (a)

€ thousand	September 2006	December 2005
ASSETS	5.927.617	5.543.918
Non-current assets	2.580.157	2.747.206
Intangible assets	43.388	47.417
Property, plant and equipment	1.382.101	1.463.584
Investments in associates	30.691	12.126
Non-current financial assets	629.805	731.711
<i>Iberbus loans</i>	<i>156.438</i>	<i>167.879</i>
<i>Iberbond bonds</i>	<i>29.640</i>	<i>30.810</i>
<i>Other</i>	<i>443.727</i>	<i>533.022</i>
Deferred tax assets	487.597	484.513
Other non-current assets	6.575	7.855
Non-current assets held for sale	-	3.013
Current assets	3.347.460	2.793.699
Inventories	191.366	114.682
Accounts receivable	964.179	643.380
Current financial investments	1.292.990	1.190.673
Cash and cash equivalents	875.948	821.439
Other current assets	22.977	23.525
EQUITY AND LIABILITIES	5.927.617	5.543.918
Equity	1.712.836	1.738.233
Share capital	739.492	735.666
Share premium	115.405	111.285
Reserves	789.784	774.451
Translation differences and differences due to adjustment of capital to euros	912	1.025
Profit attributable to the parent company	66.180	395.789
Interim dividend	-	-281.026
Minority interests	1.063	1.043
Non-current liabilities	1.949.563	2.121.781
Convertible debenture issue	9.153	9.153
Bank borrowings and non-current obligations under finance leases	503.248	696.954
Long term provisions	1.371.711	1.381.179
Other liabilities	65.451	34.495
Current liabilities	2.265.218	1.683.904
Convertible debenture issue	1.208	9.153
Bank borrowings and current obligations under finance leases	223.396	111.696
Deferred income	47.389	31.850
Other liabilities	1.993.225	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 €45,455 thousand as of 30-Sep-2006 and €42,766thousand 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 nine months (€297,263 thousand) must be multiplied by 4/3, this is €396,351 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 September : 6% of €156,438 thousand x 8 = €75,090 thousand

For December 2005: 6% of €167,879 thousand x 8 = €80,582 thousand

Consolidated Cash Flow Statements (not audited) (a)

€ thousand	Jan-Sep 2006	Jan-Sep 2005
Consolidated profit before tax	91.600	418.992
Depreciation and amortisation charge and impairment losses	161.357	237.457
Period provisions (net) (+/-)	86.312	350.210
Provisions used (-)	-95.781	-145.826
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)	-24.864	7.898
Gains/Losses on disposal of investments (+/-)	-	-670.560
Results of associates accounted for using the equity method (+/-)	-3.626	7.465
Gains/Losses on hedging transactions (+/-)	24.030	-34.367
Effect of exchange rate changes not giving rise to cash flows	-2.143	4.583
Other adjustments of the cash-flow (+/-)	34.219	16.476
Net change in assets/liabilities not giving rise to cash flows	54.296	-73.045
Taxes paid	-15.372	-18.867
Cash flow from operating activities	310.028	100.416
Net investment in subsidiaries, jointly controlled entities and associates	-15.683	821.484
Net investment in property, plant and equipment, intangible assets and investment property	-150.928	113.982
Net investment in non-current investments	-	-66.820
Net investment in investments and other current financial assets	-38.952	-74.091
Net investment in other assets	2.391	-165.389
Dividends and interest received (+)	38.090	33.567
Net investment in treasury shares (+/-)	-4.992	5.943
Cash flow from investing activities	-170.074	668.676
Dividends paid (-)	-18.619	-322.379
Changes in bank borrowings and other financial liabilities (+/-)	-56.523	8.896
Interest paid on debt (-)	-18.712	-18.023
Other debt	463	436
Capital increase	7.946	9.109
Cash flow from financing activities	-85.445	-321.961
Net cash flow	54.509	447.131
Cash and cash equivalents at beginning of year	821.439	566.461
Cash and cash equivalents at end of year	875.948	1.013.592

(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 -€1,386.5 million at 30 September 2006, with a 21.4% improvement on year-end 2005, thanks to the increase in cash items (excluding the value of hedging tools) by €154.1 million and the reduction of the total interest-paying debt by €90 million. The adjusted net debt, which includes annualized operating lease capitalisation, was reduced by 3.4% over last year-end to €1,679.6 million. Leverage, measured as adjusted net debt over total resources, was 0.5 percentage points lower than at 31 December 2005, at 49.5%.

Equity totalled €1,712.8 million at 30 September 2006, €25.4 million down on year-end, mainly due to the reduction by €153.5 million in the consolidated company reserves following the sale of Amadeus in 2005. This was partly offset by the profits recorded in the first nine months of 2006. Iberia also increased its capital by €134,707 in September, issuing 172,701 ordinary shares, on the fourth date for exercising options under the stock option plan approved by the General Meeting in 2002. The company now has 948,066,632 shares.

Iberia has voluntarily reclassified engine reparable, now recorded as inventories to give a truer reflection of their real economic situation, as their rotation has increased over the years to less than twelve months. This is the main reason behind the reduction in "Tangible fixed assets" at 30 September 2006 (€81.5 million down on year-end 2005) and the increase in inventories (up €76.7 million) over the same period. The divestments in "Non-current financial assets" correspond to Iberbus loans for adjusting translation differences and the refund of advance payments on the A-340 and A-321 fleet, included in long-term deposits.

During the first nine months of 2006, Iberia generated a positive cash flow from operating activities of €310 million, €209.6 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 policy. In the hedging of operating leases on aircraft, the derivatives are designed to hedge the exchange rate (dollar) and interest rate risks. The company also hedges price and exchange rate in fuel purchases. In pursuance of the International Financial Reporting Standards (IFRS), particularly IAS 39, the current value of these financial instruments must be recorded. Most of the derivatives used by the company are efficient hedging tools as defined in the IFRS and their differences in value over time do not affect the company's results, being recorded in reserve accounts on the balance sheet. However, part of the derivatives are considered "non-efficient" and, as such, affect the corresponding items of the profit and loss account.

In the third quarter of 2006, the change in the value of derivatives had a positive effect on reserves of €8.6 million and a negative effect on the profit and loss account, mainly by increasing the dry lease cost, which pulled profit before taxes down by €9.7 million. In contrast, the change in the value of derivatives led to a €2.5 million increase in the profit before taxes in the third quarter of 2005.

During the first nine months of 2005, hedging was over-valued, especially the aircraft leasing hedges, due mainly to the rising dollar interest rates over the period, raising the profit before taxes by €34.4 million. In contrast, the evolution of interest rates differential of the dollar and the euro in the first nine months of 2006, together with the evolution of the value of fuel price hedges, have reduced this over-valuation, reducing profit before taxes by €24.2 million. Consequently, valuation of derivatives in pursuance of the IFRS has reduced the cumulative profit before taxes at September 2005 by €58.6 million. The variation in the value of derivatives has also reduced reserves by €50.1 million in 2006.

Contact details:

Subdirección Relaciones con los Accionistas
Velázquez, 130. Bloque IV. Planta 8
28006 Madrid (Spain)
Phone 34 91 5877334 Fax 34 91 5877043
invesrel@iberia.es