IBERIA

FULL YEAR RESULTS JANUARY-DECEMBER 2006

Main figures (not audited) (a)

IBERIA GROUP	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
€ thousand	2006	2005	%	2006	2005	%
Revenues from operating activities	1.371.887	1.272.734	7,8	5.464.457	4.946.311	10,5
Costs from operating activities	1.325.171	1.269.736	4,4	5.333.502	5.120.647	4,2
Net gains on disposals of non-current assets and impairment losses	6.225	-47.676	113,1	4.205	552.201	-99,2
Profit/loss from operating activities	52.941	-44.679	218,5	135.159	377.865	-64,2
EBITDAR (b)	214.668	157.658	36,2	790.564	699.916	13,0
Operating Income EBIT (b)	48.553	7.358	n.s.	122.042	116.590	4,7
Operating Income EBIT (ex IAS 39) (c)	53.752	12.619	n.s.	150.352	89.639	67,7
Profit after taxes	-9.353	-5.783	-61,7	56.969	396.019	-85,6
Profit after taxes (excluding tax credits adjustments)	49.776	-5.783	n.s.	116.098	396.019	-70,7
Total shareholders' equity (d)	---	---	---	1.738.596	1.738.233	0,0
In-balance sheet net debt (d)	---	---	---	-1.722.181	-1.142.390	50,8
Adjusted net debt x 8 (d)	---	---	---	1.346.628	1.739.125	-22,6
ASK (million)	16.458	15.864	3,7	65.802	63.628	3,4
RPK (million)	13.132	12.082	8,7	52.493	49.060	7,0
Load factor (%)	79,8	76,2	3,6 p.	79,8	77,1	2,7 p.
Passenger revenues	989.110	920.674	7,4	3.963.223	3.610.040	9,8
Yield (€ cent)	7,53	7,62	-1,2	7,55	7,36	2,6
Passenger Revenue / ASK (€ cent)	6,01	5,80	3,6	6,02	5,67	6,2
Operating revenue/ASK (€ cent)	8,30	7,97	4,1	8,19	7,75	5,7
Operating expense/ASK (€ cent)	8,00	7,93	1,0	8,00	7,56	5,8
Operating expense (ex fuel)/ASK (€ cent)	6,07	6,25	-2,9	6,21	6,20	0,2

(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) December 2006 v December 2005 (See notes pages 12 and 13).
Number of shares as at 31-Dec-2006: 948.066.632; 31-Dec-2005: 943.161.939
n.m.: not meaningful.

Highlights

• Throughout the last quarter of 2006, Ebitdar grew 36.2% and Ebit increased by 660%.

• This positive evolution responds to a favourable performance of unit revenues (+4.1%) and an important reduction in unit costs (-2.9% ex fuel).

• In the aggregate January-December 2006, Ebitdar grew 13% and operating income (ex IAS) rose by 67.7%. The key driver of this evolution was the favourable performance of revenues, especially passenger and maintenance that have more than offset the negative impact of fuel costs.

• The improvement in Business Class revenues, together with the management of capacity and load factors, were determining in the good evolution of results.

• Operating costs ex fuel were flat compared to last year. Excluding also the effect of IAS 39, the unit operating expense would have been down 1.2%. It is worth noting the improvement of staff productivity that -in terms of revenue per employee- went up 11% due mainly to the labour agreements signed with the ground staff.

• Practically all improvements included in the Director Plan for 2006 are being achieved as forecasted.

• The reduction of the standard tax rate in the Corporate Income Tax in 2007 gives rise to a proportional reduction in the value of tax credits for pre-paid taxes on the company's balance sheet at the close of the fiscal year, with an impact 59.1 million euros on the consolidated net earnings of 2006.

Operating Statistics

IBERIA GROUP (a)	4th Quarter (Oct – Dec)			Acumulated (Jan – Dec)		
	2006	**2005**	**%**	**2006**	**2005**	**%**
SCHEDULED TRAFFIC						
Passengers (thousand)	**6.684**	**6.596**	**1,3**	**27.799**	**27.675**	**0,4**
Domestic	3.548	3.663	-3,1	14.680	15.415	-4,8
Medium Haul	2.136	2.059	3,8	9.242	8.745	5,7
Europe	1.992	1.930	3,2	8.668	8.231	5,3
Africa & Middle East	144	128	12,3	574	514	11,6
Long Haul	1.000	875	14,3	3.876	3.515	10,3
ASK (million)	**16.458**	**15.864**	**3,7**	**65.802**	**63.628**	**3,4**
Domestic	3.079	3.414	-9,8	13.232	14.028	-5,7
Medium Haul	4.163	4.116	1,2	16.787	16.664	0,7
Europe	3.685	3.673	0,3	14.945	14.872	0,5
Africa & Middle East	478	443	8,0	1.842	1.792	2,8
Long Haul	9.215	8.334	10,6	35.783	32.936	8,6
RPK (million)	**13.132**	**12.082**	**8,7**	**52.493**	**49.060**	**7,0**
Domestic	2.298	2.437	-5,7	9.633	10.219	-5,7
Medium Haul	2.851	2.727	4,5	12.220	11.456	6,7
Europe	2.513	2.425	3,6	10.891	10.236	6,4
Africa & Middle East	338	302	11,7	1.329	1.220	9,0
Long Haul	7.983	6.917	15,4	30.641	27.385	11,9
Load factor (%)	**79,8**	**76,2**	**3,6 p.**	**79,8**	**77,1**	**2,7 p.**
Domestic	74,6	71,4	3,2 p.	72,8	72,8	-0,0 p.
Medium Haul	68,5	66,3	2,2 p.	72,8	68,7	4,0 p.
Europe	68,2	66,0	2,2 p.	72,9	68,8	4,0 p.
Africa & Middle East	70,6	68,2	2,3 p.	72,1	68,1	4,1 p.
Long Haul	86,6	83,0	3,6 p.	85,6	83,1	2,5 p.
CARGO						
Cargo Tones	70.710	65.447	8,0	242.713	234.586	3,5
ATK (million)	426	412	3,3	1.644	1.589	3,4
RTK (million)	340	293	15,8	1.119	1.033	8,3
Load factor (%)	79,8	71,2	8,6 p.	68,1	65,0	3,0 p.
PASSENGER REVENUES						
Revenues (€ thousand)	989.110	920.674	7,4	3.963.223	3.610.040	9,8
Revenue / ASK (€ cent)	6,01	5,80	3,6	6,02	5,67	6,2
Revenue / RPK (€ cent)	7,53	7,62	-1,2	7,55	7,36	2,6

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

In 2006 total revenue passenger kilometre (RPK) grew by 7.0% year on year against a 3.4% increase in the number of available seat kilometre (ASK), improving the load factor by 2.7 points to 79.8%, a new annual best for the company. The increases in traffic and load factor in Iberia outstripped the average growth recorded by the European network carriers by 1.8 and 2.1 points, respectively: the traffic of all the carriers in the Association of European Airlines (AEA) was 5.2% up on 2005, while their average load factor rose 0.6 percentage points.

Following the strategy defined in its Director Plan 2006/08, Iberia increased its capacity mainly on long-haul flights, where it raised its ASK by 8.6% year on year, and in the summer season it began restructuring the short and medium-haul network, especially in the domestic sector. Traffic increased year on year in all four quarters of 2006, with stronger growth than capacity, beating the company's own record also in RPK.

The growing weight of intercontinental flights within the overall network, together with the enhanced performance of traffic on all international flights (up 10.3% year on year) led to a considerable improvement in the average stage length (by 6.5%).

Overall, yield increased by 2.6% over 2005, in spite of the fierce competition and above-mentioned growth in the average stage length (with homogenous stage length, the yield was up by around 9%). The average revenue per ASK rose by 6.2%, with growth in all three sectors and a particularly outstanding performance of the unit revenue on connections with America. Passenger revenues on tickets actually flown in 2006 increased by 9.8% to over €3,963 million. Of this sum, 40% corresponded to revenues from the long-haul network (compared to 34.7% in 2005).

In the **long-haul** sector, the company carried almost 3.9 million passengers, 10.3% more than in 2005, with a 2.5 point improvement in load factor to 85.6%, which is the highest level ever recorded by Iberia in this sector. The year-on-year growth in RPK was 11.9%, 3.3 points higher than the increase in capacity. The capacity growth was achieved by raising the number of weekly flights to several destinations (Sao Paulo, Río de Janeiro, Montevideo and Johannesburg), using larger-capacity aircraft after adding three A-340/600 to the fleet, and as a result of the cabin reconfiguration programme on the long-haul fleet, which was completed in July.

The company continued to strengthen its leadership in Europe and Latin America in 2006, reaching a 19% share of the market, 1.4 percentage points more than the previous year. The increase in market share was even greater in the business segment, where it was 2.9 points higher than in 2005.

The growth was most impressive on South American flights, where RPK rose 26.1% year on year and the load factor improved by 4.0 points to 87.4%. In Central America and the Caribbean traffic grew 5.8% and the load factor by 1.9 points to 85.2%. In North America, capacity dropped by 0.9%, due to the reduction in the first quarter, and traffic increased by 2.1% year on year, raising the load factor by 2.5 points to 84.9%.

Passenger revenues on long-haul flights rose 26.7% year on year, thanks to the increase in traffic and the 13.3% rise in average yield, boosted by the significant improvement in the class mix as the number of passengers flying Business Plus class rose by more than 25%. Unit revenue per ASK was up 16.6% on 2005.

The load factor in the **medium haul** international sector was 4.0 points higher than in 2005, at 72.8%. RPK grew by 6.7%, while capacity was slightly up on 2005. Unit revenue per ASK increased by 3.8%.

The company proceeded with the restructuring of its European network in 2006, achieving a 0.5% growth in total capacity. There was an especially remarkable growth in traffic in certain countries (Greece, Italy, Denmark and Russia), although it dropped in Portugal, with an overall growth in Europe of 6.4%. Traffic increased considerably (9.0%) on flights to Africa and the Middle East, although they still have a small weight in the medium-haul international sector (accounting for just 2.5% of the total RPK).

On the **domestic market**, Iberia maintained its efforts to enhance profitability by improving the yield and making a selective structuring of capacity, reducing the ASK by 5.7% year on year. The available capacity was reduced by 4.5% on flights to the Canary Islands, with a 6.3% reduction on other flights (mainland and Balearic Islands). The load factor for the sector as a whole was 72.8%, more or less on a par with 2005. Both yield and unit revenue per ASK improved by 3.3% over 2005.

The evolution of **cargo** indicators over the year was very positive. The cumulative revenue tonne kilometres (RTK) over 2006 rose 8.3% year on year, while the load factor improved by 3.0 percentage points. Almost all of the total RTK were carried in the bellies of passenger aircraft, more than 81% on Atlantic routes. In the fourth quarter of 2006, cargo and mail RTK increased by 15.8% and the load factor improved by 8.6 percentage points year on year.

In the **fourth quarter** of 2006 the passenger load factor for the network as a whole was 3.6 points higher than in 2005, reaching 79.8%, and RPK rose by 8.7%. Iberia outstripped the average growth in European network carriers, which recorded a 5.0% increase in traffic and 0.3 point rise in their load factor (according to figures published by the AEA).

Most of Iberia's growth was achieved in the long-haul sector, leading to a 7.3% increase in the average stage length. This must be taken into consideration when assessing the decline in passenger revenue per RPK (1.2%) and the increased revenue per ASK (3.6%) for the network as a whole. Eliminating the adverse impact of exchange rate fluctuations, passenger revenues per RPK and ASK would have increased by 0.1% and 4.9%, respectively. The revenues on tickets actually flown in the fourth quarter of 2006 grew by 7.4% over the same period of last year.

In the **long-haul** sector, RPK were up 15.4% on the fourth quarter of 2005, capacity increased 10.6% and the load factor rose 3.6 points to 86.6%. The performance of the *Business Plus* class was outstanding in all networks: the number of passengers rose almost 30% year on year and the load factor of this class was up 11 percentage points. This contributed towards the 10% increase in the sector yield, with a 14.8% increase in unit revenue per ASK and 26.9% in passenger revenues.

On South Atlantic flights, traffic recorded a year-on-year growth of 31.6% in the fourth quarter, responding well to the considerable increase in capacity (28.6%), taking the load factor to 87.8%, 2.0 points up on last year. The load factor also improved in the North Atlantic (4.2 points) and Mid-Atlantic (4.6 points).

On **medium haul** international flights, the load factor improved 2.2 points year on year to 68.5%, with a 4.5% growth in traffic. Revenues grew 0.6% while the average revenue per ASK slid by the same percentage.

Following its strategy, the company continued to adjust its capacity in the **domestic** sector over the last quarter of 2006, reducing ASK by 9.8% year on year. The yield was 2.5% down on the last quarter of 2005, while unit revenue per ASK improved by 1.9%, due to the improved load factor (up 3.2 percentage points).

Consolidated Statements of Income (not audited) (a)

€ thousand	4th Quarter (Oct – Dec) 2006	2005	%	Accumulated (Jan – Dec) 2006	2005	%
Profit/loss from operations (b)	**52.941**	**-44.679**	**218,5**	**135.159**	**377.865**	**-64,2**
Revenues from operating activities	**1.371.887**	**1.272.734**	**7,8**	**5.464.457**	**4.946.311**	**10,5**
Net sales	**1.313.682**	**1.218.225**	**7,8**	**5.187.953**	**4.759.413**	**9,0**
Passenger revenue (c)	1.053.136	986.084	6,8	4.222.904	3.883.866	8,7
Cargo revenue	95.164	93.385	1,9	329.738	313.278	5,3
Handling	78.640	71.205	10,4	331.154	322.088	2,8
Technical assistance to airlines	64.054	49.258	30,0	219.038	155.723	40,7
Other revenues	22.688	18.293	24,0	85.119	84.458	0,8
Other operating revenues	**58.205**	**54.509**	**6,8**	**276.504**	**186.898**	**47,9**
Recurring	51.678	46.380	11,4	199.828	169.714	17,7
Non-recurring	6.527	8.129	-19,7	76.676	17.184	n.s.
Costs from operating activities	**1.325.171**	**1.269.736**	**4,4**	**5.333.502**	**5.120.647**	**4,2**
Procurements	**365.197**	**313.474**	**16,5**	**1.405.109**	**1.061.450**	**32,4**
Aircraft fuel	317.797	265.252	19,8	1.177.516	865.761	36,0
Aircraft spare parts	37.264	37.038	0,6	184.368	152.310	21,0
of which: Non recurring	-	-	n.a.	26.415	-	n.a.
Catering materials	6.259	5.654	10,7	24.074	23.246	3,6
Other purchases	3.878	5.530	-29,9	19.152	20.133	-4,9
Personnel expenses	**343.868**	**372.950**	**-7,8**	**1.421.002**	**1.733.209**	**-18,0**
of which: Non recurring	-	5.873	-100,0	25.800	290.873	-91,1
Depreciation and amortization	**58.014**	**44.873**	**29,3**	**219.371**	**177.730**	**23,4**
Other operating costs	**558.092**	**538.439**	**3,6**	**2.288.019**	**2.148.258**	**6,5**
Aircraft leases	108.101	105.426	2,5	449.150	405.596	10,7
Dry lease	90.536	88.632	2,1	385.309	348.323	10,6
Wet lease	14.241	13.073	8,9	51.245	42.477	20,6
Cargo lease	3.324	3.721	-10,7	12.597	14.797	-14,9
Other rentals	21.142	19.351	9,3	76.377	76.286	0,1
Fleet maintenance (subcontracts)	52.785	42.913	23,0	181.942	152.621	19,2
of which: Non recurring	1.136	4.000	-71,6	2.136	10.000	-78,6
Commercial expenses	59.697	64.119	-6,9	246.053	259.622	-5,2
Traffic services	105.669	104.893	0,7	451.756	427.906	5,6
Navigation charges	69.998	68.586	2,1	285.758	276.441	3,4
In flight services	17.567	16.154	8,7	67.957	63.178	7,6
Booking systems	29.952	29.595	1,2	147.767	139.747	5,7
Insurance	6.418	8.390	-23,5	29.750	33.084	-10,1
Other expenses	86.762	79.011	9,8	351.509	313.778	12,0
of which: Non recurring	7.229	2.616	176,3	13.412	7.238	85,3
Net gains on disposals of non-current assets	-330	-47.728	99,3	-2.350	656.750	-100,4
Impairment losses	-6.555	-52	n.s.	-6.555	104.548	-106,3

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	4th Quarter (Oct – Dec) 2006	2005	%	Accumulated (Jan – Dec) 2006	2005	%
Financial results	**19.756**	**9.216**	**114,4**	**25.515**	**13.129**	**94,3**
Financial revenues	34.494	22.741	51,7	88.050	58.904	49,5
Financial expenses	15.653	12.047	29,9	60.625	46.128	31,4
Exchange gains/losses	629	186	237,9	-1.112	-139	n.s.
Other revenues and expenses	286	-1.664	117,2	-798	492	-262,3
Share of results of associates	**892**	**9.973**	**-91,1**	**4.518**	**2.508**	**80,1**
Profit before taxes	**73.589**	**-25.490**	**n.s.**	**165.193**	**393.502**	**-58,0**
Taxes	-82.942	19.707	n.s.	-108.224	2.518	n.s.
Profit after taxes	**-9.353**	**-5.783**	**-61,7**	**56.969**	**396.019**	**-85,6**
Attributable to shareholders of the parent company	-9.459	-5.896	-60,4	56.725	395.789	-85,7
Attributable to minority interests	106	113	-6,5	244	230	6,1
Profit after taxes (excluding tax credits adjustments)	**49.776**	**-5.783**	**n.s.**	**116.098**	**396.019**	**-70,7**
Basic earnings per share (euros)	-0,010	-0,006	-58,9	0,061	0,428	-85,8
Diluted earnings per share (euros)	-0,010	-0,006	-58,3	0,061	0,422	-85,6

n.a.: no aplicable; n.s.: no significativo
Average weighted nº of shares 4th quarter: 938,664,264 en 2006 and 929,592,638 in 2005; full year: 932,048,965 in 2006 and 925,433,545 in 2005.

KPI (not audited) (a)

IBERIA GROUP	4th Quarter (Oct – Dec) 2006	2005	%	Accumulated (Jan – Dec) 2006	2005	%
Unit Ratios (€ cent/ASK) (Recurring)						
OPERATING REVENUE	8,30	7,97	4,1	8,19	7,75	5,7
OPERATING COST	8,00	7,93	1,0	8,00	7,56	5,8
OPERATING COST (excluding IAS 39)	7,97	7,89	1,0	7,96	7,61	4,6
Fuel	1,93	1,67	15,5	1,79	1,36	31,5
Fleet maintenance	0,54	0,48	12,8	0,51	0,46	10,7
Spare parts	0,23	0,23	-3,0	0,24	0,24	0,3
Maintenance (subcontracts)	0,31	0,25	27,9	0,27	0,22	21,9
Personnel	2,09	2,31	-9,7	2,12	2,27	-6,5
Aircraft lease	0,66	0,66	-1,2	0,68	0,64	7,1
Commercial	0,36	0,40	-10,3	0,37	0,41	-8,4
Traffic services	0,64	0,66	-2,9	0,69	0,67	2,1
Navigation charges	0,43	0,43	-1,6	0,43	0,43	-0,0
In-flight services and catering materials	0,14	0,14	5,3	0,14	0,14	3,0
Rest (b)	1,21	1,16	4,1	1,26	1,18	6,6
Iberia fleet maintenance (c)	0,61	0,71	-13,3	0,63	0,70	-10,1
Net commercial cost / traffic passenger and cargo revenue (%) (d)	3,5	4,2	-0,7 p.	3,6	4,3	-0,6 p.
Productivity						
Average fleet utilization (block hours/aircraft/	9,1	9,0	1,1	9,1	9,1	-0,7
Annual average headcount	23.375	23.845	-2,0	23.901	24.348	-1,8
ASK / Employee	704	665	5,8	2.753	2.613	5,4
Ground	949	899	5,5	3.710	3.518	5,4
Ground (without handling)	1.930	1.754	10,0	7.520	6.982	7,7
Block hours / Technical crew (e)	68,1	66,6	2,3	273,3	267,5	2,2
Block hours / Flight attendant (e)	30,2	30,3	-0,2	120,3	120,4	-0,1
Operating revenue per employee (€ thousand)	58,4	53,0	10,1	225,4	202,4	11,4

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS)
(b) Includes bookings system, other rentals, insurance, depreciation and other recurrent cost.
(c)Unit fleet maintenance cost of Iberia (excluding costs for third party services)(€ cents per ASK) includes labour, spare parts, subcontracts, etc.
(d) Commercial expenses lowered by commission revenues (variation in percentage points).
(e) Productivity calculation based on weighted average headcount

Revenues from operating activities

Revenues from operating activities increased by 10.5% year on year in 2006 and operating revenues (only recurring) by 9.3% to €5,387.8 million. Of this total, 84.5% (€4,552.6 million) corresponded to passenger and cargo revenues, up 8.5% on 2005. Other operating revenues totalled €835.1 million, up 14.1% on the €732 million recorded in 2005, including a particularly strong growth (€63.3 million) in maintenance revenues.

Passenger revenues totalled €4,222.9 million, €339 million (8.7%) up on last year. Revenues on tickets actually flown during the period increased by €353.2 million (up 9.8%) to €3,963.2 million, while the aggregate sum of other passenger revenues (cancellation of advance payments from customers for issued but unused tickets, revenues from frequent flyer programmes, aircraft rent and arrangements with other carriers, etc.) was down €14.2 million to €259.7 million.

Cargo revenues experienced a year-on-year growth of 5.3%, as the increase in traffic (8.3% measured in RTK) was larger than the reduction in average yield, the latter dented by the growth in the average cargo stage length (4.6%). There was a lull in the first half of 2006, but a strong recovery in the second half.

Revenues generated on **handling** services grew 2.8% over 2005 to €331.2 million, while average unit revenues (in terms of weighted aircraft handled) increased by 5.4%.

There was a strong growth (40.7%) in **maintenance** revenues in 2006. Much of this growth corresponded to technical assistance, due partly to a greater volume of activity and to specialisation in work and services with a higher value added. Revenues increased particularly for engine overhauls, particularly on RB211 engines, aviation part checks and D checks.

Recurring **"other operating revenues"** were up 17.7% on 2005, due mainly to the increases in: the recovery of provisions for major repairs, revenues on in-house work on fixed assets and lease revenues, following the lease of a third A-320 as from July to Mexicana de Aviación, which has been leasing another two aircraft since April 2005.

Non-recurring "other operating revenues" totalled €76.7 million in 2006, compared to €17.2 million in 2005. This year's figure includes €53.3 million corresponding to the recovery of depreciation provisions for engine reparables, and €14.7 million corresponding to the gain obtained on the sale of Iberia's stake in Musini, former insurance company of SEPI, recorded in the item "revenues and income brought forward".

Operating revenues totalled €1,365.4 million in the **fourth quarter** of 2006, up 8.0% year on year.

Passenger revenues totalled €1,053.1 million in the fourth quarter of 2006, €67 million (6.8%) up on last year. Within this sum, revenues on tickets actually flown during the period increased by €68.4 million, mainly due to the growth of the long-haul sector, while other passenger revenues dropped by €1.4 million.

Cargo revenues rose 1.9% year on year, with a 15.8% growth in RTK during the period. **Handling** revenues grew by 10.4%, due mainly to the increase in activity for third parties, in turn partly due to the start-up of the Clickair service. **Maintenance** revenues rose 30% to €64.1 million, as a result of the growth in the quantity and value of engine maintenance for other carriers. Within **"other operating revenues"**, recurring revenues increased by €5.3 million (11.4%) year on year, contrasting with a €1.6 million drop in non-recurring revenues.

Consequently, the total revenues from operating activities were up 7.8% to €1,371.9 million.

Costs from operating activities

In **2006**, **costs from operating activities** increased by €212.9 million (4.2%) year on year to €5,333.5 million.

Recurring **operating costs** totalled €5,265.7 million in 2006, up 9.4% on the previous year, mainly due to the hike in kerosene prices. The increase in costs was also partly generated by the adverse effect of applying IAS 39 (which explains a difference of €55.3 million between operating costs in 2006 and 2005) and, to a smaller extent, by the growth in third party maintenance and transport activities. These increases were partially offset by the cost-cutting initiatives designed in the Director Plan 2006/08. The unit operating expense was 8.0 euro cents per ASK in 2006, 5.8% higher than that recorded by the Iberia Group in 2005. Ex fuel in both years, this increase would be just 0.2%. Excluding the effects of IAS 39, the unit operating expense would have been 1.2% down on the previous year, at 6.18 euro cents per ASK. The year-on-year variation in unit operating expense ex fuel over 2006 was in constant decline, ending the year with a 2.9% drop in the last quarter.

The **fuel expense** rose by 36% year on year, totalling €1,177.5 million in 2006, accounting for 22.4% of the total operating costs of the Iberia Group (compared to 14.2% in 2004). This expense was €311.8 million more than the amount recorded in 2005, mainly due to the price hike. The growth of capacity and average appreciation of the dollar against the euro during the year also had a bearing, albeit smaller, on this increase in expense. These increases were partly curbed by the improved fleet efficiency in terms of fuel consumption, achieved through fleet renewal, which brought a saving of €38.1 million in 2006. Over the past three years, more than €80 million have been saved through fleet efficiency.

The prices of oil and its refined products, including aviation kerosene, continued to rise on the markets for more than half of 2006, peaking at record levels in August. Since then, prices have gradually crept down, standing at around 55 $/barrel over much of the last quarter. But despite this fall, the average annual dollar price of crude oil on the European market was approximately 20% higher than in 2005.

Iberia controls its fuel expense with active hedging policies, hedging fuel prices. The hedging tools cushioned the impact of price increases on international markets and curbed the expense by €4.2 million over the year. The dollar exchange rate hedges reduce the annual fuel expense by a further €1.3 million. In contrast, the value of “ineffective” (in IFRS terminology) fuel price hedges increased the fuel expense by €3.7 million euro (and by €2.7 million in 2005).

The greatest increases in costs in respect of 2005 occurred during the first half of 2006, when the largest year-on-year differences were recorded in the benchmark crude prices on international markets, which had also been rising up to August 2005. Despite all this, the unit fuel cost (per ASK) rose by 31.5% year on year to 1.79 euro cents in 2006.

The Group’s recurring **personnel** costs were 3.3% down on 2005, cut to €1,395.2 million mainly through the measures designed in the Director Plan 2006/08, which increased staff productivity (measured in terms of ASK/employee) by 5.4% and reduced the headcount by 1.8%. Unit personnel costs were brought down by 6.5% by increasing productivity and improving the salary mix deriving from the early retirement process. The average headcount of technical crew was lowered by 4.0%, while their productivity -measured in block hours per manpower equivalent- improved by 2.2%. The average headcount of flight attendants was cut by 0.5%, while their productivity remained more or less on a par with that of the previous year. Operating revenues per employee were up 11.4% year on year.

Cumulative annual **depreciation and amortisation** charges were 23.4% (or 19.4% in unit terms) up on December 2005, due mainly to the incorporation in the balance sheet in December 2005 of five A340/300 aircraft that had previously been on operating leases. Eliminating this effect, the increase in depreciation and amortisation would have been 9%, due to the increased investment in assets (Terminal 4, new Business Plus class, etc.).

Passenger **aircraft leasing** costs totalled €436.6 million, up €45.8 million year on year, largely as a result of the negative impact of applying IAS 39 and wet lease activity, the cost of which increased by 20.6% year on year as the number of block hours operated on wet lease increased by 53.9%. As a result of applying IAS 39 at 31 December 2006, aircraft leasing costs were raised by €24.6 million, contrasting with a reduction of €29.6 million recorded in 2005. Excluding these effects, unit leasing costs would have been 5.7% down on 2005. Part of this reduction is due to the purchase option exercised over five A340/300 aicraft previously on operating leases, which shifted the cost to depreciation and amortisation. Cargo wet leases were down €2.2 million year on year, at €12.6 million.

Recurring **fleet maintenance** costs totalled €337.8 million in 2006, up 14.5% year on year, due to the larger volume of work done for third parties. The spare parts expense was €158 million, 3.7% up on 2005; external fleet repair and maintenance services cost a total of €158.2 million, a year-on-year growth of 28.6%; provisions for major fleet repairs totalled €21.6 million. The unit fleet maintenance cost corresponding exclusively to the transport activity (i.e. excluding the costs generated in third-party engine and aircraft maintenance) was down 10.1% to 0.63 euro cents per ASK, as a direct result of the fleet renewal and homogenisation process.

Commercial costs (commissions, advertising and publicity costs) totalled €246.1 million in 2006, 5.2% lower than in 2005, mainly due to the development of the new remuneration model for travel agencies in Spain and its extension to other markets. The ratio of net commercial costs, i.e. after deducting commission revenues, to traffic revenues was 3.6%, 0.6 percentage points down on last year.

Traffic service costs rose by 5.6% year on year to €451.8 million in 2006, partly due to the growth in air traffic (3.4% in terms of ASK) and the significant increase in the use of air bridges (especially in Madrid, where there is a greater availability at Terminal 4), runway parking and other airport services. The unit cost of traffic services was 0.69 cents per ASK, 2.1% more than in 2005.

The aggregate cost of "**In-flight service**" and "**Catering materials**" increased by 6.5% year on year as a result of the growth in passengers on long-haul routes (up 10.3%), especially business class passengers. The unit cost of these items was 3.0% higher in 2006 than in the previous year.

"**Other recurring expenses**" rose 10.3% (€31.6 million) on 2005, the largest growth being in passenger and baggage compensations, which increased by €16.1 million year on year, partly due to the operating inefficiencies experienced when Terminal 4 was first put into use and the effects of the illegal industrial action taken by ground staff at Barcelona airport at the end of July. This item was also affected by 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.

Non-recurring expenses totalled €67.8 million in 2006. A provision of €25.8 million was set aside to meet future payments under the redundancy plan, due to the increase in the number of ground staff leaving the company during 2006 and the advancing of redundancies initially scheduled for 2007. A further provision of €26.4 million was made for obsolescent stock following the reclassification of engine reparables and to adjust the value of those parts. A provision of €280 million had been made in 2005 to meet the costs incurred in the restructuring plans contemplated in the Director Plan 2006/2008, and an extraordinary provision of almost €105 million for depreciation of the MD87/88 fleet, which was to be replaced by new Airbus aircraft.

In the **fourth quarter** of 2006, **costs from operating activities** grew by 4.4% year on year to €1,325.2 million. Excluding non-recurring items, operating costs totalled €1,316.8 million in the last quarter of 2006 and €1,257.2 in the same period of 2005, i.e. a year-on-year increase of 4.7%. The unit operating cost (per ASK) increased by 1.0%, or dropped by 2.9% ex fuel. Excluding also the effects of IAS 39, the unit operating cost would have been 3.2% down on the previous year, at 6.05 cents per ASK. Cost-cutting has been accelerated through progressive implementation of the measures designed in the Director Plan 2006/08.

The total **fuel** expense, which accounts for 24.1% of the consolidated operating costs (and 27% of transport costs), was €317.8 million in the fourth quarter of 2006, up 19.8% on the same period of 2005, due mainly to the price hike. The unit operating cost (per ASK) rose by 15.5%.

Recurring **personnel** costs were 6.3% down on the fourth quarter of 2005, achieved as a result of the 2.0% cut in the group headcount and in spite of the increase in activity. The average headcount of technical crew was lowered by 3.3%, while their productivity -measured in block hours per manpower equivalent- improved by 2.3%. The average headcount of flight assistants was cut by 2.6%, their productivity at very similar levels to the previous year (-0.2%). The average headcount of ground staff was lowered by 1.7% while their productivity, measured in ASK/employee, increased by 5.5%. Operating revenues per employee grew by 10.1% during the quarter, while unit personnel costs were reduced by 9.7% to 2.09 cents per ASK.

Depreciation and amortisation charges increased by 29.3% in the fourth quarter of the year, largely due to the incorporation of five A-340/300 aircraft in the balance sheet in December 2005, as explained above.

The unit cost of **fleet maintenance** (including the recurrent costs of spare parts, maintenance sub-contracts and provisions for major repairs of aircraft on operating leases) was 12.8% higher than in the fourth quarter of 2005, owing to the significant increase in activity for third parties. Excluding the costs generated on technical assistance for third parties, the unit cost of maintenance of the transport service was down 13.3% year on year.

Commercial costs were down 10.3% on last year. The unit cost of the **in-flight service** and **catering materials** was up 5.3% due to the growth in traffic on the long-haul network and the increase in business class passengers.

"**Other recurring expenses**" totalled €79.5 million in the fourth quarter of 2006, up €3.1 million (4.1%) on the same period of 2005.

Financial and Other Non-Operating Results

A **financial income** of €25.5 million was recorded in 2006, €12.4 million more than the sum recorded in the previous year. Financial revenues totalled €88 million, up 49.5% on 2005, due partly to the higher interest rates and the increase in the average balance of the company's short and long-term deposits. Financial revenues also included €11 million in dividends paid on Iberia's stake in WAM. Financial costs, which increased by 31.4% year on year, were also affected by the higher interest rates. In the fourth quarter of 2006, Iberia posted a financial income of €19.8 million, compared to the €9.2 million recorded in the same period of 2005.

The net balance of Iberia's **share of results of associates** was €4.5 million in 2006, €2 million more than the previous year. A positive balance of €0.9 million was recorded in the fourth quarter.

The "**Net gains on the disposals of non-current assets"** was a cumulative loss of €2.4 million in 2006, corresponding to several sales of obsolete assets, compared to a net income of €656.7 million in the same period of last year, which included the capital gain on the sale of Iberia's stakes in Amadeus and SAVIA.

An extraordinary provision of almost €105 million was made for "**Impairment losses**" in 2005 to meet the depreciation of the MD87/88 fleet, to be replaced with new Airbus aircraft.

Operating Fleet

IBERIA GROUP (a)	**December 2006**	**Septeember 2006**	**December 2005**
Long Haul	**31**	**31**	**30**
Owned	5	5	5
Financial lease	0	0	0
Operating lease	24	24	23
Wet lease	2	2	2
Short and Medium Haul	**119**	**119**	**124**
Owned	40	40	41
Financial lease	14	14	14
Operating lease	58	60	66
Wet lease	7	5	3
Total	**150**	**150**	**154**
Owned	45	45	46
Financial lease	14	14	14
Operating lease	82	84	89
Wet lease	9	7	5

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

Operating Fleet and Variations

At 31 December 2006, Iberia had an operating fleet of 150 aircraft, 91 of which were under operating or wet leases.

The company added three A-340/600 aircraft on operating lease to its **long haul** fleet in February, March and April 2006. In June and July, on expiry of the corresponding wet leases, two B-747/400 were withdrawn and replaced with two A-340/300, previously on operating lease. Consequently, since July 2006 all Iberia long-haul flights have been operated with a single family of aircraft, the Airbus A-340, in its two versions: the 300, with 260 seats, and the 600, with 352 seats.

According to Iberia's **short and medium haul** fleet renewal and homogenisation plan approved in 2005**,** as from the second quarter of 2006 the company incorporated eight new Airbus aircraft on operating leases: two A-321 (April and May), two A-320 (May and June) and four A-319 (one in August, two in September and one in October). During the second half of the year, eight A-320 on operating lease were withdrawn from the fleet, and another A-320 was leased to Mexicana de Aviación as from July. An MD-87 owned by the company was phased out in the first quarter of the year.

The company ceased to operate its own B-757 during 2006, completing the process begun in mid-2005 to retire this fleet. At the end of 2005, Iberia had seven B-757 on operating lease, five of which have been changed to wet lease during 2006 and another two have been withdrawn. At year-end 2006, Iberia was operating just two families of owned aircraft (A-319/20/21 and MD-87/88) on short and medium haul flights.

Consolidated Balance Sheet (not audited) (a)

€ thousand	December 2006	December 2005
ASSETS	**5.751.248**	**5.543.918**
Non-current assets	**2.491.333**	**2.747.206**
Intangible assets	48.852	47.417
Property, plant and equipment	1.350.909	1.463.584
Investments in associates	16.750	12.126
Non-current financial assets	623.393	731.711
Iberbus loans	*150.380*	*167.879*
Iberbond bonds	-	*30.810*
Other	*473.013*	*533.022*
Deferred tax assets	445.354	484.513
Other non-current assets	6.075	7.855
Non-current assets held for sale	**-**	**3.013**
Current assets	**3.259.915**	**2.793.699**
Inventories	187.594	114.682
Accounts receivable	607.292	643.380
Current financial investments	1.489.334	1.190.673
Cash and cash equivalents	963.731	821.439
Other current assets	11.964	23.525
EQUITY AND LIABILITIES	**5.751.248**	**5.543.918**
Equity	**1.738.596**	**1.738.233**
Share capital	739.492	735.666
Share premium	115.405	111.285
Reserves	824.955	774.451
Translation differences and differences due to adjustment of capital to euros	840	1.025
Profit attributable to the parent company	56.725	395.789
Interim dividend	-	-281.026
Minority interests	1.179	1.043
Non-current liabilities	**1.897.106**	**2.121.781**
Convertible debenture issue	-	9.153
Bank borrowings and non-current obligations under finance leases	484.426	696.954
Long term provisions	1.359.057	1.381.179
Other liabilities	53.623	34.495
Current liabilities	**2.115.546**	**1.683.904**
Convertible debenture issue	10.362	9.153
Bank borrowings and current obligations under finance leases	224.825	111.696
Deferred income	62.468	31.850
Other liabilities	1.817.891	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 €11,271 thousand as of 31-Dec-2006 and €42,766 thousand as of 31-Dec-2005.

Capitalized leases: The concept aircraft leases is used to calculate capitalized leases. It includes the amount of operating leases (excluding the value of non efficient hedging) + 50% of wet leases + 50% cargo wet leases. Annual Leases expenses amounted to €374,113 thousand in 2005 and €392,624 in 2006. 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 December 2006: 6% of €150.380 thousand x 8 = €72.182 thousand
For December 2005: 6% of €167.879 thousand x 8 = €80.582 thousand

Consolidated Cash Flow Statements (not audited) (a)

€ thousand	Jan-Dec 2006	Jan-Dec 2005
Consolidated profit before tax	**165.193**	**393.502**
Depreciation and amortisation charge and impairment losses	219.329	282.278
Period provisions (net) (+/-)	107.437	370.658
Provisions used (-)	-129.657	-189.986
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)	-24.334	6.530
Gains/Losses on disposal of investments (+/-)	-	-663.278
Results of associates accounted for using the equity method (+/-)	-4.518	-2.508
Gains/Losses on hedging transactions (+/-)	28.889	-27.442
Effect of exchange rate changes not giving rise to cash flows	-2.920	5.218
Other adjustments of the cash-flow (+/-)	-42.837	74.373
Net change in assets/liabilities not giving rise to cash flows	128.760	49.016
Taxes paid	101.105	-164.091
Cash flow from operating activities	**546.447**	**134.270**
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	-115.979	35.924
Net investment in non-current investments	-	-79.272
Net investment in investments and other current financial assets	-294.148	-219.052
Net investment in other assets	39.290	-168.001
Dividends and interest received (+)	55.460	48.770
Net investment in treasury shares (+/-)	14.450	3.589
Cash flow from investing activities	**-316.610**	**443.442**
Dividends paid (-)	-18.727	-322.482
Changes in bank borrowings and other financial liabilities (+/-)	-35.538	13.848
Interest paid on debt (-)	-41.661	-24.638
Other debt	435	1.315
Capital increase	7.946	9.224
Cash flow from financing activities	**-87.545**	**-322.733**
Net cash flow	**142.292**	**254.979**
Cash and cash equivalents at beginning of year	821.439	566.460
Cash and cash equivalents at end of year	963.731	821.439

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

Net Debt to Equity / Cash Flow

The Iberia Group's in-balance sheet net debt continues to improve, although it is still clearly negative, i.e. the balance of short-term financial assets (excluding the afore-mentioned hedging) exceeds the total interest-paying debt. The net debt stood at -€1,722.2 million at 31 December 2006, compared to -€1,142.4 million at the end of the previous year. The adjusted net debt, which includes the capitalisation of operating leases (excluding the effect of hedging at the end of both years and the rent for five A340/300 aircraft that were on operating leases and incorporated in assets in December 2005), stood at €1,346.6 million, 22.6% down on the previous year.

The Iberia Group had an equity of €1,699.4 million at 31 December 2006, €38.8 million year on year, partly due to the reduction of reserves in investments accounted for using the equity method following the exclusion of Amadeus from the consolidated group.

Long-term provisions totalled €1,359 million at year-end 2006, 1.6% down on the previous year. The breakdown of the balance at 31 December 2006 is as follows: €62.4 million provisions for major repairs; €618.3 million for pensions and obligations to employees, including funds set aside for reserve flight crew; and €678.3 million provisions for liabilities, which include the funds set aside for redundancies. The largest provisions are used to pay for the different redundancy plans, in a sum of €94.1 million in 2006.

At the end of 2006, Iberia had short and long-term interest-earning debt (debenture issues, bank borrowings and obligations under finance leases) in a sum of €719.6 million, €107.3 million (13%) less than one year earlier.

The balance of liquid assets (current financial investments plus cash and cash equivalents) grew by €440.1 million year on year to €2,453.1 million at year-end 2006. The valuation of hedging tools (in pursuance of IAS 39) at 31 December 2006 led to an increase of €11.3 million in current financial investments (€42.8 million at year-end 2005).

Iberia has voluntarily reclassified the accounting of engine spare parts, since their new consideration as inventories better reflects the true economic situation, as their stock rotation has gradually increased over the years and is now below twelve months. This largely accounted for the reduction in "Tangible and intangible fixed assets" at 31 December 2006 (€111.3 million down on year-end 2005) and the increase in inventories (€72.9 million) during the same period. In "Non-current financial assets", the divestments correspond to Iberbus loans for adjustment of translation differences and the refunding of advance payments on the A-340 and A-321 fleet, paid into long-term deposits. The Iberbond bonds balance has been included in current financial investments because these bonds mature within less than twelve months.

Iberia generated a positive cash flow from operating activities of €590.1 million in 2006, €455.8 million more than the net cash flow generated during the previous year.

Principal effects of applying the IFRS

The consolidated financial statements for 2006 presented in this Report have been prepared in accordance with the International Financial Reporting Standards (IFRS), which have been applied since January 2004 (except for IAS 32 and 39, which, as permitted by those standards, have been applied as from January 2005).

Application of IAS 39 (Financial Instruments: recognition and measurement) has particularly affected the results of the Iberia Group in the past two years.

Iberia uses different derivatives for its hedging policy. In operating lease hedges, the purpose of the derivatives is to hedge exchange rate (dollar) and interest rate risk exposure. The company also hedges price and exchange rate in fuel purchases. On 1 January 2005, Iberia recorded the market values of all its hedging tools according to the standard of first-time adoption of IFRS. Subsequently, hedges have been valued at the end of each quarter and any changes in value have been entered in the books. Most of the derivatives used by the company are effective from the point of view of the IFRS, and their value differences over time do not affect income, being recorded in reserve accounts on the balance sheet. However, part of the derivatives are considered "ineffective", producing impacts on the statement of income.

Hedges were overvalued in 2005, especially those applied to fleet leases, mainly due to the rise in dollar interest rates over the period; application of IAS 39 raised the income before taxes by €27.4 million. In contrast, the evolution of the spread of dollar and euro interest rate curves in 2006 and the evolution of the value of fuel price derivatives have reduced this overvaluation, generating a negative effect on income before taxes of €29.1 million euro, broken down as follows: €24.6 million as increased cost corresponding to the valuation of financial instruments linked to the operating leases on fleet; €3.7 million as increased cost deriving from the temporary, statistical "ineffectiveness" (according to IFRS terminology) of part of the fuel hedges; and €0.8 million as increased cost in the valuation of other financial instruments.

Therefore, the valuation of derivatives in pursuance of the IFRS has generated a negative difference of €56.5 million between the income before taxes of 2006 and 2005. At 31 December 2006, the variation in the value of derivatives caused a €92.1 million reduction in reserves from year-end 2005.

In the fourth quarter of 2006, the variation in the value of derivatives had a negative impact on both reserves (€42 million) and income (€4.9 million), mainly by increasing the dry lease costs, which reduced income before taxes by €4.0 million.

Effect of the Change in the Corporate Income Tax

On 28th November of last year, Law 35/2006 was enacted, modifying aspects of the Corporate Income Tax, and reducing the standard tax rate from 35% to 32.5% in 2007, and to 30% as of fiscal year 2008. Although this reduction will benefit Iberia and its shareholders from 2007, in accounting terms it has had an impact of 59.1 million euros on the income statement for 2006.

On 31st December 2006, the Company's consolidated balance sheet included tax credits for pre-paid taxes (at the tax rate of 35%) in the amount of approximately 451 million euros. Accounting rules stipulate that tax credits for pre-paid taxes should be recognised at the tax rate applicable in the fiscal year in which they will foreseeably be recovered. The rate reduction specified in the law cited gives rise to a proportional reduction in these tax credits for pre-paid taxes, and the 2006 accounts must be adjusted accordingly.

In keeping with the agreement adopted by the Board of the CNMV (Spain's securities market authority), the Company has decided to reflect in this report the consolidated net earnings from ordinary activities (116.1 million euros in 2006) before the exceptional tax adjustment described above. The aim is to supply investors with the information that will allow them to properly evaluate the normal performance of the business.

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