Financial Statements and Management Reports

9 Independent Auditor's Report

10 Financial Statements
11 Balance sheets at December 31, 2007 and 2006
13 Income Statements for the years ended December 31, 2007 and 2006
15 Notes to the 2007 Financial Statements
15 Company Description
15 Basis of presentation of the financial statements
15 Distribution of income
15 Valuation standards
19 Intangible fixed assets
20 Tangible fixed assets
25 Financial fixed assets
28 Treasury stock
28 Accounts receivable
28 Short-term investments
29 Shareholders' equity
30 Provisions for contingencies and charges
30 Payable to credit institutions
31 Financial risk management
33 Tax matters
35 Revenues and expenses
38 Directors' compensation and other benefits
39 Detail of the equity interests held by the directors in companies engaging in similar activities and performance by them, for their own account or the account of others, of similar activities
39 Environmental information
40 2007 and 2006 statements of changes in financial position
41 Explanation added for translation to English

42 Management Report
43 Key data
44 Highlights
49 Financial and operational performance
64 Management of non-operating risks
65 Responsibility for the environment
65 Corporate governance information
65 Acquisition of treasury shares

66 Governing Bodies

69 Independent Auditor's Report

71 Consolidated Financial Statements
72 Consolidated balance sheets at December 31, 2007 and 2006
74 Consolidated income statements for 2007 and 2006
75 Consolidated cash flow statements for 2007 and 2006
76 Consolidated statements of changes in equity for 2007 and 2006
78 Notes to the Consolidated Financial Statements for 2007 and 2006
79 Activity of the Parent and the Group
79 Group companies
80 Basis of presentation of the financial statements and basis of consolidation
82 Distribution of the Parent's profit
82 Accounting policies and measurement bases applied
89 Intangible assets
90 Property, plant and equipment
96 Financial assets
100 Accounts receivable
100 Cash and cash equivalents
100 Equity
105 Bank borrowings and other financial liabilities
105 Obligations under finance leases
106 Long-term provisions
107 Trade and other payables
107 Derivative financial instruments
110 Tax matters
113 Income
115 Expenses
117 Contribution of subsidiaries and associates to consolidated profit
118 Business and geographical segments
120 Related party transactions
121 Remuneration of directors and senior executives
122 Detail of the investments in companies engaging in similar activities and of the performance, by the directors, as independent professionals or as employees, of similar activities
123 Information on the environment
123 Cash flow statement
123 Explanation added for translation to English

124 Consolidated Management Report
125 Key data
126 Highlights
135 Operational performance in management areas
151 Resources
154 Financial performance
167 Performance of investees
170 Corporate Governance information
175 IBERIA's share price

Financial Statements and Management Report
Iberia, Líneas Aéreas de España, S.A.

Translation of financial statements and a report originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
Iberia, Líneas Aéreas de España, S.A.:

We have audited the financial statements of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. comprising the balance sheet at 31 December 2007 and the related income statement and notes to the financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

For comparison purposes the Company's directors present, in addition to the 2007 figures for each item in the balance sheet, income statement and statement of changes in financial position, the figures for 2006. Our opinion refers only to the 2007 financial statements. On 29 March 2007, we issued our auditors' report on the 2006 financial statements, in which we expressed an unqualified opinion.

Since the Company is the head of a Group and meets certain requirements, it is obliged under current legislation to prepare separate consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, on which we issued our auditors' report on this same date, in which we expressed an unqualified opinion. The effect of consolidation and of the application of International Financial Reporting Standards as adopted by the European Union, with respect to the accompanying individual financial statements, is detailed in Note 4-c to the accompanying financial statements.

In our opinion, the accompanying financial statements for 2007 present fairly, in all material respects, the net worth and financial position of Iberia, Líneas Aéreas de España, S.A. at 31 December 2007 and the results of its operations and the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the previous year.

The accompanying directors' report for 2007 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2007. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Jose Manuel Rodríguez
31 March 2008

Financial Statements
Iberia, Líneas Aéreas de España, S.A.

Iberia, Líneas Aéreas de España, S.A.

Balance sheets at December 31, 2007 and 2006

Thousands of Euros

ASSETS	2007	2006
FIXED ASSETS:		
Start-up expenses	-	292
Intangible fixed assets (Note 5)	346,174	492,156
Tangible fixed assets (Note 6)	848,943	927,158
Aircraft fleet		
Cost	1,689,950	1,822,251
Depreciation and provisions	(1,180,784)	(1,244,243)
	509,166	578,008
Other tangible fixed assets		
Cost	994,999	1,009,996
Depreciation and provisions	(655,222)	(660,846)
	339,777	349,150
Financial fixed assets (Note 7)	390,439	619,547
Investments in Group and associated companies	129,868	120,971
Loans to Group and associated companies	25,623	25,623
Long-term securities portfolio	92,041	98,559
Other loans	152,083	276,421
Long-term deposits and guarantees	219,935	306,333
Provisions	(229,111)	(208,360)
Long-term accounts receivable from public authorities (Note 15)	292,042	276,220
Total fixed assets	1,877,598	2,315,373
DEFERRED EXPENSES (Note 5)	57,750	85,230
CURRENT ASSETS:		
Treasury stock (Note 8)	17,873	12,694
Inventories	197,230	187,594
Engine parts	111,247	111,847
Aircraft parts	87,968	63,025
Other inventories	46,926	56,784
Provisions	(48,911)	(44,062)
Receivable from Group companies (Note 7)	43,929	29,746
Accounts receivable (Note 9)	732,502	621,719
Short-term investments (Note 10)	2,889,841	2,403,941
Cash in hand and at banks	44,227	7,982
Accruals	10,266	11,964
Total current assets	3,935,868	3,275,640
TOTAL ASSETS	5,871,216	5,676,243

The accompanying Notes 1 to 21 form an integral part of the balance sheet at December 31, 2007.

Thousands of Euros

SHAREHOLDERS' EQUITY AND LIABILITIES	2007	2006
SHAREHOLDERS' EQUITY (Note 11):		
Capital stock	743,269	739,492
Share premium	119,472	115,405
Legal reserve	147,898	147,133
Voluntary reserves	627,875	581,762
Reserve for treasury stock (Note 8)	17,873	12,694
Other reserves	1,404	1,404
Profit for the year	322,929	85,203
Total shareholders' equity	1,980,720	1,683,093
DEFERRED REVENUES (Note 4-g)	94,130	59,082
PROVISIONS FOR CONTINGENCIES AND CHARGES (Note 12):		
Provisions for commitments with employees	640,712	618,331
Provision for major repairs	64,323	62,194
Provision for liabilities	698,735	707,862
Total provisions for contingencies and charges	1,403,770	1,388,387
NON-CURRENT LIABILITIES:		
Bank loans (Note 13)	353,906	544,930
Other long-term payables	3,722	4,393
Total non-current liabilities	357,628	549,323
CURRENT LIABILITIES:		
Convertible bond issues	315	10,362
Bank loans (Note 13)	169,060	241,610
Payable to Group and associated companies (Note 7)	27,880	29,492
Trade accounts payable	1,453,908	1,340,308
Customer advances (Note 4-g)	455,366	435,535
Payable on purchases and services	998,542	904,773
Salaries payable	184,430	158,561
Other non-trade accounts payable	197,246	215,031
Payable to Public authorities (Note 15)	159,493	167,645
Other payables	37,753	47,386
Accruals	2,129	994
Total current liabilities	2,034,968	1,996,358
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	5,871,216	5,676,243

Traslation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language versions prevails.

Iberia, Líneas Aéreas de España, S.A.

Income Statements for the years ended December 31, 2007 and 2006

Thousands of Euros

DEBIT	2007	2006
EXPENSES:		
Materials consumed (Note 16)	1,359,369	1,374,704
Personnel expenses (Note 16)	1,371,635	1,388,879
Depreciation and amortization	221,516	224,374
Change in trade provisions	7,682	4,409
Other operating expenses (Note 16)	2,249,909	2,225,952
	5,210,111	5,218,318
Profit from operations	**283,639**	**141,132**
Financial and similar expenses	60,801	60,995
Change in provisions for financial investments	-	(6,557)
Foreign exchange losses	68,625	79,138
	129,426	133,576
Net financial profit	**160,214**	**33,009**
Profit from ordinary activities	**443,853**	**174,141**
Change in provisions for fixed assets	23,228	(688)
Losses on intangible and tangible fixed assets, and investments in Group and associated companies	7,646	4,604
Extraordinary expenses (Note 16)	86,782	66,221
Prior years' expenses and losses	64	242
	117,720	70,379
Net extraordinary profit	**3,819**	**10,974**
Profit before taxes	**447,672**	**185,115**
Corporate Income Tax (Note 15)	124,743	59,484
Negative income tax adjustments	-	40,428
Profit for the year	**322,929**	**85,203**

The accompanying Notes 1 to 21 form an integral part of the income statement for 2007.

Thousands of Euros

CREDIT	2007	2006
REVENUES:		
Net sales (Note 16)	5,276,614	5,159,846
Other operating revenues (Note 16)	217,136	199,604
	5,493,750	5,359,450
Income from equity investments	8,652	11,707
Other interest and similar revenues	215,420	76,811
Foreign exchange gains	65,568	78,067
	289,640	166,585
Gains on disposal of intangible and tangible fixed assets, and investments in Group and associated companies	107,366	853
Income on treasury stock operations (Note 8)	698	4,098
Extraordinary revenues	12,881	55,098
Prior years' revenues and profits	594	21,304
	121,539	81,353

Notes to the 2007 Financial Statements

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

1. Company Description

Iberia, Líneas Aéreas de España, S.A. engages mainly in the air transport of passengers and cargo. Additionally, the Company also conducts other supplementary activities, including most notably passenger and aircraft handling at airports and aircraft maintenance.

As a carrier of passengers and cargo, Iberia, Líneas Aéreas de España, S.A. operates through a large network serving three major markets: Spain, Europe and the Americas.

Iberia, Líneas Aéreas de España, S.A. is a fully-fledged member of the Oneworld Alliance, one of the largest airline groups in the world, which facilitates the globalization of its air transport business.

Iberia, Líneas Aéreas de España, S.A.'s registered office is in Madrid. The Company's shares have been listed on the stock market since April 2001.

2. Basis of presentation of the financial statements

True and fair view

The 2007 financial statements, which were prepared from the Company's accounting records, are presented in accordance with the Spanish National Chart of Accounts and other applicable legislation and, accordingly, give a true and fair view of the net worth and financial position at December 31, 2007, and the results of operations and funds obtained and applied in the year then ended. These financial statements, which were prepared by the Company's directors, will be submitted for approval by the Shareholders' Meeting, and it is considered that they will be approved without change.

Matters related with the transition to new Accounting Standards

Royal Decree 1514/2007, published on November 20, 2007, approved the new National Chart of Accounts, which came into force on January 1, 2008. The application of the new Plan is mandatory for years commenced as from the moment it came into force.

The new Plan also contains various transitional provisions, permitting different options for the first application of the new accounting standards, as well as the voluntary adoption of certain exceptions in the initial application process.

The Company is in the process of implementing a plan for transition to the new accounting regulations.

3. Distribution of income

The proposed distribution of 2007 income that the Company's Board of Directors will submit for approval by the Shareholders' Meeting consists of the distribution of €0.17 per share as dividends, with an appropriation of €755,380 to the legal reserve and the remainder to voluntary reserves.

4. Valuation standards

The main valuation methods applied by the Company in preparing the 2007 financial statements, in accordance with the Spanish National Chart of Accounts, were as follows:

a) Intangible fixed assets

Leased assets are recorded as intangible assets at the cost of the related asset, and the total debt for lease payments plus the amount of the purchase option are recorded as a liability. The interest expenses on the transaction are recorded under the "Deferred Expenses" caption in the balance sheet and are allocated to income each year by the interest method.

Leased assets are amortized by the same methods as those used to depreciate similar items of property, plant and equipment.

Computer software is recorded at acquisition or in-house development cost and is amortized on a straight-line basis as from the moment it becomes operational over an estimated useful life of five years.

b) Property, plant and equipment

Property, plant and equipment is carried at cost revalued pursuant to the applicable enabling legislation.

Improvements to property, plant and equipment that increase capacity or efficiency, or extend the useful lives of assets are capitalized to the acquisition cost thereof.

The Company depreciates the depreciable cost of its property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the related assets.

The years of estimated useful life of the property, plant and equipment items are as follows:

	Years
Aircraft fleet [(a)]	18 - 22
Buildings and other structures	20 - 50
Machinery, fixtures and tools	10 - 15
Land transport equipment	7 - 10
Furniture	10
Computer hardware	4 - 7
Spare parts	8 - 18
Flight simulators	12 - 14

[(a)] Except for used aircraft acquired from Aviación y Comercio, S.A., which are depreciated over 12 years (MD-88) and 10 years (MD87).

Except in the case of the MD fleet, the Company separates the cost of parts scheduled for replacement at the next major overhaul, carried out at intervals of between 4 and 7 years, from the from the cost of own and leased aircraft. This cost is depreciated on the straight-line basis over the period between the overhaul at which such parts are replaced and the next overhaul.

The estimated residual value of rotating parts, which are assigned specifically to aircraft types or families and are included in the caption "Spare parts", ranges from 10% to 20% of acquisition cost, depending on the type of aircraft to which they are assigned. The estimated residual value of the repairable fuselage spare parts is estimated at 10% of acquisition cost.

The Company depreciates in full the acquisition cost of other items of property, plant and equipment.

The Company records reversible allowances in order to adjust the net book value of aircraft it has been decided to sell to their estimated realizable value based on current market prices in the used aircraft market.

Costs incurred in the maintenance of property plant and equipment, as well as the cost of minor repairs to the aircraft operated by the Company, are expensed currently through the income statement.

In accordance with the terms of aircraft operating lease agreements, the Company records an allowance for each contracted under aircraft leased based on the total estimated cost to be incurred in scheduled overhauls. This cost is allocated to income on a straight-line basis during the period elapsing between two successive major repairs (see Note 12).

c) Long and short-term financial investments

Investments in Group and associated companies and other equity securities, generally unlisted shares, are carried in the balance sheet at the lower of cost or market. The market value is taken to be the underlying book value of the investment at year-end adjusted, where appropriate, by the amount of the unrealized gains disclosed at the time of acquisition and still existing at the date of the subsequent valuation.

Provision is made to recognize unrealized losses on investments where cost is higher than market value.

Nevertheless, the acquisition cost of equity investments in Iberbus companies (see Note 7) is not adjusted to market value because the other partner in these enterprises, Airbus, has guaranteed that Iberia, Líneas Aéreas de España, S.A. will recover the investment made in full, pursuant to the agreements made.

The effect of applying consolidation criteria in accordance with the International Financial Reporting Standards adopted by the European Union to the investees in which the Company holds a majority or exercises significant influence in comparison to the figures disclosed in these annual financial statements would result in increases in assets and reserves of €146 million and €19 million, respectively, and an increase of €4 million in profit for the year.

Loans to Group and associated companies and other loans and credits granted are recorded at the amounts delivered and not yet repaid. In order to cover the related bad debt risk, the Company has recorded provisions for bad debts calculated on the basis of the probability of recovering the accounts receivable based on their age and on the solvency of the debtor in question.

Deposits and guarantees given are recorded at the amount delivered. These deposits include the amounts delivered under the terms of the contracts for the acquisition of new aircraft, which will be refunded on delivery of the aircraft (see Note 7).

The Company generally invests its short term cash surpluses in short term financial assets, which are recorded at the amounts effectively disbursed. The interest on these transactions is recorded as revenue when earned, and unmatured interest at year end is reflected as an addition to the balance of the "Short-term investments" caption in the balance sheet.

d) Treasury stock

Treasury stock is carried at cost, which is lower than the average market price in the last quarter of the year and the market price at year-end. Where the net book value of the shares is lower than cost of acquisition, the Company makes the appropriate provisions, which are charged against voluntary reserves.

e) Foreign currency transactions and balances

Foreign currency transactions and the resulting accounts receivable and payable are recorded at their equivalent euro value at the transaction date.

The balances of accounts receivable and payable denominated in foreign currencies are translated to euros at the exchange rates ruling at December 31 of each year. However, following customary airline practice, the balance of the liability for unused traffic documents is reflected in the balance sheet at the exchange rate ruling in the month of the sale, as set by the International Air Transport Association (IATA). The IATA exchange rate for each month is the average exchange rate for the last five working days prior to the 25th day of the preceding month.

Exchange losses arising as a result of the difference between the official exchange rates at year-end and the exchange rates at which the foreign currency receivables and payables were translated to euros are charged to the "Foreign exchange losses" caption in the statement of income, whereas exchange gains are deferred through the date on which the related accounts receivable or payable fall due, and are recorded under the "Deferred Revenues" caption in the balance sheet, unless negative exchange differences arising on the same currency for the same or a higher amount have been charged to the income statement in the current year or in prior years.

Exchange differences arising at the date of collection or payment of foreign currency receivables and payables are allocated to the "Foreign exchange gains" or "Foreign exchange losses" captions, as appropriate, in the statement of income.

f) Inventories

Inventories are valued at the lower of weighted average acquisition cost and market value and basically comprise aircraft parts, reparable aircraft engine parts and fuel.

The Company has recorded the necessary allowances to recognize the unrealized losses arising in connection with certain obsolescent and slow-moving inventories.

g) Revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Ticket sales and sales of traffic documents for cargo and other services are initially credited to "Customer Advances" in the balance sheet. The balance of this caption reflects the estimated liability for tickets and traffic documents sold prior to December 31, 2007, but not yet used as of that date. The revenues relating to tickets and traffic documents are recognized when the transport or service is performed.

The Company has implemented the "Iberia Plus" card as an ongoing customer loyalty tool. The holder of the card accumulates points for taking certain flights, using certain services provided by member entities of the scheme, or making credit card purchases with credit cards covered by the program. The points obtained can be exchanged for free tickets or other services offered by the entities included in the program. The "Payable on purchases and services" caption in the accompanying balance sheet as of December 31, 2007 includes a provision of €103 million in this connection, based on the estimated redemption value of the unused points accumulated as of that date.

In general, the policy applied by the Company to the treatment of incentives, bonuses or discounts received in cash or in kind on the acquisition of aircraft entering service under operating leases is to defer the resulting revenues, which are recognized in the income statement over the term of the lease agreement or in line with the consumption of the incentivized items. The amounts pending recognition in the income statement at the year end are recorded in the "Deferred revenues" caption of the balance sheet. As of December 31, 2007 the balance in respect of this item was approximately €94 million.

h) Commitments with employees

Under the collective labor agreements currently in force, on reaching the age of 60 flight personnel cease to discharge their duties and are placed on the reserve, although their employment relationship remains in place through their regulatory retirement date. The Company recognizes the costs of personnel placed on reserve over the active working life of each employee based on the related actuarial studies.

The collective labor agreements currently in force also provide that flight personnel who meet certain conditions may take early retirement (special leave). The Company is required to pay certain amounts of compensation to these employees until they reach the regulatory retirement age. The Company records the necessary allowances, calculated on the basis of actuarial studies, to supplement the provisions already recorded for employees placed on reserve in order to meet the future payment commitments to the employees concerned. These amounts are charged to the income statement for the year in which this circumstance arises. This benefit has been granted to 172 employees on special leave to date, as well as to 350 employees who have ceased to discharge their duties.

The caption "Provisions for contingencies and charges-Provisions for commitments with employees" includes the liability in respect of these items (see Note 12).

The aforementioned liabilities were calculated on the basis of actuarial studies conducted by independent actuaries using the projected unit credit method and based on an assumed interest rate of 4%, PERM/F-2000 P life expectancy tables and an estimated annual CPI variation of 2.5%, among other hypotheses.

i) Montepío de Previsión Social Loreto

The main purpose of the Montepío de Previsión Social Loreto is to pay retirement pensions to its members (who include the Company's employees) and other welfare benefits in certain circumstances (death and permanent disability).

Under the current collective labor agreements, the Company and its employees make the statutory contributions (defined contributions) to the Montepío, as established in these labor agreements. The Montepío's bylaws limit the Company's liability to the payment by it of the statutory contributions.

The Company's contributions of €22 million in 2007 were recorded under the "Personnel Expenses" caption in the accompanying statement of income for 2007.

j) Provision for third-party liability

The Company records under the "Provision for liabilities" caption in the balance sheet the estimated amount required for probable or certain liabilities arising from legal proceedings and litigation in progress, or from outstanding indemnity payments or obligations of undetermined amount, as well as collateral and similar guarantees provided by the Company. These provisions are recorded when the liability arises or becomes known.

This caption also includes provisions for the estimated cost, based on actuarial studies conducted by independent actuaries using the same assumptions as those indicated in Note 4-h above, of the layoff plan initiated in 1999 and implemented in 2000 and 2001, and of the labor force reduction plans authorized by the Ministry of Employment and Social Affairs implemented since 2002. In November 2007, the Labor Force Reduction Plan for ground personnel, cabin crew, and flight engineers, which was scheduled to conclude on December 31, 2007, was extended with the prior authorization of the Ministry of Employment and Social Affairs through December 31, 2010 for ground personnel up to the limit of the structural target headcount for this group of employees. As of December 31, 2007, the labor force reduction plans for cabin crew and flight engineers have concluded. Finally, the specific Labor Force Reduction Plan for ground services personnel was extended in November 2007, subject to the process of subrogation of these employees through December 31, 2014.

k) Corporate Income Tax

The corporate income tax for each year is calculated on the basis of the book profit before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, net of tax relief and tax credits, excluding tax withholdings and prepayments.

Since January 1, 2002 the Company and certain of its dependent companies have filed their income tax returns under the consolidated tax regime provided for in Chapter VII, Title VII of the Amended Text of the Corporate Income Tax Law.

l) Futures and other similar instruments

The Company uses these instruments in transactions to hedge its asset and liability positions and its future flows of collections and payments. It only carries out "non-genuine" hedging transactions (i.e. those arranged between two parties, establishing in each case the contractual terms of the transactions agreed upon between them) (see Note 14).

The price differences arising during the term of futures and similar instruments are recorded as follows:

1. Exchange rate hedging operations related with asset and liability positions are restated at December 31 each year on the basis of the gains or losses arising, which are recorded in the captions "Foreign exchange gains" or "Foreign exchange losses" in the income statement.
2. For the other exchange and interest rate transactions and aviation fuel purchases, the price differences are recorded in the income statement when transactions involving futures or similar instruments are cancelled or finally settled.

m) Environmental activities

In general, environmental activities are deemed to be those intended to prevent, reduce or repair damage to the environment.

Investments made in connection with environmental activities are valued at acquisition cost and are capitalized as an addition to fixed assets in the year in which the outlay takes place using the methods described in Note 4-b above.

Expenses arising from the protection and improvement of the environment are expensed currently, regardless of when the resulting monetary or financial flow arises.

The provisions for probable or certain third-party liability, litigation in progress and outstanding environmental indemnity payments or obligations of undetermined amount not covered by the insurance policies taken out are recorded, where appropriate, when the liability or obligation giving rise to the indemnity or payment arises.

5. Intangible fixed assets

Changes in intangible fixed asset accounts in 2007 were as follows:

Thousands of Euros

	12-31-06	Additions and allowances	Disposals	Transfers	12-31-07
Cost					
Rights over assets contracted through lease financing	576,995	4,588	(931)	(196,961)	383,691
Computer software	141,669	19,722	(9,125)	-	152,266
Industrial property	551	-	-	-	551
Assignment rights and other intangibles	497	130	-	-	627
	719,712	24,440	(10,056)	(196,961)	537,135
Accumulated amortization					
Rights over assets contracted through lease financing	(131,777)	(25,275)	401	70,225	(86,426)
Computer software	(93,302)	(18,356)	9,125	-	(102,533)
Industrial property	(302)	(55)	-	-	(357)
Assignment rights and other intangibles	(394)	-	-	-	(394)
	(225,775)	(43,686)	9,526	70,225	(189,710)
Provisions	(1,781)	-	530	-	(1,251)
Net value	**492,156**	**(19,246)**	**-**	**(126,736)**	**346,174**

In 2007 the Company exercised purchase options over six aircraft and reclassified the related cost and accumulated depreciation to "Tangible fixed assets" (Note 6).

The general terms of the lease financing contracts (relating mainly to aircraft) in force as of December 31, 2007, some of which provide for floating interest rates are as follows:

	Thousands of Euros
Cost of the leased fixed assets	383,691
Lease installments paid:	
In prior years	121,491
In 2007	34,656
Outstanding installments at December 31 (Note 13) (a) (b)	154,325
Amount of purchase options (Note 13) (b)	170,405

(a) This amount included €58 million of unaccrued interest with a balancing entry included under the "Deferred expenses" caption in the accompanying balance sheet as of December 31, 2007.

(b) Of these amounts, €154 million relate to debts denominated in US dollars.

The due dates for the financial lease contract payments outstanding as of December 31, 2007 are as follows:

	Thousands of Euros
Lease installments maturing in	
2008	48,031
2009	53,538
2010	22,325
2011	22,389
2012 and thereafter	178,447
	324,730

6. Tangible fixed assets

Changes in tangible fixed asset accounts in 2007 were as follows:

					Thousands of Euros
Cost	**12-31-06**	**Additions**	**Transfers**	**Retirements**	**12-31-07**
Aircraft fleet	1,822,251	80,153	292,075	(504,529)	1,689,950
Other tangible fixed assets					
Land	2,518	-	(15)	-	2,503
Buildings and other structures	151,717	2,577	6,834	(2,075)	159,053
Machinery, fixtures and tools	455,750	24,135	6,839	(25,024)	461,700
Land transport equipment	39,243	1,326	-	(5,937)	34,632
Furniture	19,787	670	-	(591)	19,866
Computer hardware	118,468	8,067	-	(27,482)	99,053
Spare parts	200,901	18,803	-	(12,238)	207,466
Flight simulators	2,699	-	-	-	2,699
Construction in progress	18,913	10,232	(16,087)	(5,031)	8,027
	1,009,996	**65,810**	**(2,429)**	**(78,378)**	**994,999**

Thousands of Euros

	12-31-06	Allowances	Transfers	Retirements	12-31-07
Depreciation and provisions:					
Aircraft fleet	1,068,528	123,682	68,980	(225,196)	1,035,994
Other tangible fixed assets					
Buildings and other structures	113,550	3,715	-	(1,660)	115,605
Machinery, fixtures and tools	322,651	22,595	1,245	(18,381)	328,110
Land transport equipment	24,725	3,304	-	(5,218)	22,811
Furniture	12,661	1,475	-	(546)	13,590
Computer hardware	86,794	13,200	-	(27,463)	72,531
Spare parts	97,089	9,276	-	(7,471)	98,894
Flight simulators	766	206	-	-	972
	658,236	53,771	1,245	(60,739)	652,513
Provisions:					
Aircraft flee					
Provision for major repairs	8,924	-	-	(3,024)	5,900
Aircraft fleet provisions	166,791	-	-	(27,901)	138,890
Other tangible fixed assets	2,610	99	-	-	2,709

Aircraft fleet

Additions for the year

Additions for the year:

Thousands of Euros

Aircraft fleet	24,684
Engines	35,757
Refitting	19,712
	80,153

Transfers for the year

Transfers in 2007 included €196 million from intangible fixed assets because the Company exercised the purchase option over six A-320 aircraft that had been contracted under financial leases.

In addition, transfers include deposits of €93 million made in respect of the acquisition of aircraft and engines, which were recorded under "Long-term deposits and guarantees" in the "Financial fixed assets" caption (see Note 7).

Finally, €3 million euros formerly recorded as construction in progress in the caption "Other tangible fixed assets".

Retirements for the year

Retirements 2007 were as follows:

Thousands of Euros

Fleet	Cost	Accumulated depreciation	Provisions
A-320	314,308	(71,654)	-
MD-87	108,110	(90,607)	(13,933)
MD-88	22,010	(14,149)	(6,753)
B-747	35,639	(28,511)	(7,128)
Other retirements	24,462	(20,275)	(3,111)
	504,529	(225,196)	(30,925)

A-320 fleet

The Company has sold the 6 A-320 aircraft mentioned "Transfers for the year" above, which were contracted under financial leases, after exercising the purchase option. This transaction involved the sale of the assets to certain financial institutions and their subsequent lease back to the Company.

The net book value of the 6 aircraft at the time of the sale was €123 million, and the Company recorded a loss of approximately €1 million on the transaction.

The Company also sold another 6 A-320 aircraft that were acquired earlier in the year but did not finally enter service. These aircraft were sold to financial entities and the gain of €64 million generated on the sale was recorded in the caption "Gains on disposal of intangible and tangible fixed assets, and investments in Group and associated companies".

MD-87 and MD-88 fleets

Retirements from the MD-87 and MD-88 fleets relate to the sales of 6 MD-87 aircraft and the retirement of one MD-88 aircraft. These retirement generated a gain of €3 million, which was recorded in the accompanying income statement in the caption "Gains on disposal of intangible and tangible fixed assets, and investments in Group and associated companies".

B-747 fleet

The Company sold 14 engines from the B-747 fleet in 2007. This sale generated revenue of approximately €1 million.

Aircraft fleet provisions

In order to recognize possible losses arising from planned retirements of aircraft, the Company has recorded the related provisions to adjust the net book value of these aircraft to their estimated realizable value Changes in 2007 were as follows:

Thousands of Euros

	Balance at 12-31-06	Amounts used	Balance at 12-31-07
Aircraft (fuselage and engines)			
B-747	69,781	(7,128)	62,653
B-757	3,308	-	3,308
MD	92,589	(20,686)	71,903
Other non-operating fleet	1,113	(87)	1,026
	166,791	**(27,901)**	**138,890**

The MD fleet is recorded at its estimated realizable value, taking into consideration that these aircraft will be retired in 2008 and 2009.

Commitments and other guarantees on aircraft

The Company utilizes 3 aircraft under financial leases and 7 aircraft under operating leases, the revenues on which, together with the aircraft themselves, guarantee the repayment of a bond issue in the European market carried out by the lessor in 2000. The total outstanding on this issue is €149 million.

The Company has also guaranteed the utilization of 20 aircraft under operating or financial leases for a period of between 9 and 14 years against the subscribers of a bond issue, on which $115 million and €120 million remain outstanding.

The Company is currently carrying out a fleet renewal plan structured by way of various contracts entered into with Airbus for the A-319, A-320 and A-340 families. The aircraft not yet delivered as of December 31, 2007, and the year in which they are scheduled to be added to Iberia's fleet are as follows:

Type of aircraft	2008	2009	2010	2011	Total
A-319	5	-	-	-	5
A-320	2	2	9	1	14
A-340-600	1	2	-	-	3
	8	**4**	**9**	**1**	**22**

Based on the basic prices established in the agreements, the total cost of the aircraft subject to firm purchase commitments not yet delivered as of December 31, 2007 amounted to €1,191 million.

The Company also has options relating to 3 A-340-600 aircraft and 29 A-320 family aircraft, in respect of which it has paid €4 million by way of advances. These amounts are included in the balance sheet under "Long-term guarantee deposits" in the "Financial fixed assets" caption (see Note 7).

Aircraft in service

A summary of the Company's aircraft in service as of December 31, 2007 is as follows:

Type of Aircraft	Owned	Under Financial Leases	Under Operating Leases	Under Wet Lease[(a)]	Total
B-747 (b)	-	-	-	-	-
B-757 (c)	-	-	-	2	2
A-319	-	-	19	-	19
A-320	10	5(d)	30(e)	-	45
A-321	-	4	15	-	19
A-340-300	5	-	11	3	19
A-340-600	-	-	12(f)	-	12
MD-87	10(g)	-	-	-	10
MD-88	11	-	-	-	11
	36	**9**	**87**	**5**	**137**

(a) The lease includes aircraft, maintenance and insurance.

(b) Excluding five own aircraft grounded as of December 31, 2007 to be sold or scrapped. The net book value of these aircraft, after deducting the provisions recorded, is zero.

(c) Not including one aircraft leased to Privilege Style, S.A. and one aircraft grounded, which is in the process of return.

(d) Not including one aircraft leased to Compañía Mexicana de Aviación.

(e) Not including one aircraft leased to Compañía Mexicana de Aviación.

(f) Not including one aircraft grounded in Quito.

(g) Not including two aircraft in the process of refitting for sale.

Aircraft utilized under Operating and Wet Leases

In 2007 the Company contracted 8 A-319 aircraft under operating leases, 6 A-320 aircraft formerly operated under financial leases and one A-321 aircraft. Also, 11 A-320 aircraft have been returned as a consequence of the termination of the related operating lease contracts or in accordance with agreements for early returns. Meanwhile, wet lease agreements for 5 B-757 were cancelled, and an operating lease for one A-340-300 aircraft contracted in 2007 was transformed into a wet lease.

A summary of the maturities of the aircraft operating leases is as follows:

Fleet	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	No. of Aircraft
A-319	-	-	-	-	6	10	-	-	-	-	-	3	19
A-320	-	2	2	1	1	6	2	2	5	-	-	9	30
A-321	-	-	-	-	-	1	-	2	3	2	1	6	15
A-340-300	1	2	3	1	3	-	1	-	-	-	-	-	11
A-340-600	-	-	-	-	-	-	-	3	2	3	4	-	12
Total	**1**	**4**	**5**	**2**	**10**	**17**	**3**	**7**	**10**	**5**	**5**	**18**	**87**

The above chart includes six A-320, four A-319 and three A-340 aircraft leased from International Lease Finance Corporation. As a result of this contract, the Company has deposited completion bonds of €7 million recorded under the "Long term guarantee deposits" caption in the accompanying balance sheet as of December 31, 2007 (see Note 7).

Certain operating lease contracts include purchase options for the aircraft, which may be exercised during the term of the lease, and the possibility of extension of leases for periods of between one and nine years.

As of the date of preparation of these financial statements, the Company's directors do not intend either to exercise the purchase options on the aircraft utilized under operating lease contracts as of December 31, 2007, or to seek or apply the extensions provided for in the aforementioned contracts, which would imply the use of the aircraft for periods exceeding 16 years.

The rents accruing on operating lease and wet lease contracts for aircraft in 2007 totaled €393 million and are included in the income statement in the caption "Other operating expenses" (see Note 16-e). The approximate total future operating lease payments in respect of these aircraft are as follows:

Millions of Euros

Year	
2008	313
2009	297
2010	268
2011	252
2012 and thereafter	1,048
	2,178 (*)

(*) Equivalent to US$ 3,206 million at the closing rate of exchange for the year. Exchange rate fluctuations in respect of these rents are partially covered using derivative instruments (see Note 14).

Other tangible fixed assets

Additions to the caption "Machinery, fixtures and tools" basically relate to acquisition of airport equipment.

The buildings and installations constructed on land owned by the State, mainly at Spanish airports, are stated at their net book value of €34 million as of December 31, 2007. The Directors of the Company do not expect significant losses to arise as a consequence of the reversion process, since the Company's maintenance programs ensure that these assets remain permanently in good condition for use.

Fully depreciated assets

As of December 31, 2007, the cost of the Company's fully depreciated tangible fixed assets amounted to €347 million. A detail is as follows:

Thousands of Euros

Fully depreciated assets	
Structures	59,496
Machinery, fixtures and tools	198,018
Furniture	7,013
Computer hardware	38,982
Flight simulators	146
Vehicles and other tangible fixed assets	14,831
Aircraft fleet	28,902
	347,388

Insurance coverage

The Company has arranged insurance policies for its tangible and intangible fixed assets which sufficiently cover the net book value thereof as of December 31, 2007. The Company has also made insurance policies to cover aircraft leased to third parties.

7. Financial fixed assets

Investments in and loans to Group and associated companies

The variations in 2007 in the balance of "Investments in Group and associated companies" and in the related allowance were as follows:

Thousands of Euros

Group and Associated Companies	Cost	Provision
Balance at 12-31-06	120,971	(92,832)
Additions and allowances	8,897	(24,000)
Disposals	-	897
Balance at 12-31-07	**129,868**	**(115,935)**

The cost of investments recorded as of December 31, 2007 basically comprises the interests held in Venezolana Internacional de Aviación, S.A. and Clickair, S.A. amounting to €88 million and €24 million respectively.

The loans granted to Venezolana Internacional de Aviación, S.A., which total €26 million representing the balance on the account "Loans to Group and associated companies" in the accompanying balance sheet have been provided for in full, since this company is in the process of liquidation.

Additions to "Cost" in the above chart include approximately €9 million in respect of the investment held in Clickair, S.A. As a consequence of the disbursement by the shareholders of the share capital increase carried out by Clickair, S.A. in February 2008, the Company has increased its investment following by €24 million. As of December 31, 2007, the Company holds a 20% interest in the capital stock of Clickair, S.A. and, in accordance with the agreements made with the remaining shareholders, it holds an 80% interest in the net assets of Clickair, S.A. The aforementioned shareholders' agreements provide for the possibility that the Company may obtain a majority interest in the capital stock of Clickair, S.A. and take control of its operations if certain conditions are met. Clickair, S.A. is in the second year of its operations, and it is expected to break even in the coming years.

Balances with Group and associated companies

A breakdown of balances receivable from and payable to Group and associated companies as of December 31, 2007, as well as the main transactions carried out with these undertakings during the year, were as follows:

Thousands of Euros

Company	Current Receivables	Current Payables	Revenues for Services Provided	Financial Revenues and Dividends	Expenses for Services Received	Financial Charges
Balances and transactions with Group companies	20,840	12,072	20,335	348	9,553	281
Balances and transactions with associated companies	23,089	15,808	70,374	1,965	53,388	-
	43,929	**27,880**	**90,709**	**2,313**	**62,941**	**281**

As of December 31, 2007 the Company had recorded a short-term balance of €29 million receivable from Venezolana Internacional de Aviación, S.A. in the caption "Receivable from Group companies" in the accompanying balance sheet. This amount has been provided for in full.

The main transactions carried out with Group and associated companies relate to billings issued to Compañía Auxiliar al Cargo Exprés, S.A. in respect of cargo transport, and invoices received from Multiservicios Aeroportuarios, S.A. for cleaning of aircraft. The Company also sells tickets on behalf of Clickair, S.A., provides handling services and maintains its aircraft.

Long-term securities portfolio

Changes in this caption of the accompanying balance sheet in 2007, and in the related provisions, are as follows:

Thousands of Euros

	Ownership at 12-31-07	Balance at 12/31/2006	Disposals	Balance at 12/31/2007
Fixed income securities				
Government debt	-	244	-	244
Equity securities				
Interinvest, S.A.	0.1438	30,244	-	30,244
Iberbus companies	(a)	24,930	-	24,930
Opodo, Ltd.	2.38	19,246	-	19,246
Servicios de Instrucción de Vuelo, S.L.	19.9	8,853	-	8,853
Wam Acquisition, S.A.	11.57	8,638	(4,166)	4,472
Other balances	-	6,404	(2,352)	4,052
Total cost		**98,559**	**(6,518)**	**92,041**
Provisions		**(54,240)**	**2,352**	**(51,888)**

(a) Percentage ownership in these companies ranges from 40% to 45.45%.

The cost of the Company's investment in Interinvest, S.A. is fully provided.

The majority shareholder of the Iberbus companies, Airbus, has guaranteed Iberia, Líneas Aéreas de España, S.A. the recovery of the full amount of its investments in and loans to these companies, and, accordingly, no allowances are recorded for the investments in these companies.

A provision of approximately €18 million has been made for the cost of the interest held in Opodo Ltd.

The investment in Wam Acquisition, S.A. was acquired by way of partial consideration for the sale of Amadeus, S.A. and is instrumented through ordinary and preference shares. The latter confer the right to receive a fixed, cumulative dividend of 13.75% of par value. The "Income from equity investments" caption of the 2007 income statement includes €6 million in this respect. The preference shares are convertible into ordinary shares in the event the investee company should be listed on the stock exchange. The disposal of €4 million euros reflected above relates to the cost assigned to shares sold. The sale price was €101 million and the net revenue of €97 million generated was included in the caption "Other interest and similar revenues in the accompanying income statement of 2007.

Other loans

The detail of changes in this caption of the balance sheet is as follows:

Thousands of Euros

	Balance at 12-31-06	Additions	Exchange Differences	Disposals	Transfers	Balance at 12-31-07
Loans to Iberbus companies	150,377	-	(12,315)	-	(59,820)	78,242
Loans to Aerolíneas Argentinas, S.A.	35,665	-	-	-	-	35,665
Loans to Wam Acquisition, S.A.	46,048	1,479	-	(47,527)	-	-
Loans to Iberlease 2004 Ltd.	40,636	-	(4,281)	-	-	36,355
Other loans	3,695	42	-	(123)	(1,793)	1,821
Total cost	**276,421**	**1,521**	**(16,596)**	**(47,650)**	**(61,613)**	**152,083**
Provisions	**(35,665)**	-	-	-	-	**(35,665)**

The Company has granted a loan to each of its Iberbus investees. The principal ranges, depending on the company in question, from US$ 11 to US$ 22 million. These loans were granted for a period equal to the term of the operating lease for the related A-340-300 aircraft and earn annual interest ranging from 4% to 6%. The loans are repayable in a one-off lump sum upon maturity, which, depending on the company concerned, will take place in the period from 2008 to 2012. The Company has reclassified the loans falling due in 2008 to the caption "Short-term investments" (Note 10).

The outstanding repayable long term in this connection, classified by maturity, are as follows:

Thousands of Euros

Maturing in	
2009	27,210
2010	27,325
2011	7,505
2012	16,202
	78,242

The loans totaling approximately €36 million granted to Aerolíneas Argentinas, S.A. relates to the subrogation to a loan of US$ 43 million granted by Banesto, S.A. secured by a mortgage on two B-747 aircraft, the repayment of which was guaranteed by the Company. These loans have been fully provided for as of December 31, 2007.

The loan granted to Wam Acquisition, S.A. was collected in its entirety in 2007.

Iberlease 2004 Ltd., the lessor of four aircraft acquired by the Company under lease financing arrangements, has been granted four loans by Iberia, Líneas Aéreas de España, S.A. with the same terms as established in the respective lease agreements, which are repayable in a single installment in 2014. The principal on these loans totals US$ 54 million with annual interest of between 6% and 6.5% payable on a quarterly basis.

Long-term deposits and guarantees

Changes in the items comprising this caption of the balance sheet in 2007 were as follows:

Thousands of Euros

Item	Balance at 12-31-06	Additions	Disposals	Transfers	Exchange Differences	Balance at 12-31-07
Deposits for acquisition of aircraft	288,998	132,402	(107,042)	(92,806)	(20,698)	200,854
Valuation of hedging transactions	(6,897)	348	(1,102)	105	10,403	2,857
Deposits and guarantees for operation of aircraft under dry and wet lease arrangements (Note 6)	10,613	2,724	(5,418)	(1,126)	(1,018)	5,775
Deposits and guarantees for operation of aircraft leased from ILFC (Note 6)	10,118	-	(2,490)	-	(869)	6,759
Other balances	3,501	507	(112)	-	(206)	3,690
	306,333	**135,981**	**(116,164)**	**(93,827)**	**(12,388)**	**219,935**

The amounts recorded as "Deposits for acquisition of aircraft" represent recoverable amounts paid on account of the acquisition of aircraft and engines. A detail is as follows:

Thousands of Euros

	Firm purchases	Options
A-319	52,205	
A-320	62,510	2,649 (a)
A-340	75,146	1,359
Engines	6,985	
	196,846	**4,008**

(a) Deposits paid for the whole of the A-320 family.

On the basis of the planned acquisitions of aircraft, the Company estimates that deposits totaling €107 million will be applied in 2008.

8. Treasury stock

Changes in the "Treasury Stock" caption in the accompanying balance sheet as of December 31, 2007 were as follows:

	Thousands of Euros
Balance at December 31, 2006	12,694
Additions	7,733
Disposals	(2,554)
Balance at December 31, 2007	**17,873**

The 8,050,000 shares of treasury stock held by the Company as of December 31, 2007 represent 0.84% of its capital stock, with a total par value of €6 million and an average acquisition cost of € 2.3728 per share. The balance as of December 31, 2007 comprises cost of €19 million and a provision of €1 million. The balance of €18 million on the "Reserve for Treasury Stock" account as of December 31, 2007 covers the net book value of the shares in full.

The sale of treasury stock in 2007, the only item included in "Disposals" in the above table, gave rise to gains totaling €697,616, which were recorded under the caption "Income on treasury stock operations" in the statement of income.

9. Accounts receivable

This caption of the accompanying balance sheet as of December 31, 2007 basically represents balances receivable from customers for sales made directly by the Company and from the passenger and cargo agencies that market the services provided by the Company. This caption also includes balances receivable from airlines, mainly in respect of services provided by the Company against tickets originally sold via other carriers. It also includes a balance in respect of taxes receivable (see Note 15).

The Company records allowances for bad debts in light of an analysis of the recoverability of accounts receivable based on ageing and a specific analysis of individual balances. These provisions are included in the balance of this caption.

10. Short-term investments

A detail of this caption in the accompanying balance sheet as of December 31, 2007 is as follows:

	Thousands of Euros
Short-term financial assets	2,757,669
Loans to Iberbus companies	56,291
Unmatured interest receivable	49,991
Short-term deposits and guarantees	15,564
Accrued dividends receivable (Note 7)	6,277
Other short-term investments	4,049
	2,889,841

The average return obtained in 2007 on investments in short term financial assets, basically comprising deposits, Eurodeposits and promissory notes was 4.06%.

11. Shareholders' equity

Variations in the Company's equity accounts in 2007 were as follows:

Thousands of Euros

Item	Capital Stock	Share Premium	Legal Reserve	Voluntary Reserves	Reserve for Treasury Stock	Other Reserves	Profit for the Year	Dividends
Balance at December 31, 2006	739,492	115,405	147,133	581,762	12,694	1,404	85,203	-
Distribution of 2006 profit	-	-	765	51,292	-	-	(85,203)	33,146
Capital increases	3,777	4,067	-	-	-	-	-	-
Treasury stock	-	-	-	(5,179)	5,179	-	-	-
2007 profit	-	-	-	-	-	-	322,929	-
Balance at December 31, 2007	**743,269**	**119,472**	**147,898**	**627,875**	**17,873**	**1,404**	**322,929**	**-**

In any evaluation of the Company's net worth as of December 31, 2007, the value of its treasury stock should be deducted from the equity balance shown in the accompanying balance sheet.

Capital stock

During 2007 the Company increased share capital by €3,776,903 by issuing 4,842,183 ordinary shares of €0.78 par value each with a share premium of €0.84 each. This capital increase was carried out to meet the conversion into shares of an equal number of convertible bonds issued to cover the stock options plan for certain Executives, Managers and other employees approved by the Shareholders' General Meeting in 2002.

As of December 31, 2007 the number of unexercised options subscribed was 194,192. These options may be exchanged for shares at a price of €1.62 per share on April 25, 2008.

As of December 31, 2007, the Company's capital stock consisted of 952,908,815 fully subscribed and paid shares of €0.78 par value each, represented by the book-entry system.

As of December 31, 2007, the Company's shareholders were as follows:

	Number of Shares	Percentage
Caja de Ahorros y Monte de Piedad de Madrid	219,098,519	22.99
British Airways Holdings B.V.	94,309,090	9.90
Sociedad Estatal de Participaciones Industriales	49,212,526	5.16
State Street Bank	43,512,185	4.57
El Corte Inglés, S.A.	27,387,215	2.87
Other	519,389,280	54.51
	952,908,815	**100.00**

Share premium account

The revised Corporations Law expressly permits the use of the balance on the share premium account to increase capital and establishes no specific restrictions as to its use.

Legal reserve

Under the revised Corporations Law, 10% of profit for each year must be transferred to the legal reserve until the balance on this reserve reaches at least 20% of capital stock.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Except as mentioned above, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

12. Provisions for contingencies and charges

Changes in this caption in 2007 were as follows:

Thousands of Euros

	Balance at 12-31-06	Additions	Applications	Transfers	Recoveries	Balance at 12-31-07
Provision for commitments with employees (Note 4-h)	618,331	74,342	(23,194)	(28,767)	-	640,712
Provision for major repairs (Note 4-b)	62,194	22,729	(20,600)	-	-	64,323
Provision for third-party liability (Note 4-j)	707,862	83,239	(118,928)	28,767	(2,205)	698,735
	1,388,387	**180,310**	**(162,722)**	**-**	**(2,205)**	**1,403,770**

Additions to the caption "Provisions for commitments with employees" include the annual allowance in respect of the normal cost, as well as the financial returns obtained on the provisions already made. These amounts are reflected in the income statement under the captions "Personnel expenses" for €49 million and "Financial and similar expenses" for €25 million.

As of December 31, 2007 the balance of the caption "Provision for third-party liability" includes €524 million covering the liabilities associated with the Labor Force Reduction Plan (Note 4-j). Of this amount, €410 million represent the estimated amount per the actuarial studies performed by independent actuaries of future payments to meet the obligations with employees who have taken early retirement under the conditions envisaged in the labor force rejuvenation plan implemented in 2000 (140 employees at December 31, 2007) and the voluntary labor force reduction plan approved in 2001 and extended through 2010 (3,999 employeesat December 31, 2007). The Company has also provided €114 million to cover the estimated cost in respect of employees expected to opt for these measures. In 2007 1,352 opted for the Labor Force Reduction Plan, and allowances charged to the provision for third party liability in this respect amounted to €64 million, which were recorded in the caption "Extraordinary expenses" in the accompanying income statement.

The other provisions for third-party liability in 2007, which were also recorded with a charge to the "Extraordinary expenses" caption in the accompanying income statement (see Note 16-f), relate to the estimated amount required to cover probable sundry third-party liabilities.

The main applications relate to payments associated with the employee reduction plans described above.

13. Payable to credit institutions

A breakdown, by maturity, of amounts payable to credit institutions as of December 31, 2007, which related to loans, credit facilities and financial lease transactions (see Note 5), is as follows:

Thousands of Euros

Debt	Currency	2008	2009	Due in 2010	2011	2012	Thereafter
In euros							
Principal		38,307	43,169	9,516	9,948	42,066	30,753
Interest		8,542	5,269	3,981	3,612	3,331	2,369
In foreign currency							
Principal	US Dollars	117,032	15,724	56,061	7,677	8,099	81,195
Interest	US Dollars	5,179	4,821	4,443	4,044	3,623	14,205
		169,060	**68,983**	**74,001**	**25,281**	**57,119**	**128,522**

At December 31, 2007 the Company has arranged credit facilities with a limit of €190 million, of which €189 million are available for drawing.

The weighted annual average interest rate on the aforementioned loans in 2007 was 4.92% for euro loans and 5.76% for foreign currency loans. The majority of these interest rates were tied to EURIBOR or LIBOR, respectively.

14. Financial risk management

In order to control and reduce the potential adverse impact of exchange rate, interest rate and fuel price fluctuations on its earnings, the Company has a medium-term plan to manage these risks based on the guidelines and time horizon established in the Master Plan.

Exchange rate risk

Hedging of balance sheet positions at December 31, 2007

Underlying item	Currency	Amount (Currency in Millions)	Type of Hedge	(Currency in Millions)
Loans to IBERBUS companies	USD	198	Cross Currency Swaps	86
Advances on Aircraft and Engines	USD	296		
Guarantees	USD	23	Fx forward	71
Equities A-320	USD	53		
Debt 4 A-320/321	USD	(173)		
Debt 5 A-340	USD	(247)		
		150		**157**

Cash flow hedges at December 31, 2007

Underlying item	Currency	Amount (Currency in Millions)	Type of Hedge	Forecast Flows (Currency in Millions) 2008	2009	2010	2011	2012
Foreign currency expenses	USD	(1,100)	Cross Currency Swaps	315	316	203	170	90
			Options:					
			USD "Four Ways"	321	212	-	-	-
			USD "Tunnels"	109	22	-	-	-
			Fx forwards	72	10	-	-	-
Foreign currency revenues	GBP	90	Fx forwards	22	-	-	-	-
			Options:					
			GBP "Four Ways"	8	-	-	-	-
	CHF	124	Fx forwards	0	-	-	-	-
Aircraft acquisitions	USD	(78)	Options:					
			USD "Four Ways"	25	-	-	-	-
			USD "Tunnels"	0	-	-	-	-
			Fx forwards	10	-	-	-	-

These hedges extend over terms of several years and, where applied to payments, they cover payments in respect of aircraft leases and fuel. Revenue hedges cover revenue streams denominated in GBP and CHF.

In accordance with the hedging program, short USD positions generated by the payment of aircraft leases and fuel purchases are hedged up to 50% using hedging instruments with terms of up to 5 years by means of swaps for aircraft leases denominated in dollars and euros. The remaining percentage of short dollar positions, as well as positions in GBP and CHF are managed via tactical operations with a time horizon of between one and three years.

The Company utilizes a variety of instruments to hedge exchange rates, including fx forwards, fx options and cross currency swaps. As of December 31, 2007 the market value of all instruments hedging exchange rates, cash flows and balance sheet positions is negative for a total of €123 million.

Interest rate risk

Hedging of balance sheet positions at December 31, 2007

Amount (Currency in Millions)

Amount of Instrument	Iberia	Iberia	Nominal amount 12-31-07 (*)	Nominal amount 12-31-08 (*)
Cross Currency Swaps from floating to floating	Receives EUR	Pays USD	122,922	40,056

(*) The amounts are recorded in the currency in which the Company pays.

Cash flow hedges at December 31, 2007

Amount (Currency in Thousands) (*)

Amount of the Instrument	Iberia	Iberia	Nominal 12-31-07	Nomina 12-31-08	Nominal 12-31-09	Nominal 12-31-10	Nominal 12-31-11
Cross Currency Swaps							
From floating to fixed	Receives USD	Pays EUR	492,217	395,339	192,811	173,054	126,922
From floating to floating	Receives USD	Pays EUR	874,915	682,549	435,400	190,475	-
From floating to floating	Receives EUR	Pays USD	876,025	599,036	295,855	76,723	-
From fixed to fixed	Receives USD	Pays EUR	298,328	299,085	180,862	68,731	65,442

(*) The amounts are recorded in the currency in which the Company pays.

Amount (Currency in Thousands)

Instrument	Currency	Nominal 12-31-07	Nominal 12-31-08	Nominal 12-31-09	Nominal 12-31-10	Nominal 12-31-11
Interest Rate Swaps						
From floating to floating (1)	USD	207,399	193,079	177,505	161,122	143,888

(1) Iberia pays a floating interest rate with cap and floor and receives a floating rate.

The Company's interest rate risk is mainly connected with aircraft financing operations, financial leases and operating leases. These items are hedged using the operations detailed in the above charts.

Iberia utilizes interest rate swaps and cross currency swaps to hedge its interest rate risk. The market value of the interest rate hedges is negative for €22 million.

The average fixed interest rates payable in the interest rate hedges are: EUR 4.57% including the spread on the financing operation.

Iberia Líneas Aéreas de España, S.A. has arranged interest rate swap transactions as part of the internal structures of the Japanese Operating Lease (JOL) for a notional amount of US$647 million as of December 31, 2007.

Fuel risk

Underlying item	Commodity	Volume (Metric Tonnes)	Hedge	Nominal (Metric Tonnes)
Consumption of aviation fuel	JET Kero CIF-NWE	2 million	Combination of options	840,000

To date Iberia, Líneas Aéreas de España, S.A. has directly hedged the price of kerosene using swaps and options structures. The market value of these derivatives is positive for €9 million as of December 31, 2007.

15. Tax matters

The "Accounts receivable" and "Other accounts payable" captions in the accompanying balance sheet as of December 31, 2007 include accounts receivable from and payable to public authorities. A detail is as follows:

Thousands of Euros

Balances receivable (Note 9):	
Deferred tax asset	46,800
Receivable from foreign tax authorities	6,760
Value Added Tax	5,706
Other balances	60
	59,326
Balances Payable:	
Withholdings on account of Personal Income Tax	29,245
Airport take-off and safety levies	35,897
Payable to foreign tax authorities	38,528
Payable to Social Security authorities	21,423
Corporate Income Tax	34,288
Other accounts payable	112
	159,493

Corporate income tax is calculated on the basis of the profit per books, which does not necessarily coincide with the taxable profit.

Since January 1, 2002 the Company has filed consolidated tax returns in accordance with Chapter VII, Title VII of the revised Spanish Corporate Income Tax Law (Royal Legislative Degree 4/March 5, 2004). The Company forms part of tax group 148/02, of which it is the parent company.

The reconciliation of book profit for 2007 to taxable profit for corporate income tax purposes is as follows:

Thousands of Euros

	Increase	Decrease	Amount
Profit for the year per books (before taxes)			447,672
Permanent differences	1,255	(1,361)	(106)
Timing differences:			
Arising in the year	227,173(a)	-	227,173
Arising in prior years	1,123	(167,162)(b)	(166,039)
Taxable income (tax base)			**508,700**

(a) This amount relates mainly to provisions made for commitments with employees and other provisions for contingencies and charges, as well as profit received on memorandum credits during the year and other deferred incentives.

(b) This amount relates basically to the application of provisions set aside in prior years for commitments with employees and the recognition of profit for the year from memorandum credits and other deferred incentives received in prior years.

The balance of the "Corporate Income Tax" caption in the accompanying 2007 statement of income is as follows:

Thousands of Euros

	Expense (Revenue)
Application of the tax rate of 32.5% to book profit adjusted for permanent differences	145,459
Add/(Less):	
Tax credits	(24,205)
Regularization of 2006 Corporate Income Tax	(345)
Other balances	3,834
Corporate Income Tax	**124,743**

The Personal Income Tax Law 35/2006 and the partial amendments of the Corporate Income Tax Law, the Non-Resident Income Tax Law and the Capital Gains Tax Law provided, inter alia, for a reduction in the general rate of corporate income tax to 32.5% for 2007 and 30% thereafter.

The tax assets and liabilities were recorded in the accompanying balance sheet as of December 31, 2007 on the basis of the recovery date under the "Accounts Receivable", "Long-term accounts receivable from public authorities" and "Other long-term payables" captions. The detail is as follows:

Thousands of Euros

	Accounts receivable			Other Payables
	Short Term	**Long Term**	**Total**	**Long Term**
Timing differences arising in the year	-	61,538	61,538	-
Unallocated timing differences arising in prior years	46,800	230,504	277,304	1,176
Total	**46,800**	**292,042(*)**	**338,842**	**1,176**

(*) This item relates basically to deferred tax assets arising from provisions recorded to cover obligations to personnel and other provisions, and for the deferral of revenues on memorandum credits and other incentives related with aircraft.

Changes in the balance of deferred tax assets in 2007 were as follows:

Thousands of Euros

	Balance at 12-31-06	Additions	Disposals	Balance at 12-31-07
Short term	46,800	46,800	(46,800)	46,800
Long term	276,220	61,670	(45,848)	292,042

The estimated years of recovery of the long-term tax credits as of December 31, 2007 are as follows:

Thousands of Euros

Year of Recovery	
2009	40,000
2010	40,000
2011 and thereafter	212,042
	292,042

The Company's directors consider that all these assets will be recovered in not more than ten years.

Current corporate income tax regulations provide certain tax incentives to encourage investment and contributions to employees mutual funds. The Company has obtained certain tax benefits in respect of the aforementioned items and expects to apply deductions totaling €4 million in the settlement of Corporate Income Tax for 2007. The Company also intends to apply domestic and international double taxation relief totaling €4 million in the 2007 Corporate Income Tax return. Finally, the Company has reinvested €123 million of the amount obtained on the sale of assets, generating a deduction of €16 million. The amounts reinvested in the recent years and the related tax credits are as follows:

Thousands of Euros

	Reinvestment	Deduction
2003	31,516	4,822
2004	124,869	16,980
2005	824,576	128,710
2006	569	87
2007	123,325	16,380

As a result of various tax audits, the tax authorities issued certain additional tax assessments for the years from 1993 through 1997 (mainly Personal Income Tax withholdings), which were contested and appealed by the Company.

Also, the Company filed an appeal against the assessments raised in connection with customs duties for 1998 (second six months), 1999 and 2000 (first five months).

The directors of Iberia, Líneas Aéreas de España, S.A. consider that no tax liabilities additional to those recorded in the account "Provision for liabilities" will arise from the resolution of the various appeals described above.

The Company is currently undergoing a tax audit of fiscal years 2002, 2003 and 2004.

In connection with the years open to possible tax audit (2002 through 2007 for all taxes applicable to the Company), the Directors of Iberia, Líneas Aéreas de España, S.A. do not expect that additional liabilities will arise apart from those already recorded that could have a material impact on these annual financial statements.

Pursuant to Article 93 of the revised text of the Corporate Income Tax Law (Royal Legislative Decree 4/2004), it is hereby stated that the information relating to the merger of the Company with Aviación y Comercio, S.A. is included in Note 19 to the 2000 financial statements. Also, a contribution in kind was made to Servicios de Instrucción de Vuelo, S.L. in 2004, in respect of which the Company has waived part of the applicable tax benefits, in accordance with article 84 of the revised Spanish Companies Law. The information concerning this transaction was disclosed in Note 18 to the 2004 financial statements.

16. Revenues and expenses

a) Net sales

A breakdown, by activity, of the Company's net sales in 2007 is as follows:

Thousands of Euros

By Activity	
Passenger ticket revenues (a)	4,324,916
Cargo revenues	306,075
Handling (aircraft dispatching and airport services)	279,978
Technical assistance to airlines	273,567
Other revenues	92,078
	5,276,614

(a) Includes other revenues (recovery of unused tickets, commercial agreements, etc.) totaling €291 million in 2007.

A breakdown of passenger ticket revenues, by network, is as follows:

Millions of Euros

Network	
Domestic	1,113
Medium haul	1,119
Long haul	1,802
	4,034

b) Other operating revenues

A detail of the "Other operating revenues" caption in the accompanying 2007 statement of income is as follows:

Item	Thousands of Euros
Commission revenues	84,794
Rents	24,379
Sundry revenues	107,963
	217,136

Commission revenues relate basically to the commissions on the sale of tickets for other airlines, the commissions, as well as commissions earned under the franchising agreement with Air Nostrum and the sale of tickets for Clickair, S.A. with Iberia codes.

c) Materials consumed

A detail of the "Materials consumed" caption in the accompanying 2007 statement of income is as follows:

	Thousands of Euros
Aviation fuel	1,150,643
Aircraft spare parts	168,849
Catering materials	23,236
Other purchases	16,641
	1,359,369

d) Headcount and personnel expenses

A detail of the "Personnel expenses" caption in the accompanying 2007 statement of income is as follows:

	Thousands of Euros
Wages, salaries and similar expenses	1,038,463
Social Security charges	233,136
Other employee welfare expenses	100,036
	1,371,635

The average number of employees, by professional category, in 2007 was as follows:

	Number of Employees
Ground personnel:	
Senior managers and other line personnel	1,121
Clerical staff	5,987
Other	9,554
	16,662
Flight personnel:	
Pilots	1,707
Cabin crew	3,931
	5,638
	22,300

The distribution of employees by gender and professional category as of December 31, 2007 was as follows:

	Female	Male
Ground personnel:		
Senior managers and other line personnel	414	695
Clerical staff	4,292	2,155
Other	1,149	8,843
	5,855	**11,693**
Flight personnel:		
Pilots	61	1,675
Cabin crew	3,167	1,131
	3,228	2,806
	9,083	**14,499**

e) Other operating expenses

A detail of the "Other operating expenses" caption in the accompanying 2007 statement of income is as follows:

	Thousands of Euros
Commercial expenses	242,685
Aircraft lease payments (Note 6)	
Dry lease	347,008
Wet lease	45,953
Cargo	15,156
Other	12,390
Air traffic services	388,647
Stopover expenses	40,753
Navigation charges	274,103
Aircraft maintenance	236,039
Other maintenance	43,569
Booking system expenses	144,519
In-flight services	72,570
Other rentals	74,595
Indemnities paid for passengers, baggage and cargoes	36,961
Other	274,961
	2,249,909

The expense incurred in respect of "Aircraft maintenance" includes subcontracted maintenance expenses and the allowance made to provisions for major repairs of aircraft contracted under operating leases.

The fees for financial statement audit services provided to Iberia, Líneas Aéreas de España, S.A. and Group companies by the principal auditor and by other entities related to the auditor in 2007 amounted to €497,000.

Additionally, the fees for other professional services provided to Iberia, Líneas Aéreas de España, S.A. and Group companies by the principal auditor and by other entities related to the auditor in 2007 amounted to €118,500.

f) Extraordinary expenses

The detail of the balance of the "Extraordinary Expenses" caption in the accompanying 2007 statement of income is as follows:

	Thousands of Euros
Provisions for extension of the labor force reduction plan (Note 12)	63,500
Other allowances	19,735
Other extraordinary expenses	3,547
	86,782

17. Directors' compensation and other benefits

A breakdown of the remuneration earned by the members of the Board of Directors in 2007 in their capacity as directors of the Company is as follows:

	Thousands of Euros
Directors' Compensation	
Fixed remuneration	753
Financial compensation for attendance at meetings	703
Compensation in kind	86
Total remuneration	**1,542**

Iberia, Líneas Aéreas de España, S.A. has incurred expenses of €8,165 related with the discharge by its non-executive directors of their duties.

One of the directors also hold executive office in the Company and earned the following remuneration in 2007:

	Thousands of Euros
Fixed compensation	630
Variable remuneration	448
Compensation in kind	8
Options	310
	1,396

The social security costs, insurance and other expenses recorded by Iberia, Líneas Aéreas de España, S.A. in relation to the activities performed by the executive director amounted to €154,999.

In 2007 no advances or loans were granted to the members of the Board of Directors and there are no pension commitments to them.

18. Detail of the equity interests held by the directors in companies engaging in similar activities and performance by them, for their own account or the account of others, of similar activities

Pursuant to Article 127 (iii).4 of the Spanish Companies Act, introduced by Law 26/2003, which amends Securities Market Law 24/1988, and the revised Spanish Companies Act, in order to reinforce the transparency of listed corporations, following is a detail of the activities carried on, for their own account or for the account of others, by the various members of the Board of Directors that are identical, similar or complementary to the activity that constitutes the corporate purpose of Iberia, Líneas Aéreas de España, S.A.:

Name	Activity	Employment Regime	Company	Office/Function
Miguel Blesa de la Parra	Handling	Employee	Flightcare (FCC)	Independent director FCC
Roger Maynard	Air transport	Employee	British Airways	Director of Alliances and Investments
	Air transport	Employee	Britsh Airways Citiexpress	Chairman
Lord Garel-Jones	Handling	Employee	Acciona	Independent director

Fernando Conte is a member of the Board and the President of the Audit Committee of IATA.

Also, pursuant to the aforementioned Act, it is hereby stated that the only members of the Board of Directors owns any equity interests in companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Iberia, Líneas Aéreas de España, S.A. are Miguel Blesa de la Parra that owns the 0.003% of the equity of Flightcare through FCC and Roger Maynard that owns the 0,0004994% of the equity of British Airways.

Lastly, the members of the Board of Directors (or persons acting on their behalf) have not entered into transactions other than ordinary business transactions or in conditions other than normal market conditions with Iberia, Líneas Aéreas de España, S.A. or with other Iberia Group companies.

19. Environmental information

Within the framework of its environmental policy, Iberia, Líneas Aéreas de España, S.A. continued to undertake various activities and projects in 2007 in order to guarantee the proper management of the main environmental impacts of the air transport business as a whole.

In 2007 the Company incurred environmental expenses of €3 million. A detail is as follows:

	Thousands of Euros
Environmental repairs and upkeep	1,055
Environmental technical services	367
Personnel expenses relating to environmental management	941
Environmental taxes and other items	506
	2,869

As of December 31, 2007, the acquisition cost and accumulated depreciation of the environmental assets, which include, inter alia, waste water treatment plants, hazardous waste storage facilities, gas recharge and filter systems and water recycling infrastructure, amounted to €63 million and €33 million, respectively.

With regard to aircraft, the environment (minimization of acoustic and atmospheric impacts) is a key issue in the Company's fleet renewal policy. Accordingly, the Company has continued to acquire new models which reduce fuel consumption by around 20% compared to earlier generations of aircraft. In this regard, nine A-320 family aircraft were added to the fleet in 2007, and three B-757, eleven A-320 and seven MD aircraft were retired.

With regard to ground operations, the ISO 14001:2004 Environmental Management Systems certification was obtained for the aircraft maintenance activity carried out at the Company's facilities in Madrid (Barajas). Together with the environmental management certifications already existing for the handling activity and the rest of the Company's maintenance facilities, this means that all significant environmental operations are now covered by external certifications.

The Company considers that any possible environmental contingencies that might arise are covered sufficiently by its third-party liability insurance policies and by the provisions relating to probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount.

20. 2007 and 2006 statements of changes in financial position

Following are the Company's statements of changes in financial position for 2007 and 2006:

Thousands of Euros

Applications	2007	2006	Sources	2007	2006
Start-up expenses	81	91	Funds generated from operations	508,374	449,122
Acquisitions of fixed assets			Share capital increase	7,844	7,946
Intangible fixed assets	22,974	21,107	Long-term debt:		
Tangible fixed assets	132,006	126,571	Receivable from other companies	7,805	3,890
Financial investments in Group and associated companies	8,897	15,683	Sale of tangible and intangible fixed assets	365,783	64,378
Other financial investments	136,023	162,915	Cancellation or transfer to short term of financial investments	327,743	236,973
Deferred expenses	-	5,366	Deferred revenues	59,503	51,560
Dividends	33,146	18,619			
Cancellation or transfer to short term of long-term debt					
Loans	177,386	202,886			
Other debts	10	-			
Provision for major repairs	2,050	4,474			
Provisions for commitments with employees	23,194	20,537			
Provision for liabilities	118,928	104,646			
Long-term deferred tax asset	739	848			
Total applications	**655,434**	**683,743**	**Total sources**	**1,277,052**	**813,869**
Excess of sources over applications (Increase in working capital)	**621,618**	**130,126**	**Excess of applications over sources (Decrease in working capital)**	**-**	**-**

Thousands of Euros

Change in working capital	2007 Increase	2007 Decrease	2006 Increase	2006 Decrease
Treasury stock	5,179	-	-	14,450
Inventories	9,636	-	72,934	-
Accounts receivable	124,966	-	-	31,382
Current liabilities	-	38,610	-	357,620
Short-term investments	485,900	-	480,092	-
Cash in hand and at banks	36,245	-	-	7,886
Accruals	-	1,698	-	11,562
Total	**661,926**	**40,308**	**553,026**	**422,900**
Change in working capital	**621,618**	**-**	**130,126**	**-**

The reconciliation of the profit per books to the funds obtained from operations is as follows:

Thousands of Euros

	2007	2006
Profit per books	322,929	85,203
Add/(Less):		
Depreciation and amortization expense and fixed asset allowances	244,714	217,286
Period provisions for contingencies and expenses	180,310	124,226
Deferred interest expenses and deferred charges	25,912	32,135
Tax asset recoverable at long term	(15,822)	9,033
Negative adjustment of income tax	-	40,428
Net exchange differences on long-term items	9,187	3,172
Own work for fixed assets	(15,293)	3,751
Deferred interest revenues	(24,585)	(20,623)
Net gains on fixed asset disposals	(196,744)	(16,439)
Interest on financial fixed assets	(1,479)	(23,344)
Recovery of excess provisions and depreciation and amortization	(20,755)	(5,706)
	508,374	**449,122**

21. Explanation added for translation to English

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

Management Report
Iberia, Líneas Aéreas de España, S.A.

Key data

IBERIA	2007	2006	% Change
Earnings (millions of Euros)			
Operating revenue	5,493.7	5,359.4	2.5
EBITDAR	925.7	790.1	17.2
Profit from operations	283.6	141.1	101.0
Profit before tax	447.7	185.1	141.8
Profit for the year	322.9	85.2	279.0
Profit for the year before tax adjustments	322.9	125.6	157.0
Basic earnings per share (euro cents) [1]	34.2	9.1	273.6
Dividends per share (euro cents)	17.0	3.5	n.m.
Passenger traffic: production and revenue			
ASK (millions)	66,454	65,802	1.0
RPK (millions)	54,229	52,493	3.3
Load factor (%)	81.6	79.8	1.8 p.
Passenger ticket revenue (millions of Euros)	4,034.2	3,963.2	1.8
Average revenue per RPK (euro cents)	7.44	7.55	(1.5)
Average revenue per ASK (euro cents)	6.07	6.02	0.8
Financial aggregates and ratios			
Shareholders' equity (millions of Euros)	1,980.7	1,683.1	17.7
Net debt per balance sheet (millions of Euros) [2]	(2,474.2)	(1,700.1)	45.5
Adjusted net debt (millions of Euros) [3]	607.9	1,368.7	(55.6)
Operating profit margin (%)	5.2	2.6	2.5 p.
Net profit margin (%)	5.9	1.6	4,3 p.
Operating revenue per ASK (euro cents)	8.27	8.14	1.5
Operating cost per ASK (euro cents)	7.84	7.93	(1.1)
Operating cost per ASK excluding fuel (euro cents)	6.11	6.15	(0.6)
Resources			
Average no. of full-time equivalent employees [4]	22,300	23,865	(6.6)
Operating revenue per employee (thousands of Euros) [4]	246.4	224.6	9.7
Productivity (thousands of ASK per employee) [4]	2,980	2,757	8.1
Aircraft in service at 31 December	136	150	(9.3)
Fleet utilisation (block hours per aircraft per day)	9.6	9.1	5.3

IBERIA GROUP	2007	2006	% Change
Earnings (millions of Euros)			
Operating revenue	5,521.8	5,387.8	2.5
EBITDAR	932.0	790.5	17.9
Operating profit	283.5	122.0	132.5
Profit before tax	446.4	165.2	170.3
Consolidated profit for the year	327.6	57.0	n.m.
Consolidated profit before tax adjustments	327.6	116.1	182.2
Financial aggregates and ratios			
Equity (millions of Euros)	2,005.9	1,738.6	15.4
Adjusted net debt (millions of Euros) [3]	581.7	1,346.6	(56.8)
EBITDAR margin (%)	16.9	14.7	2.2 p.
Operating profit margin (%)	5.1	2.3	2.9 p.
Net profit margin (%)	5.9	1.1	4.9 p.

n.m.: not meaningful.

[1] Weighted average number of shares outstanding (in thousands): 945,467 in 2007; 932,049 in 2006.

[2] Negative balance means cash and cash equivalents exceed interest-bearing debt (excluding interest on finance leases).

[3] Net debt per balance sheet + Capitalised aircraft leases – Capitalised interest on Iberbus loans.

[4] Productivity of IBERIA's total workforce. In January 2007 the methods used to calculate the number of equivalent employees were changed in order to obtain more representative data. The 2006 workforce was recalculated based on the new methods.

1. Highlights

In the first half of 2007 the world economy continued to grow at the strong pace recorded in 2006. The sub-prime mortgage crisis in the US half-way through the year unleashed a period of financial turmoil, marked by tight lending restrictions. This situation, compounded by accelerating inflation rates, due to the escalation of raw material prices, clouded the economic outlook, although it had a limited impact on economic growth in the second half of the year. Thus, for the whole of 2007, the International Monetary Fund (IMF) estimated a 4.9% increase in the world gross domestic product (GDP), only slightly lower than that achieved in 2006.

The vigorous growth of the world economy, combined with more intensive trading and the application of suitable macroeconomic policies, contributed to the progress of the European economy, in which certain Eastern European countries' performance was especially dynamic. In the euro zone, GDP grew at an estimated 2.6% in 2007 and, in the Spanish economy, 3.8% growth was recorded.

For the Latin American and Caribbean economies, the Iberia Group's priority markets, the IMF estimated economic growth of around 5% in 2007, in keeping with the dynamism of the previous year.

Growth of actual GDP (a)	2007	2006
At world level (b)	4.9	5.0
USA	2.2	2.9
Latin America and the Caribbean (b)	5.0	5.5
Euro zone (b)	2.6	2.8
Central and Eastern Europe (b)	5.5	6.4
Spain	3.8	3.9

Sources: IMF, World Economic Outlook (January 2008 and December 2007).
(a) Annual change in GDP percentage, constant prices
(b) The world and regional growth aggregates relate to the weighted average GDP per levels of purchasing power

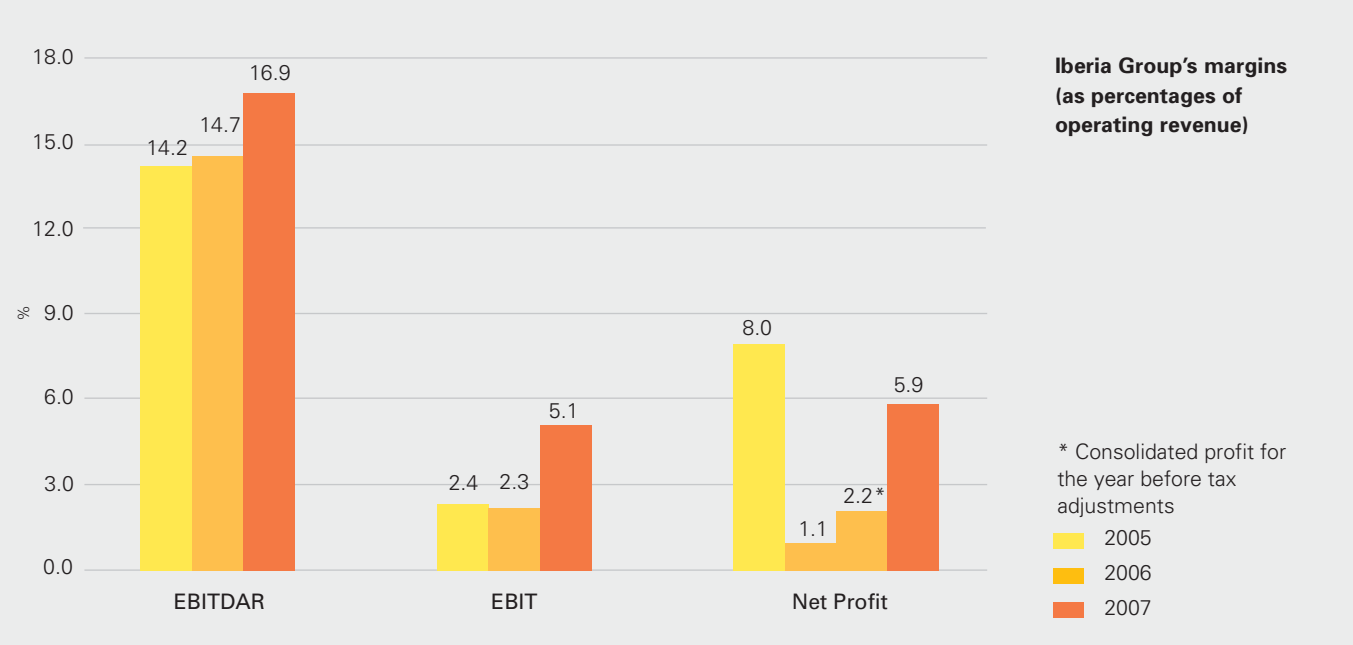
Underpinned by the sustained growth of the world economy, passenger air traffic made strong progress in 2007. According to data published by the International Air Transport Association (IATA) the number of revenue passenger-kilometres (RPK) in regular international flights increased by 7.4% compared with 2006 across the industry. The increase in capacity was somewhat more modest at 6.2%, with a load factor of 77.0%, up by 0.8 percentage points on 2006.

The increase in international traffic carried by European network airlines was 5.4% compared with 2006, according to data from the Association of European Airlines (AEA). In terms of total AEA traffic, including domestic flights, the RPK rose by 5.1%, with a modest increase of 4.2% in the number of available seat-kilometres (ASK), thus improving the load factor by 0.7 points compared with 2006. Low-cost European airlines expanded rapidly, recording a traffic increase of approximately 24%.

In Spain, air traffic grew rapidly in 2007, partly driven by the additional capacity of airport infrastructures. According to data from Aeropuertos Españoles y Navegación Aérea (Aena) the number of passengers on commercial flights (domestic and international) increased by 9.1% compared with 2006, nearly doubling the aforementioned traffic increase of the European companies belonging to the AEA.

After six consecutive months of losses, profit was reported in the world aviation industry in 2007, despite the unprecedented surge in the oil price in the last few months of the year, with the price of Brent crude approaching USD 100 per barrel in December. According to the latest estimates published by the IATA, the companies will obtain net profits of USD 5,600 million, versus the losses of USD 500 million in 2006, due to the increase in revenue, driven by economic growth, and to ongoing cost control, which have counteracted the impact of the rise in fuel prices.

Against this backdrop, the Iberia Group faced up to the second year of implementation of the 2006-2008 Master Plan, achieved most of the objectives set for this period and even some of those established for 2008, and significantly improved its returns on all levels.



In 2007, the number of RPK of Iberia, Líneas Aéreas de España, S.A. ("IBERIA") increased by 3.3%, compared with 2006, against a 1.0% increase in the number of services, and the passenger load factor improved by 1.8 percentage points to 81.6% which was – for the third consecutive year – an all-time high in the Company's average load factor, and also the highest among the European network airlines.

In keeping with one of the strategic lines of the Master Plan, in 2007 the Company continued to foster the development of the network operation at the Madrid-Barajas airport, its main hub. The recent expansion of the airport's capacity provides an opportunity to grow and to develop a more profitable network operation. Also, the Iberia Group is located in the new Terminal T4, which affords the right conditions to enable the Company to continue improving its service quality. During the year, IBERIA significantly increased the capacity made available on flights from and to Madrid, raised the number of frequencies on trunk routes and opened up to seven new international destinations.

In accordance with its plans to reinforce the network structure, growth of the air traffic activity remained focussed on long-haul flights, especially to South America and the US, in the latter case with the opening of the new routes to Boston and Washington. IBERIA's positioning in the American markets combined with vigorous demand during the year led to an 8.7% increase in the number of long-haul RPK compared with 2006. And, for the first time in its 80 years of existence, IBERIA carried over four million passengers on its transatlantic flights. Additionally, in 2007 the Company consolidated its leadership in the Europe-Latin American market by expanding its share to 19.9%, taking it further ahead of its main competitors.

Simultaneously, IBERIA continued to restructure its short- and medium-haul programme, making selective adjustments to the domestic and European flights to ensure sufficient profitability and to strengthen connections in the Madrid hub. The transport volume thus decreased by 4.3% in the short- and long-haul operations as a whole, although it increased by 13.1% in the flights to and from Madrid-Barajas airport.

In 2007 IBERIA's passenger and cargo traffic revenue rose by 2.5% with respect to 2006, in the same proportion as total operating revenue, this amounted to EUR 5,493.7 million. An analysis of the year-on-year changes must take into account the impact of the sharp depreciation of the US dollar against the euro, which reduced both operating revenue and expenses, although these impacts were offset in profit before tax. Had the exchange rates remained constant, operating revenue would have increased by 4.8%.

The average revenue per RPK fell by 1.5% from 2006, affected by the growth of the average stage length (6.9%) and by the depreciation of other currencies, mainly the dollar, against the euro. The average unit passenger revenue (per ASK), bolstered by the increase in the load factor, increased by 0.8% with respect to 2006; had it not been adversely affected by the change in the currency exchange rates, the increase would have been 3.1%.

In the long-haul sector, the increase in the unit revenue (per ASK) was up 6.4% on 2006, lifting the passenger revenue figure by 13.6%. These increases were partly driven by the significant improvement in the class mix. The high level of satisfaction expressed by the customers of Business Plus, the Company's business class on international flights, translated into an 18.8% increase in the number of passengers flying this class.

Following the in-depth restructuring of the programme, the unit passenger revenue (per ASK) in the domestic sector increased by 6.0% with respect to 2006, a figure that must be assessed in the context of a market affected by a strong growth in product offering. However, the unit revenue from international medium-haul flights dropped by 4.1% in 2007, mainly due to the pressure exerted on tariffs by the proliferation of low-cost carriers and, to a lesser extent, to the increase in the average stage length in this sector (3.0%).

The aggregate amount of the other operating revenue (non-traffic) grew by 2.7%, with yet another year of strong progress in revenues from aeronautical maintenance services (up 25% from 2006). In accordance with the 2006-2008 Master Plan, this business segment has designed a sales policy which promotes the execution of higher value added jobs for other airlines, consisting mainly of engine and component inspections, and the outsourcing of jobs requiring a lower level of expertise.

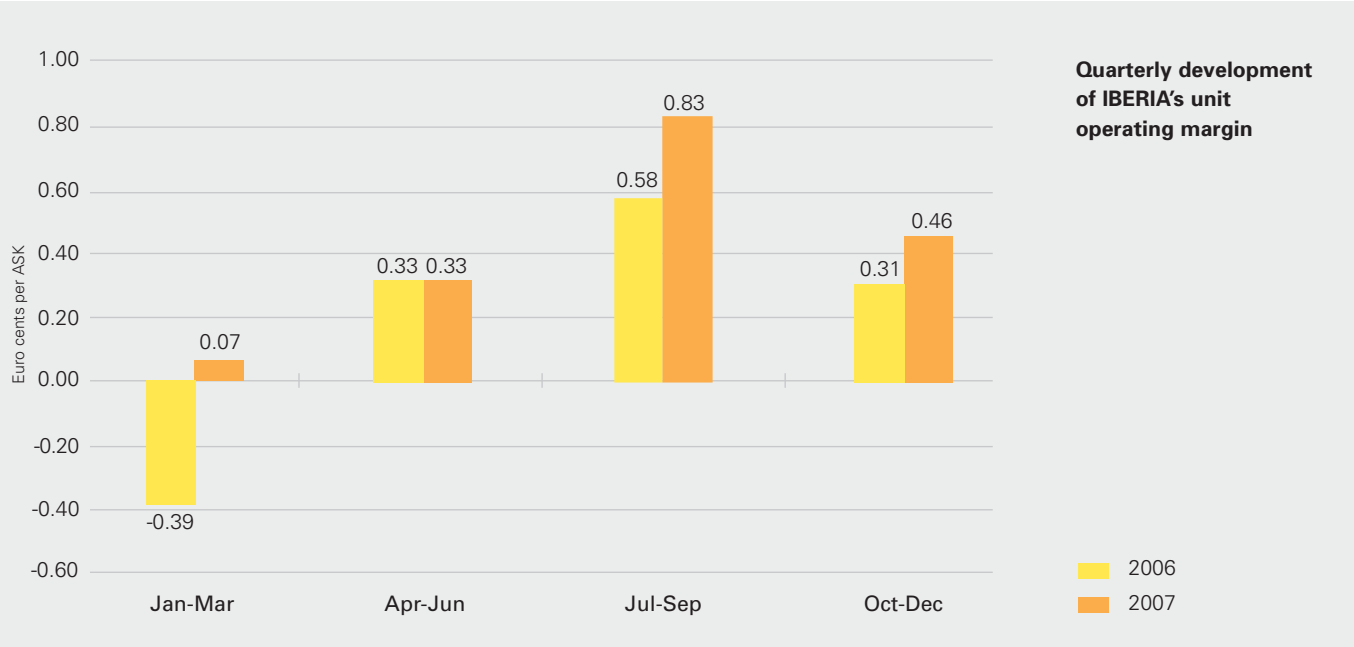
This surge in revenue from maintenance services to other airlines offset the decline in handling revenue (15.5%), due to the incorporation of a larger number of ramp-handling operators at the major Spanish airports at the beginning of 2007, following the outcome of the public calls for tenders for the grant of the new licences in July 2006. IBERIA obtained licences for third parties' handling operations at 36 airports (plus the heliport at Ceuta). Additionally, IBERIA joined the winning unincorporated joint ventures (UTEs) in Barcelona, Lanzarote and Fuerteventura (airports where the Company was not awarded a licence) with a 32% share in the first case and a 30% share in the UTEs servicing the two Canary Island airports.

IBERIA's operating expenses decreased by 0.2% with respect to 2006, and by 1.1% in unit terms (per ASK), thanks to the implementation of the cost cutting measures addressed in the 2006-2008 Master Plan, combined with the favourable impact of the depreciation of the US dollar. Noteworthy, was the decrease of EUR 17.2 million in personnel expenses compared with 2006, due to the reduction in the workforce and restrained salary costs, after the inclusion of the variable remuneration agreed upon with the ground staff and passenger cabin crews, reflecting the Company's healthy financial results.

In 2007 there was also a marked improvement in the productivity of the Company's resources compared with 2006: 8.1% for the workforce (in terms of ASK produced per employee), and 5.3% for the passenger fleet, whose average utilisation (measured in block hours per aircraft and day) stood at 9.6 hours in 2007.

IBERIA's profit from operations amounted to EUR 283.6 million in 2007, up 101% on 2006. The operating profit margin on operating revenue increased by 2.5 percentage points with respect to 2006, while the net profit margin increased by 4.3 points (3.5 points before the tax adjustment recognised in 2006).

Of particular relevance was the fact that IBERIA obtained profit from operations in all four quarters of 2007, which was partly due to the lower seasonality of demand arising from the increase in the relative weight of the long-haul segment and the development of the network operations. In unit terms, IBERIA's profit from operations stood at 0.43 euro cents per ASK in 2007 (2006: 0.21 euro cents).



Financial profit improved significantly in 2007 and, at EUR 160.2 million, was EUR 127.2 million higher than the 2006 figure, due mainly to the recognition of a gain of EUR 97 million in the Company's individual financial statements, obtained on the refund of contributions to shareholders and the sale of a portion of IBERIA's investment as a result of the recapitalisation transaction at Wam Acquisition S.A.

As a result of all the foregoing, IBERIA's profit after tax amounted to EUR 322.9 million in 2007, up EUR 237.7 million on 2006, or EUR 197.3 million excluding the tax adjustment in 2006 arising from the application of the new income tax rates and impact thereof on the Company's tax assets.

In the consolidated financial statements, the Iberia Group's profit after tax amounted to EUR 327.6 million in 2007, up EUR 270.6 million on 2006, or EUR 211.2 million excluding the tax adjustment in 2006.

Product and Quality

In order to increase customer satisfaction, IBERIA is permanently committed to improving service quality, which constitutes one of the strategic lines of the 2006-2008 Master Plan.

As a result of the ongoing endeavours of all the areas involved in operations, the Company achieved an on-time performance (flights operated within 15 minutes of the scheduled time) of 80.8% in 2007 for the network taken as a whole, an improvement of 3.4 percentage points with respect to 2006. The level achieved in 2007 places IBERIA as the most punctual European network operator.

The launch of Business Plus class on long-haul flights in mid-2005 required an investment of more than EUR 100 million, which has seen ample returns due to the excellent response obtained from the market. In 2007 IBERIA revamped its in-flight service and the services offered to its Business Plus passengers, seeking out the best way to complement seat comfort and the advanced communication and entertainment systems. A noteworthy initiative was the evolution of the gastronomic offering. Prestigious names such as the Chef Sergi Arola, the sommelier Custodio L. Zamarra or the pâtissier Francisco Torreblanca, or recognised companies such as Gategourmet and Todovino, worked alongside IBERIA to extend the variety and quality of the food and wines offered during in-flight service.

The Company also endeavoured to improve the service provided on its short- and medium-haul flights. The reconfiguration of the passenger cabins of all the Airbus aircraft began mid-2006, fitting latest-generation seats, more comfortable than the current ones and less voluminous. At 2007 year-end, 76% of the aircraft had been reconfigured. Also, from August 2007 onwards, IBERIA renewed the in-flight menu available to its Tourist class passengers, including "Tu Menú" (Your Menu), an option made up of fresh simple and healthy fare, prepared exclusively by the quality fast food company "Fast Good", created by the acclaimed Chef Ferrán Adriá and NH Hoteles.

Since August 2007 other innovations have also been also introduced in connection with the in-flight products service. The Company entered into an agreement with the American company Duty Free World which specialises in the management and marketing of products aimed at in-flight sales. Duty Free World contributes its experience, innovating sales techniques and renewing the catalogues, which has unquestionably provided greater satisfaction to the passengers, while its extensive network gives rise to purchasing synergies and widens the product offering.

At the beginning of 2007 IBERIA refurbished the three VIP lounges that it has at Madrid-Barajas airport's T4 Terminal, fitting them out with the latest advances in audiovisual entertainment, improving the service offered to its passengers and to those of the members of the oneworld alliance. Also, in two of these lounges, the passengers can enjoy a space given over specifically to the Business Plus wine cellar, and taste the various wines selected for the in-flight service.

The Iberia Plus programme, the first international customer loyalty programme to be launched in Europe and currently one of the largest, is designed to reward the best customers with free flights and exclusive benefits. At 2007 year-end there were 3.3 million Iberia Plus members, 12.8% more than in 2006.

Innovation and Technology

For IBERIA, innovation pervades all its business concepts: strategy, processes, services and products. Each year the Company manages dozens of projects aimed at improving service quality, the technological advancement of processes or resource savings. The great majority of them are recognised as innovative projects through the award of certifications or independent assessments made by both national and international official bodies.

The Company continued to improve the functionality of Iberia.com, its commercial Internet website, and included new options, which most notably includes the development of a new communication platform that enables the content of the website to be consulted through various types of mobile devices, such as telephones or PDAs. The integration of the web page with the Company's other key products was also improved, such as IB Plus, CRM (Customer Relationship Management) and BRM (Business Relationship Management).

Also, in 2007 the international expansion of Iberia.com continued, with the development of six new specific versions for Romania, the Czech Republic, Nigeria, Senegal, Equatorial Guinea and Algeria, giving a total of 44 versions in five different languages, which cover all the countries to which IBERIA flies. The number of partners that offer their products through the IBERIA webpage has also increased, leading to an increase in total sales (airline tickets, hotels, car rental services, etc.) to EUR 488.5 million in 2007, representing an increase of 7.1% with respect to 2006.

In mid-2007, IBERIA launched a first web site exclusively for travel agencies in Spain, www.iberiagencias.com, aimed at offering the agencies a single space in which they can easily look up all the existing commercial information, issue various types of requests on-line and even obtain information relating to financial accounts between the agency and the Company.

The Company also offers the auto check-in service which can be used by all passengers travelling to destinations where they do not need to undergo passport checks or other security or immigration formalities. The customers can obtain their boarding passes either through Iberia.com or through the automated kiosks at the airports. The use of both these facilities has increased rapidly since they were introduced, with more use being made of the on-line auto check-in service. In 2007 the total number of auto checked-in (via machines and the web site) passengers, including those of the *Puente Aéreo* (Madrid-Barcelona shuttle service) represented 21.3% of all the domestic and international flight passengers travelling to Schengen member countries, exceeding by over five percentage points the average obtained in 2006.

The e-ticket is already the format used by nearly all of IBERIA's customers and represented 95.4% of all the tickets issued (in Spain and other countries) in 2007. During the year the Company continued to push for the use of interline e-tickets, which represented 91% of all the interline vouchers billed.

In order to boost its revenue in keeping with the one of the initiatives of the Master Plan, IBERIA executed a project known as "NO-DO", which will change the work processes and IT supports of the passenger revenue management model. The new model is based on an origin-destination optimisation tool, which can be used to evaluate the traffic of passengers flying from point to point and also of those taking connecting flights, choosing at all times the most interesting option to maximise the revenue of the network as a whole and not of a specific flight. The project also envisages the implementation of two specific tools to optimise revenue in point-to-point traffic, especially necessary in markets where low-cost carriers are proliferating.

The Company is also working towards implementing a tool to optimise cargo revenue (Yield Management Cargo), which will make it possible to manage cargo reservations in real time on the basis of the revenue and cost generated thereby. Also, an innovative electronic air waybill tool for the domestic area was successfully implemented in the Cargo Division.

In 2007, the Airports Division began to implement a software package (INFORM) for automated stopover management at Barajas, which will gradually be introduced at other stopovers. This package will improve the automatic planning and assignment of resources, thereby increasing productivity and management control in the handling business.

Noteworthy among the innovation projects undertaken in the Maintenance and Engineering Division are the creation of a fully automated blade workshop and the development of a system (GEROMA) to manage the scheduling and maintenance of IBERIA's aircraft fleet.

Fleet renewal

IBERIA continued to renew its fleet, with the objective of using more modern aircraft equipped with the best features, which reduce fuel, operating and maintenance costs and are more environment-friendly. Nine new aircraft, sourced directly from the Airbus plant (one A321 and eight A319s) during the year, replaced some of the older aircraft, and reduced the average age of the operating fleet as a whole to 7.7 years in 2007.

The renewal plan also targets aircraft uniformity in both fleets, in order to reduce maintenance costs and make better use of the technical crews, and at the same time offer advantages in the operational management of the commercial programme.

Since mid-2006, the Company has been operating all its long-haul flights with a single type of aircraft, the Airbus A340. At 2007 year-end the fleet consisted of 31 A340 aircraft (19 of the 300 version and 12 of the 600 version), with an average age of 6.7 years. IBERIA has thus become one of the airlines with the most modern long-haul fleets in the global aviation industry.

Pursuant to the plan for the renewal and standardisation of the short-and medium-haul fleet, in 2007 the Company added a further ten aircraft of the A-320 family (1 A-321, 1 A-320 and 8 A-319), and a total of 24 aircraft were disposed of (9 A-320, 5 B-757, 9 MD-87 and 1 MD-88) which meant that at year-end the operating fleet assigned to domestic and medium-haul international flights consisted of 105 aircraft, of which 83 were manufactured by Airbus. IBERIA's crews now only operate two families of aircraft (A-320 and MD-87/88) on short-and medium-haul flights. The process of retiring the MD aircraft will be completed by mid-2009.

Changes in the shareholder structure and in the Governing Bodies

The shareholders at the Annual General Meeting held on 30 May 2007 resolved to amend Article 44 of the Company's bylaws, which regulates the composition of the Board of Directors, the obligations of the Board members and the procedure for their appointment and re-election, to comply with the recommendations of the Unified Good Governance Code. Thus, the Company's Board of Directors will be composed of a minimum of ten members and a maximum of fourteen.

At the same Annual General Meeting, the Shareholders also approved the appointment of Felipe Benjumea Llorente as a new independent director on the Board of Directors and the re-election of the directors Fernando Conte García, José Manuel Fernández Norniella, Antonio Masa Godoy, José Pedro Pérez-Llorca Rodrigo and José Terceiro Lomba.

In November 2007, Caja Madrid resolved to purchase all the shares put up for sale by BBVA and Logista. At 31 December 2007, the Company's main shareholders were Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid), with a 22.99% ownership interest and British Airways and American Airlines Holdings B.V., with a 9.90% ownership interest.

At the meeting of Iberia's Board of Directors on 20 December 2007, Valoración y Control, S.L. and Inmogestión y Patrimonios, SA., represented by Rafael Sánchez-Lozano Turmo and Alberto Recarte García-Andrade, respectively, were appointed as directors of the Company. These two directors replace the directors Gregorio Villalabeitia Galarraga and Antonio Vázquez Romero, representatives of BBVA and Logista, respectively.

2. Financial and operational performance

2.1. Business activity

The 2007 Consolidated Management Report provides a more detailed description of the progress of IBERIA's operations in the transport area and also in other business areas. This report of the Parent contains only a brief description.

2.1.1. Transport

Transport of passengers

In the network as a whole, IBERIA improved the passenger load factor by 1.8 percentage points with respect to 2006, achieving 81.6% in 2007, which is an unprecedented annual record for the Company. Compared with 2006, the level reached and the increase were both higher than the averages obtained by the member companies of the Association of European Airlines (whose load factor rose by 0.7 percentage points, to reach 77.1%), and exceeded even the levels attained by the network's major European airlines in 2007.

IBERIA's number of revenue passenger-kilometres (RPK) was up 3.3% from 2006, due mainly to the good response of demand to the growth of the supply on the American routes. In 2007, traffic in the long-haul segment represented 61.4% of the total RPK, up three percentage points from 2006.

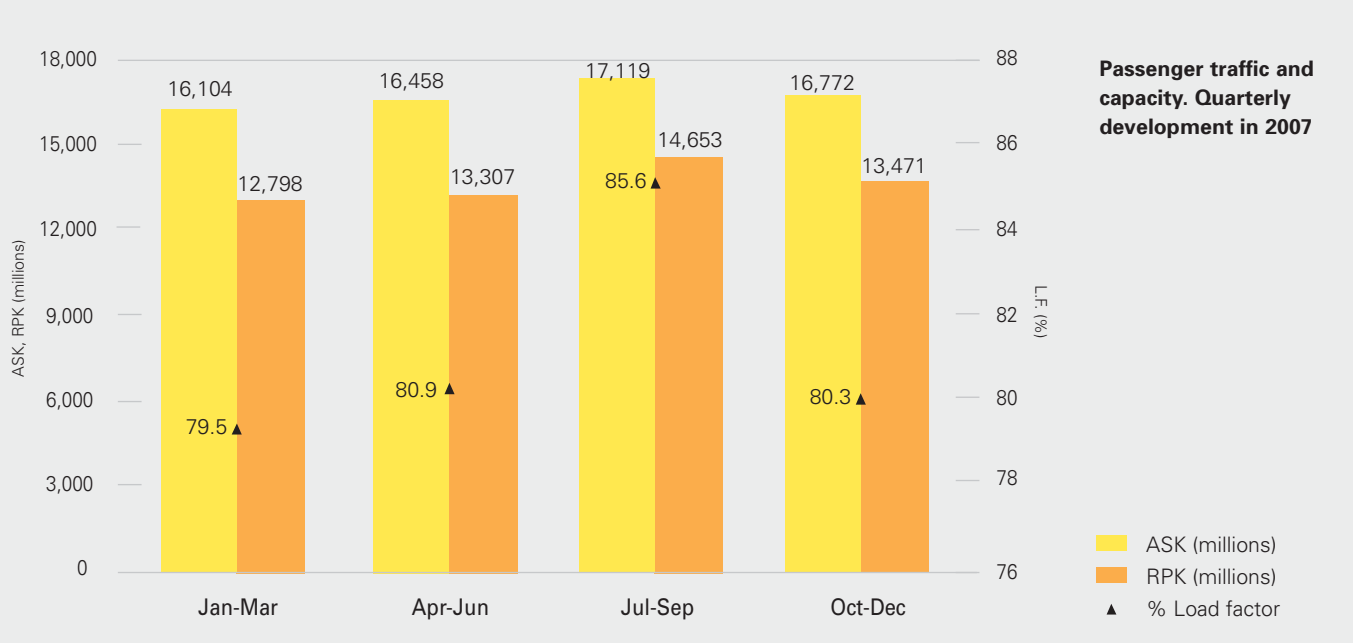
Passenger revenue was up 1.8% on 2006, bolstered mainly by the improvement in the load factor, despite the decrease (1.5%) recorded in the average revenue per RPK (yield), which was affected by strong competition, especially in Europe, by the growth of the average stage length (6.9%) and, especially, by the impact of the depreciation of the US dollar against the euro. With constant currency exchange rates, the yield would have increased by 0.8% compared with 2006.

The following table reflects the changes in the main aggregates of IBERIA's passenger transport activity for its network as a whole:

Transport of passengers	2007	2006	Change 07/06	% Change
ASK (millions)	66,454	65,802	652	1.0
RPK (millions)	54,229	52,493	1,736	3.3
Load factor (%)	81.6	79.8	1.8	n.a.
Block hours	493,460	506,747	(13,287)	(2.6)
Passenger revenue per RPK (euro cents)	7.44	7.55	(0.11)	(1.5)
Passenger revenue per ASK (euro cents)	6.07	6.02	0.05	0.8
Passenger revenue (millions of Euros)	4,034.2	3,963.2	71.0	1.8

n.a.: not applicable.

In the four quarters of 2007, the load factor improved compared with the same periods in 2006. Capacity and traffic also increased in all the quarters of the year except the second, in which modest decreases were recorded due to a circumstantial slowdown in the growth of the long-haul flight capacity, compounded by the effect of the adjustments in the domestic and European connecting flights, which increased slightly in the second quarter compared to the rest of the year.



In accordance with the objective established in the 2006-2008 Master Plan to strengthen network operation and increase profitability, in 2007 the Company continued to raise capacity in the long-haul segment, which increased by 6.8% compared with 2006, and to carry out further restructuring of the short- and medium-haul programme, already begun in 2006, by expanding the connections in the Madrid-Barajas hub and making capacity adjustments in certain point-to-point connecting flights from other airports. As a result, the volume of supply decreased by 0.3% in the medium-haul international flights, and by 13% in the domestic segment. However, the aggregate capacity offered on all the short- and medium-haul flights departing from or arriving at Madrid airport increased by 13.1% with respect to 2006.

In accordance with this selective growth strategy, in 2007 the Company reached 66,454 million of available seat-kilometres (ASK) in its network as a whole, which represented a 1.0% increase from 2006.

The production of IBERIA's own passenger aircraft, measured in terms of block hours, fell by 2.6% compared with 2006, and there was also a 3.9% reduction in the number of hours operated by the aircraft under wet lease contracts. The block hours of the aircraft operated under wet lease represented 4.8% of the total block hours flown in 2007.

In 2007 IBERIA exceeded the historic 4 million passenger mark for transatlantic flights by registering for the first year since inception the transport of 4.2 million passengers on its long-haul flights, 8.1% more than in the previous year. For the network as a whole, the number of passengers transported was 26.9 million in 2007.

The number of RPK amounted to 54,229 million in the network as a whole, due mainly to the increase of long-haul flight traffic (8.7%) compared with 2006. In absolute terms, South America accounted for the highest traffic increase, 1,477 million RPK more than in 2006 (14%). In relative terms, North America accounted for the highest increase (19.4%), due mainly to the inauguration in spring 2007 of two new destinations, Boston and Washington.

The load factor improved by 1.6 percentage points with respect to 2006 in the long-haul segment, reaching an annual average of 87.2% in 2007, the highest ever in this segment in the Company's history. The improvement was very significant in the domestic connecting flights, 3.1 points above the load factor obtained in 2006, reaching 75.9%. In the medium-haul segment, the load factor remained stable at 72.7%.

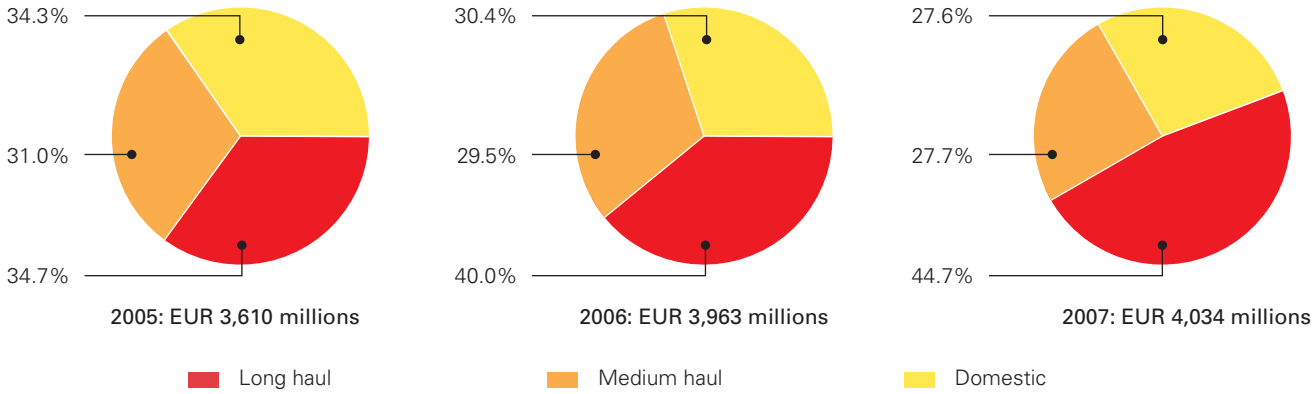
The average revenue per RPK was up 1.7% on 2006 in the domestic segment, thanks to the selective capacity adjustments made by IBERIA in a market which experienced a growing surplus of supply in 2007.

The depreciation of the US dollar had an adverse effect on the performance of the international flight yield, subtracting 3.8 points from its year-on-year growth in the long-haul segment, which was offset by the dynamism of the traffic and considerable improvement in the class mix, so that an increase of 4.4% was ultimately obtained compared with 2006. Additionally, the medium-haul international flight yield suffered from the impact of the increase of the average stage length in this segment (3%) and, especially, of the strong pressure exerted by the proliferation of low-cost carriers, and consequently fell by 4.0% with respect to 2006.

Despite the aforementioned impact of the increase in the average stage length and the depreciation of the US dollar, the average revenue per ASK in the network as a whole increased by 0.8% compared with 2006, thanks to the significant increases recorded in the unit revenue of the long-haul (6.4%) and domestic (6.0%) segments, in the latter case mainly driven by the improvement in the load factor. Disregarding the negative impact of the fluctuation in the currency exchange rates, the increase in the revenue per ASK would have been 3.1%.

IBERIA's passenger traffic revenue amounted to EUR 4,034.2 million across the network. By segment, noteworthy was the gradual increase in the relative weight of long-haul operations, which from representing 40% in 2006 rose to 45% in 2007. Passenger revenue from the long-haul operation increased by 13.6% from 2006, due to the increase in the traffic volume (8.7%) and the progression of the unit revenue.

Annual growth of passenger revenue. Breakdown by segment



Transport of cargo

IBERIA's revenue tonne-kilometres (RTK) amounted to 1,224.7 million in 2007, up 9.5% on 2006. 94% of the total RTK was carried in the holds of the Company's passenger aircraft, a percentage that remained stable compared with 2006. The load factor improved by 3.9 percentage points, to 71.9%, with a 3.6% increase in the total number of available tonne-kilometres (ATK). On the long-haul flights, the number of RTK increased by 11.4% compared with 2006, most of the growth being attributable to flights between Spain and South America, whereas short- and medium-haul cargo transport decreased by 10.9% compared with 2006.

Revenue from goods and mail transport increased by 3.9% with respect to 2006 and reached EUR 299.7 million, mainly as a result of the increase in traffic volume. Yield (by RTK) stood at 24.5 eurocents in 2007, decreasing by 5.1% with respect to 2006, affected by the increase in the average cargo stage length (5.4%) and by the significant fall in value of the US dollar.

The main cargo transport aggregates were as follows:

Transport of cargo	2007	2006	Change 07/06	% Change
ATK (millions)	1,702.3	1,643.7	58.6	3.6
RTK (millions)	1,224.7	1,118.5	106.2	9.5
Load factor (%)	71.9	68.1	3.9	n.a.
Cargo revenue / RTK (euro cents)	24.47	25.78	(1.31)	(5.1)
Cargo revenue (millions of Euros)	299.7	288.4	11.4	3.9

n.a.: not applicable.
(a) From 2007 onwards the cargo statistics are grouped together by sector (which in turn correspond to geographical grouping by stage). The data for 2006 were obtained using uniform methods.

2.1.2. Handling

In July 2006 the award was made public of the new concessions for third-party ramp handling services throughout the entire state airport network for a term of seven years. With the award of these public tenders the industry has been further deregulated, the number of handling agents increasing from 4 to 10 and licences from 58 to 73 in the Spanish airports taken as a whole. The effective addition of the new ramp handling operators began in November 2006 and ended in March 2007. IBERIA is the operator that obtained most licences, a total of 21, maintaining its presence at 36 airports (plus the heliport at Ceuta). Also, IBERIA joined the unincorporated joint ventures (Spanish "Uniones Temporales de Empresas") which were the successful bidders at Barcelona, Lanzarote and Fuerteventura (airports at which the Company was not the successful bidder) with a share of 32% in the EL Prat UTE and 30% in the UTEs of the two Canary Island airports.

In this new competitive scenario, Iberia Handling handled a total of 87.2 million passengers in 2007, 5.8% fewer than in 2006. The total weighted number of aircraft handled was 403,390, down 13.9% from 2006. Handling services provided to IBERIA itself amounted to a weighted number of 187,151 aircraft handled in 2007, representing a 17.2% decrease, whereas handling services for third parties which, in terms of the weighted number of aircraft handled represented 53.6% of the total, were down by 10.8% from 2006.

These decreases in production were mainly due to the discontinuation of the ramp-handling services at the five airports where the Company did not renew the licence (the three mentioned previously plus Almería and Jerez de la Frontera) and, to a lesser extent, to the higher number of autohandling licences awarded. Additionally, the reduction in the handling services provided to IBERIA itself was also affected by the decrease in the number of flights, due to the restructuring of the short- and medium haul network.

Operating revenue (including billings to Iberia Transport) amounted to EUR 563.5 million in 2007, 12.1% less than in 2006, due to the aforementioned decrease in the volume of activity and the deterioration of the unit revenue, affected by the pressure exerted by the new operators.

2.1.3. Maintenance

Iberia Maintenance carried out a total of 153 major inspections (C, D, E and IL) in 2007, 32% more than those performed in 2006. The number of inspections carried out for other airlines increased by 108%, accounting for a relative weight of 31.9% of the total figure (11.6 percentage points higher than the 2006 share).

In 2007 the engine inspection line continued to grow at an outstanding rate. Total production, measured in equivalent engines, amounted to 186.9 units, up 31.3% on 2006, due to the high increase (over 56%) in the number of inspections of engines of other airlines, which accounted for 72.3% of the total work performed in 2007.

Operating revenue from maintenance work for other airlines amounted to EUR 288.6 million in 2007, surpassing the 2006 figure by 25.5%.

The broad customer base of Iberia Maintenance is composed of domestic and international airline operators, cell and engine manufacturers, and aircraft lessors, bringing the total number of customers to approximately 150. In addition, it provides technical assistance to the Spanish Ministry of Defence and to other important bodies and institutions such as the President's Office of the Republic of Mexico.

In 2007 nearly 70 contracts were entered into or renewed, of special interest being those signed for full support with Conviasa, Cygnus Air and Spanair for A-340, B-757 and MD aircraft, respectively; the overhaul contracts for the B-757 aircraft of Belair Airlines and the A-320 of Iberworld; the inspection contracts for two RB211-535E4 engines belonging to Aladia Airlines, Sky Service and Santa Bárbara, and the overhaul and maintenance contract between IBERIA and TAP Maintenance & Engineering. IBERIA will inspect TAP's A-320 landing gear.

IBERIA's Maintenance and Engineering Division obtained new certification in 2007, such as that of the D.N.A.C.I.A. (Uruguayan Civil Aviation), which rated the aircraft, engines, accessories, instruments, radio and specialised services and is valid for one year; and, in July, the DNA (Argentine Civil Aviation) certificate for engines, radio, instruments, accessories and specialised services, valid for two years.

2.2. Resources

2.2.1. Fleet

At 2007 year-end, IBERIA had a total of 136 passenger aircraft in operation, which included 31 long-haul aircraft and 105 short- and medium-haul aircraft. The following table shows the composition of the fleet by aircraft type:

Aircraft Type (a)	Owned	Aircraft under Finance Lease	Aircraft under Operating Lease	Wet Lease	Total Operated
A-340 / 300	5		11	3	19
A-340 / 600			12		12
Long-haul	**5**		**23**	**3**	**31**
A-319			19		19
A-320 (b)	10	5	30		45
A-321		4	15		19
B-757 (b)				2	2
MD-87 (c)	9				9
MD-88	11				11
Short/medium-haul	**30**	**9**	**64**	**2**	**105**
Total	**35**	**9**	**87**	**5**	**136**

(a) Excluding inactive aircraft.
(b) Also, at 31 December 2007, IBERIA had two Airbus A-320s and one Boeing B-757 leased to other companies.
(c) Does not include an aircraft parked in the hangar awaiting the Technical Acceptance Certificate for delivery to the buyer.

At 31 December 2006, the Company operated a total of 150 aircraft. The following list shows the detail of aircraft additions and retirements in 2007:

Additions
- 1 A-320 under finance lease.
- 1 A-321 under operating lease.
- 8 A-319 under operating lease.
- 1 A-340/300 under wet lease.

Retirements
- 9 A-320 under operating lease.
- 5 B-757 under wet lease.
- 1 A-340/600 under operating lease.
- 9 MD-87 owned.
- 1 MD-88 owned.

Also, there was a change in the status of six A-320s, which had been under a finance lease at the beginning of the year and were subsequently acquired outright, and began to be operated under an operating lease from December onwards.

Since mid-2006, all IBERIA's long-haul flights have been operated with one and the same family of aircraft, the A-340 airbus, in its two versions: the 300, with 260 seats, and the 600, with 352 seats. IBERIA has one of the most modern long-haul fleets in the industry, with an average aircraft age of 6.7 years.

In 2007 the domestic and medium-haul international flights were operated by IBERIA with only two types of aircraft (of the A-320 and MD-87/88 families), whereas the B-757 fleet, which contained only two units at year-end, operated under a wet lease.

The wet lease arrangement affords the Company greater flexibility to adjust its capacity to changes in the market. This was borne out in 2007 when IBERIA increased the number of wet lease block hours by 50.9% on the long-haul routes (A-340 aircraft), and reduced them by 36.8% on the short- and medium-haul flights (B-757 aircraft).

Under the short- and medium-haul aircraft renewal and standardisation plan, in 2007 the Company added nine new aircraft from the Airbus factory under operating leases (one A-321 and eight A-319s). Additionally, in July an A-320 previously leased at another company was added to IBERIA's operating fleet under a finance lease. The A-320 fleet is based on state-of-the art technology, enabling the Company to provide a better service to its customers in a more efficient manner in terms of operating costs and environmental aspects.

In the context of this fleet renewal plan, in February 2007 IBERIA entered into a contract with Tiger & Engine Support for thesale of all the MD-87 and MD-88 aircraft. In accordance with the timetable established in the contract, the delivery of a total of 30 aircraft (including their engines) will be phased in between April 2007 and September 2009 at the rate of approximately one aircraft permonth. In 2007 a total of 10 aircraft (nine MD-87s and one MD-88) were retired from service.

The average utilisation of total passenger aircraft, measured in block hours per aircraft and day, was 9.6 hours in 2007, 5.3%above the 2006 figure. The utilisation of the Company's owned aircraft improved by 5.5% in the case of long-haul aircraft and by 3.6% in the case of short- and medium-haul aircraft.

BH/Aircraft/Day	2007	2006
Average short- and medium-haul aircraft utilisation	8.2	7.9
Average long-haul aircraft utilisation	14.3	13.5
Average utilisation of own aircraft	**9.5**	**9.1**
Average utilisation of aircraft under wet lease (a)	10.7	9.4
Average utilisation of total aircraft	**9.6**	**9.1**

(a) In 2007 aircraft operating under wet lease contracts for IBERIA included: three A-340/300s, one since April and the other two all year; and seven B-757s, of which five were retired between January and September.

2.2.2. Personnel

Headcount

The Company's average workforce of 22,300 equivalent employees in 2007 showed a 6.6% decrease with respect to 2006. Its distribution by business segment was as follows:

	Ground		Flight		Total	
	2007	2006	2007	2006	2007	2006
Transport	3,178	3,467	5,638	5,866	8,816	9,333
Handling	8,493	9,315			8,493	9,315
Maintenance	3,806	3,913			3,806	3,913
Other (*)	1,185	1,304			1,185	1,304
Total IBERIA	**16,662**	**17,999**	**5,638**	**5,866**	**22,300**	**23,865**
2007/2006 change (%)	(7.4)		(3.9)		(6.6)	

(*) Including Corporate and Systems Divisions.
From January 2007 the criteria used to calculate the equivalent employees were changed with the purpose of obtaining more representative data. The headcounts for 2006 were recalculated using the new criteria.

The average ground staff workforce of 16,662 equivalent employees in 2007 showed a 7.4% decrease with respect to 2006. Of these, a total of 15,765 employees work in Spain and the remainder (which represent 5.4% of this group) are distributed among the other countries in which the Company operates. In 2007 decreases were recorded in all the areas, in Spain and abroad, resulting from the implementation of the initiatives addressed in the 2006-2007 Master Plan. In the Handling area, there was a significant reduction of 822 equivalent employees (8.8% compared with 2006), due mainly to the early retirements taken in the framework of the collective redundancy procedures, and to the process of subrogation of staff at various airports, following the entry of new operators. Also significant were the reductions, in relative terms, in the Transport area (8.3%) and in the Corporate and Systems areas (9.1% compared with the 2006 average equivalent workforce).

The average flight staff workforce decreased by 3.9% to 5,638 equivalent employees in 2007, representing 25.3% of IBERIA's total workforce. The average number of technical crew members decreased by 3.2% and that of the passenger cabin crew members by 4.2%. The reduction in the latter group was adversely affected by the higher quota of long-haul flights in the operation as a whole, which require the assignment of larger crews than those assigned to short- and medium-haul routes.

In December 2004, the Directorate-General of Employment authorised the extension of collective redundancy procedure 72/01 to 31 December 2007 for IBERIA's ground staff, passenger cabin crew members and flight technicians. Also, in October 2005, the Directorate-General of Employment authorised collective redundancy procedure 35/05, to be applied specifically to employees working in the Handling area. This latter procedure is another tool to enable the Company to make the necessary adjustments to its workforce because of the reorganisation of the Spanish handling market.

In 2007, 1,092 of IBERIA's ground staff employees and 260 passenger cabin crew members left the Company, availing themselves of one or other of the redundancy methods addressed in the collective redundancy procedures, in most cases, early retirement. A further 36 of the ground employees in Spain availed themselves of the National Employment Agreement, and another 73 employed abroad also left the Company. Consequently, in the framework of the initiatives addressed by the Master Plan, a total number of 1,461 employees departed in 2007.

On 27 November 2007, the Directorate-General of Employment authorised the extension of IBERIA's collective redundancy procedure 72/01 to 31 December 2010 for the ground staff. On the same date, the extension of collective redundancy procedure 35/05 to 31 December 2014 was also authorised.

Productivity

In terms of seat-kilometres produced, the productivity of IBERIA's workforce increased by 8.1%, compared with 2006, to 2.98 million ASK per employee in 2007. In the case of ground staff, productivity increased by 9.1%, mainly due to the decrease in the number of equivalent employees over the past two years. Productivity in terms of block hours per crew member increased by 0.7% in the case of technical crews and 1.0% in the case of passenger cabin crews.

The following table details the performance of productivity by group of employees:

Productivity of IBERIA's Employees (*)	2007	2006	% Change
Total workforce (thousands of ASK per employee)	2,980	2,757	8.1
Ground workforce (thousands of ASK per employee)	3,988	3,656	9.1
Group workforce excluding handling (thousands of ASK per employee)	8,135	7,577	7.4
Technical crews (BH per crew member)	275.1	273.3	0.7
Auxiliary crews (BH per crew member)	121.4	120.2	1.0

(*) Productivity data calculated on the basis of equivalent workforce data obtained by the new methods. The 2006 figures were recalculated to achieve uniformity.

Productivity – measured in terms of ASK per employee – of IBERIA's total workforce showed a cumulative increase of 14.7% over the past two years since the beginning of the 2006-2008 Master Plan. In the cumulative figure for 2006 and 2007, economic productivity – measured in terms of operating revenue per employee – increased by 23%, with significant growth (9.7%) recorded in 2007 compared with 2006.

2.3. Earnings

2.3.1. Profit from operations

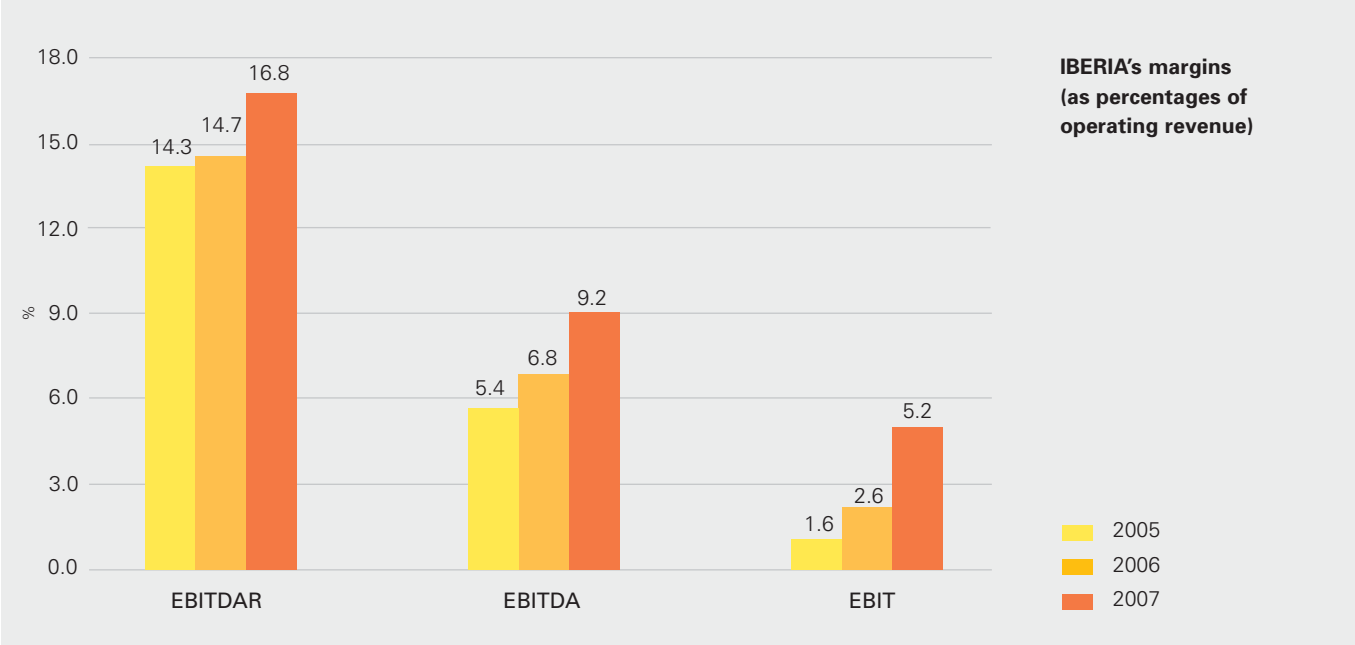
Following are the comparative 2007 and 2006 figures, per IBERIA's management operating statement, which differs from the income statement accompanying the notes to the financial statements, since the various revenue and expense items are aggregated for management purposes:

Millions of Euros

IBERIA	2007	2006	Change 07/06	% Change
Operating revenue				
Passenger revenue	4,275.6	4,174.9	100.6	2.4
Cargo revenue	311.2	301.8	9.5	3.1
Handling revenue	280.0	331.2	(51.2)	(15.5)
Maintenance revenue	273.6	219.0	54.5	24.9
Commercial revenue	84.8	80.1	4.6	5.8
Other operating revenue	268.6	252.4	16.2	6.4
Total operating revenue	**5,493.7**	**5,359.4**	**134.3**	**2.5**
Operating expenses				
Personnel expenses	1,371.6	1,388.9	(17.2)	(1.2)
Fuel	1,150.6	1,173.8	(23.2)	(2.0)
Traffic services	449.0	454.3	(5.3)	(1.2)
Aircraft lease expenses	420.5	424.5	(4.0)	(1.0)
Aircraft maintenance	409.0	337.8	71.3	21.1
Navigation charges	274.1	285.8	(11.7)	(4.1)
Commercial expenses	242.7	247.7	(5.0)	(2.0)
Depreciation and amortization	221.5	224.4	(2.9)	(1.3)
Booking systems	144.5	147.8	(3.2)	(2.2)
In-flight services	93.9	87.4	6.5	7.4
Indemnity payments for passengers and baggage	37.0	51.6	(14.7)	(28.4)
Insurance	18.3	29.6	(11.3)	(38.1)
Other operating expenses	377.3	364.8	12.6	3.4
Total operating expenses	**5,210.1**	**5,218.3**	**(8.2)**	**(0.2)**
Profit from operations	**283.6**	**141.1**	**142.5**	**101.0**
EBITDAR	**925.7**	**790.1**	**135.6**	**17.2**
EBITDA	**505.2**	**365.5**	**139.6**	**38.2**

IBERIA's profit from operations amounted to EUR 283.6 million in 2007, exceeding the 2006 figure by EUR 142.5 million, a 101% increase. Profit from operations represented 5.2% of operating revenue, double that recorded in 2006 (2.6%), due mainly to effective implementation of the measures established in the 2006-2008 Master Plan.

EBITDA (profit from operations excluding the depreciation and amortization charge) increased by 38.2% compared with 2006. EBITDAR (profit from operations excluding the depreciation and amortization charge and aircraft leases) generated by IBERIA was EUR 925.7 million in 2007, up 17.2% on 2006. EBITDAR as a percentage of revenue reached 16.8%, a 2.1% improvement on 2006.



Operating revenue

IBERIA's operating revenue amounted to EUR 5,493.7 in 2007, surpassing the 2006 figure by 2.5%. The same increase was recorded for the aggregate passenger and cargo revenue, which amounted to EUR 4,586.8 million and represented 83.5% of the total operating revenue. Other revenue amounted to an aggregate EUR 906.9 million in 2007, a 2.7% increase compared with 2006. As was the case in 2006, revenue generated by maintenance services to other airlines grew significantly, by 24.9% in 2007.

Passenger revenue amounted to EUR 4,275.6 million, an increase of EUR 100.6 million (2.4%) compared with 2006, despite suffering the impact of the falling US dollar against the euro, which reduced the inter-annual increase by more than two percentage points.

The difference between the amount of passenger revenue in the operating statement and the amount in the tables of "Key Data" and "Passenger Traffic Revenue" (section 2.1.1.) is explained by the fact that the latter relates directly to the actual production in each year, excluding accounting adjustments and revaluations, and also the revenue arising from the unused ticket recovery process, which is included in the figure in the operating statement.

In the network as a whole, passenger revenue from tickets effectively used amounted to EUR 4,034.2 million in 2007, exceeding the 2006 figure by EUR 71 million. EUR 17.8 million of the increase was due to the growth in traffic (3.3%), which was mainly driven by the improvement in the load factor (1.8 points). The performance of the average revenue was adversely affected by the growth in the average stage length (6.9%) and by the depreciation of other currencies - mainly the dollar - against the euro. The last of these factors subtracted EUR 90.8 million from the increase in these revenue in 2007. The unit passenger revenue stood at 6.07 euro cents per ASK, 0.8% higher than that of 2006.

The aggregate amount of other passenger revenue (not linked to the activity) stood at EUR 241.3 million in 2007, EUR 29.6 million above the 2006 figure, partly due to the increase in the revenue from the unused ticket recovery process (EUR 18.5 million).

IBERIA's cargo revenue (including the billings for goods and mail transport, fuel and security charges or surcharges and excess baggage revenue) amounted to EUR 311.2 million in 2007, up 3.1% on 2006. The number of tonne-kilometres carried by IBERIA increased by 9.5%, and the average revenue (per RTK) dropped by 5.1% across the network, adversely affected by the depreciation of the US dollar and the increase in the cargo average stage length (5.4%).

Revenue from ground handling services provided to other airlines' passengers and aircraft amounted to EUR 280 million, down 15.5% from 2006, due to lower activity and the decrease in the unit revenue, as a result of the entry of a larger number of ramp-handling operators at Spanish airports at the beginning of 2007 following the award of new licences, and the concomitant increase in competition.

Revenue from maintenance services to other airlines amounted to EUR 273.6 million, which exceeded the 2006 figure by EUR 54.5 million. The revenue increase related mainly to technical assistance at workshops, due to a larger volume of activity. Noteworthy was the increase in revenue from engine inspections, especially of the RB211 and CFM 56 models.

Revenue from passenger and cargo sales commissions, together with various other commissions, stood at EUR 84.8 million in 2007, EUR 4.6 million (5.8%) more than the 2006 figure.

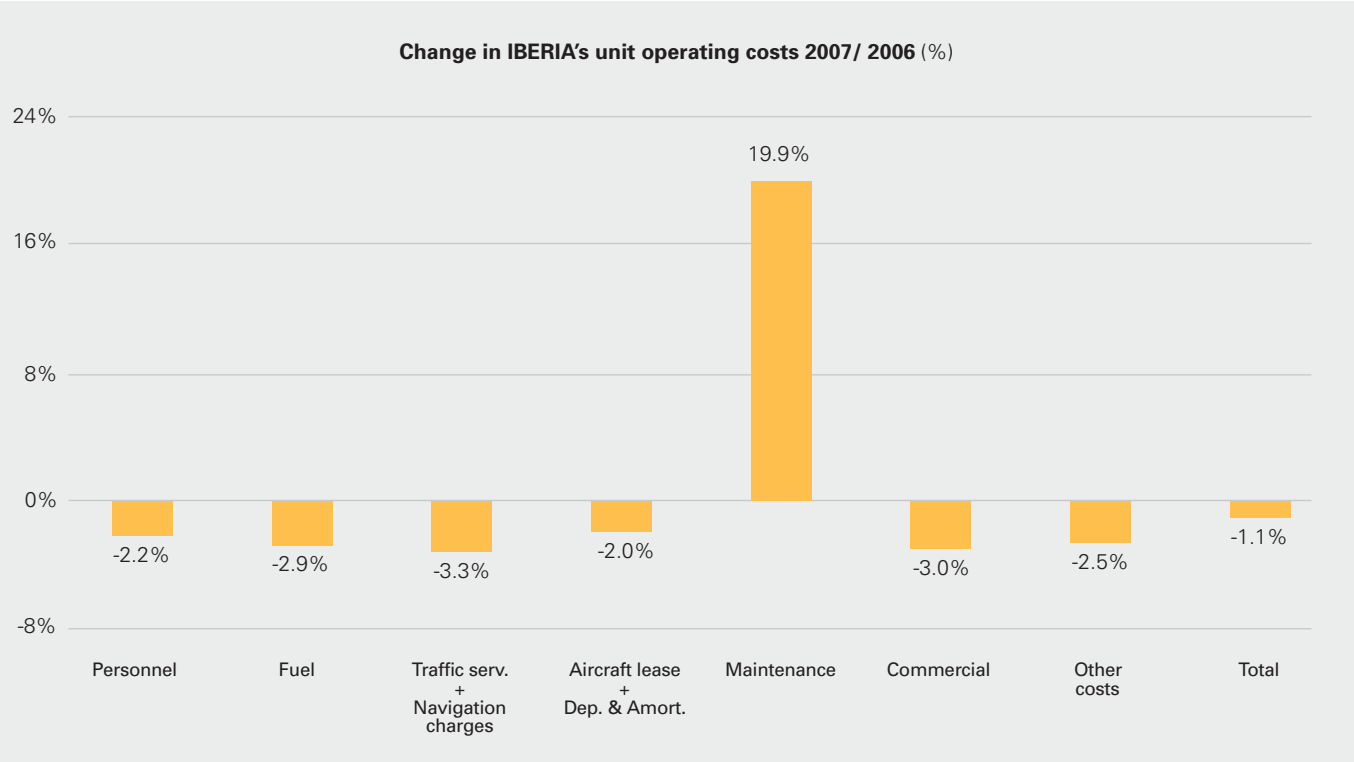
The aggregate amount of other operating revenue was EUR 268.6 million in 2007, up 6.4% on 2006. Noteworthy among the items included under this heading were: revenue from using the Amadeus booking system, which amounted to EUR 50.2 million; revenue from the Iberia Plus programme and Frequent Flyer agreements entered into with other airlines, most of them members of the oneworld alliance, the aggregate amount of which exceeded EUR 41 million in 2007; revenue from leases (mainly aircraft and engines) which amounted to 24.4 million; and last, but not least, new revenue amounting to EUR 13.4 million, due to the recovery of the expenses relating to the transfer of IBERIA staff to the joint venture performing handling services at Barcelona airport.

"Other Operating Revenue" includes the accounts "Adjustment of Traffic Revenue Not Allocable to Passenger Routes" and "Other Traffic Revenue", which are included under "Passenger Revenue" in the notes to the financial statements. Also, this heading includes "Adjustment of Traffic Revenue Not Allocable to Passenger Routes" for cargo, which appears as "Cargo Revenue" in the notes to the financial statements.

Operating expenses

IBERIA's operating expenses amounted to EUR 5,210.1 million in 2007, down 0.2% from 2006. Most of the expense items decreased, due mainly to the implementation of the measures established in the 2006-2008 Master Plan, and considerable savings were obtained from the workforce reduction and network restructuring measures. The depreciation of the US dollar against the euro also helped to reduce operating costs. The positive effect of these factors was partially offset by the price increases (with the concomitant impact on ground personnel expenses) and the repercussion on costs of the strong increase in the aircraft maintenance service provided to third parties.

Unit operating cost decreased by 1.1% from the 2006 figure, to stand at 7.84 euro cents per ASK. Excluding the fuel cost in the two years, the reduction was at 0.6%.



IBERIA's personnel expenses, which represented 26.3% of the total operating expenses, fell to EUR 1,371.6 million, down 1.2% from 2006, due to the 6.6% reduction in the average workforce, due mainly to the implementation of the initiatives addressed in the Master Plan. Of this amount, EUR 1,038.5 million related to wages, salaries and other similar costs and the other EUR 331.1 million to social security costs, contributions to employee funds and other employee benefit costs. The savings obtained from the reduction of the workforce were partially offset by the impact of the measures addressed in the collective labour agreements and other agreements with staff: ground staff salary revision based on the CPI (representing a 2.1% increase in total personnel expenses), earnings-based nonconsolidable payments (2.5%) and wage drift (seniority, progression, etc.). The staff unit cost (per ASK) fell by 2.2%, thus fulfilling one of the main objectives defined in the 2006-2008 Master Plan.

The fuel expense amounted to EUR 1,150.6 million in 2007, representing a 2.0% decrease with respect to 2006 and 22.1% of IBERIA's operating costs. The following table shows the detail of the items that were involved in this decrease:

Millions of Euros

	Causes of the change in the fuel expense				Total Change
	Price (*)	**Volume**	**Exchange rate (*)**	**Efficiency**	**2007/2006**
IBERIA	68.6	9.5	(75.7)	(25.6)	(23.2)

(*) The changes due to price and exchange rate include the effect of hedges.

Two factors contributed to this decrease of EUR 23.2 million with respect to the expense recognised in 2006: the depreciation of the US dollar against the euro which lowered the expense by nearly EUR 76 million (after including the effect of the exchange rate hedges), and the lower unit consumption of the fleet whose increased efficiency brought the cost down by EUR 25.6 million. These positive effects were partly offset by the impact of the rise in the aviation kerosene price after hedges (EUR 68.6 million) and, to a lesser extent, by the increase in activity (EUR 9.5 million).

The reference crude oil prices in the international markets gradually rose in the first half of 2007, although they moved at lower levels than those recorded in the same period of 2006. However, prices climbed rapidly from July, and a sharp year-on-year increase was recorded in the last quarter of the year.

IBERIA manages the cost of aviation fuel through active risk control policies, which take the form of fuel price hedges. These hedges cushioned a portion of the impact of the rise in prices on the international markets, permitting a reduction in the fuel expense of EUR 17.8 million for the twelve months of 2007 taken as a whole. All this took the unit fuel price in 2007 to 1.73 euro cents per ASK, down 2.9% from 2006.

The traffic services cost amounted to EUR 449 million in 2007, somewhat lower than that of 2006 (1.2%). Landing fees decreased (5.7%), thanks to a smaller number of flights, as did other operating costs, with a notable reduction (19.6%) in the costs incurred on incidents (discontinued flights, connection losses and baggage deliveries). These reductions were partly offset by the increase in aircraft dispatch expenses (4.6% compared with 2006) due, to some extent, to the provision of the service from February 2007 by other new concession-holders at the Barcelona, Lanzarote and Fuerteventura airports, whereas in 2006 over 80% of the cost of these services was included in personnel expenses, since they were performed by Iberia itself. The unit cost of traffic services was 0.68 euro cents per ASK, down 2.1% from 2006.

The aircraft lease expense amounted to EUR 420.5 million, EUR 4 million (1.0%) lower than that recognised in 2006. The passenger aircraft lease cost was EUR 6.6 million lower than that of 2006 (representing a 1.6% reduction), mainly due to a 10.3% decline in the wet lease cost, resulting from the decrease in the number of block hours operated and the restructuring of the operation under these types of contracts. Additionally, the operating lease expense dropped by 0.4%, due to the reduction in the number of leased aircraft. These lower expenses were offset to some extent by the increase in the cargo aircraft lease cost, which rose by EUR 2.6 million (20.3%) from 2006, due to a 3.0% increase in the number of block hours leased, partly to make up for the withdrawal of an A340 on the Canary Island routes in June, and because of the change in the type of leased cargo aircraft (the former DC-8 were replaced by more efficient B-757 cargo aircraft). The aircraft lease unit cost was 0.63 euro cents per ASK, 1.9% lower than in 2006.

The aircraft maintenance expense amounted to EUR 409 million in 2007, increasing by EUR 71.3 million (21.1%) with respect to 2006, mainly due to the higher volume of work performed for other airlines, the billings for which rose by 24.9%. The breakdown by type of expense of this increase compared with 2006 is as follows: aircraft spare parts, EUR 15 million; outside aircraft repair and upkeep services, EUR 55.1 million, and the charge to the provision for major repairs, EUR 1.2 million. In the management operating statement the maintenance cost includes a charge for obsolescence of aircraft spare parts amounting to EUR 4.1 million in 2007, which in IBERIA's financial statements is included under "Other Operating Expenses – Other".

The unit maintenance cost of IBERIA's own aircraft rose by 9.9% compared with 2006, largely due to the increase in jobs relating to the returns of aircraft in the first part of the year, which occurred simultaneously with the performance of a high number of aircraft and engine inspections, some in advance of schedule, which led to a sudden strong increase in external service contracts.

The cost of air traffic control services decreased by EUR 11.7 million (4.1%) compared with 2006 to stand at EUR 274.1 million in 2007. The cost of in-flight navigation assistance services dropped by EUR 7.4 million and airport approach rates fell by EUR 4.3 million, in this case assisted by the lower number of flights operated in Spain, whose airports present a better unit price in this connection. The Spanish airport approach unit rates increased by 3% in 2007 compared with 2006. Eurocontrol's navigation charges for the ten main countries over which IBERIA flies rose by an average 1.2% compared with 2006. The unit cost per ASK dropped by 5.0% to 0.41 euro cents.

Commercial expenses (commissions, advertising, promotional expenses and development expenditure) amounted to EUR 242.7 million in 2007, down 2.0% from 2006, thanks to the 10.7% decrease in the commission expense, mainly due to the 0.4% reduction in the fixed commission offered to Spanish agencies from January 2007 (compared with 1% in 2006), and to the extension to most of the international markets of the zero commission model. The aggregate amount of the remaining commercial costs (expenses for advertising, promotion and performance of agreements) increased by 5.0% with respect to 2006. The unit commercial cost decreased by 3.0% to 0.37 euro cents per ASK in 2007.

The depreciation and amortization charge decreased by 1.3% (EUR 2.9 million) compared with 2006; most of this decrease was due to the smaller number of proprietary aircraft.

The in-flight services costs increased by EUR 6.5 million compared with 2006, representing a 7.4% increase, due to the growth in the number of passengers on the long-haul route (8.1%) and, especially, to the increase in the number of Business Plus class passengers (18.8%).

The Company managed to reduce to EUR 37 million the expenditure relating to indemnity payments for passengers and baggage, which was EUR 14.7 million (28.4%) lower than the 2006 figure. In the first few months of 2006, the cost was affected by initial operating problems, following the opening of the T4 terminal of the Madrid-Barajas airport.

The insurance expense, at EUR 18.3 million, was EUR 11.3 million (38.1%) lower than that of 2006, due to the reduction in the number of aircraft in operation, to the decrease in the volume of risk variables and, to a lesser extent, to the depreciation of the US dollar. The market trend in premiums and capacity and the risk placement strategy enabled the Company to improve its aviation policy costs and coverage.

2.3.2. Other profits or losses

IBERIA obtained profit before tax amounting to EUR 447.7 million in 2007 (2006: 185.1 million), up 141.8% on the previous year, thanks to the notable increase in operating profit and financial profit, as shown in the following table:

Millions of Euros

IBERIA	2007	2006	Change 07/06	% Change
Profit from operations	283.6	141.1	142.5	101.0
Finance revenue	224.1	88.5	135.6	153.1
Finance costs	60.8	54.4	6.4	11.7
Foreign exchange differences (gains and losses)	(3.1)	(1.1)	(2.0)	185.5
Net financial profit	160.2	33.0	127.2	n.m.
Extraordinary revenue	121.5	81.4	40.2	49.4
Extraordinary expenses	117.7	70.4	47.3	67.3
Net extraordinary profit	3.8	11.0	(7.2)	(65.2)
Profit before taxes	447.7	185.1	262.6	141.8
Taxes	(124.7)	(99.9)	(24.8)	24.9
Profit for the year	322.9	85.2	237.7	279.0
Profit for the year (before tax adjustments)	322.9	125.6	197.3	157.0

n.m.: not meaningful.

In 2007 net financial profit amounted to EUR 160.2 million, compared with the EUR 33 million recognised in 2006, due to the increase in finance revenue which exceeded the previous year's figure by EUR 135.6 million to reach EUR 224.1 million. This sharp increase in finance revenue (153.1%) was mainly due to the recognition of a gain of EUR 97 million in the individual financial statements, obtained on the refund of contributions to the shareholders and the sale of some of the shares held by IBERIA in Wam Acquisition S.A., as a result of the recapitalisation transaction at this company. Finance revenue also increased due to higher interest on short-term deposits, in turn caused by an increase in the average available balance and the rise in the interest rates. Finance costs increased by 11.7% compared with 2006, to stand at EUR 60.8 million in 2007, affected by the rise in the interest rates.

Extraordinary revenue amounted to EUR 121.5 million in 2007, an improvement of EUR 40.2 million on 2006. This figure includes gains on disposals of intangible assets, tangible fixed assets and the control portfolio amounting to EUR 107.4 million, most of which (over EUR 70 million) originated from various transactions involving aircraft: capital gains on sale and lease back transactions; the sale of the first MD-87 units (under the contract entered into in February 2007, which addressed the staggered sale of the entire MD fleet over 30 months); and the gains on the disposal of various engines of the aircraft being phased out (B-757 and B-747). Additionally, an extraordinary gain of EUR 25.4 million was recognised, relating to the final settlement of AENA's expropriation in 1999 of certain land lots in La Muñoza, the price of which was challenged by the Company in court until October 2007. Another significant item was again of EUR 5.5 million on the conclusion, per the conditions agreed on, of the sale of the SAVIA trademark made two years earlier.

Extraordinary revenue in 2006 (EUR 81.4 million) included EUR 53.3 million for the recovery of goodwill on engine repairable parts, and a gain of EUR 14.7 million arising from final settlement of the sale of Iberia's stake in Musini (SEPI's former insurance company partially owned by IBERIA).

Extraordinary expenses in 2007 amounted to EUR 117.7 million, exceeding the 2006 figure by EUR 47.3 million. 2007 expenses included EUR 64 million relating to the charges to the provision recognised by the Company to cover the possible expenses of renewing and updating the collective redundancy procedure. Another EUR 10.4 million related to the return of aircraft under the short- and medium-haul fleet renewal plan. The 2006 amount included extraordinary provisions of EUR 25.8 million for the collective redundancy procedure and EUR 26.4 million for inventory obsolescence (engine repairable parts).

Law 35/2006, which includes a partial modification of Spanish Corporation Tax, whereby the standard income tax rate was reduced from 35% to 32.5% in 2007 and to 30% from 2008 onwards, was enacted on 28 November 2006. The Company recognised an income tax expense of EUR 124.7 million in 2007 (2006: EUR 99.9 million), which included EUR 40.4 million arising from an adjustment due to the restatement of tax assets.

IBERIA obtained a Profit for the year of EUR 322.9 million in 2007, EUR 197.3 million higher than that obtained in 2006 (excluding the aforementioned tax adjustment).

2.4. Balance sheet

At 31 December 2007, IBERIA's equity amounted to EUR 1,980.7 million, a EUR 297.6 million increase with respect to the 2006 figure, mainly due to the noteworthy rise in profit for the year, which exceeded the prior year's figure by EUR 237.7 million.

Long-term provisions for contingencies and charges amounted to EUR 1,403.8 million at 2007 year-end, up 1.1% on 2006. The detail of the balance at 31 December 2007 is as follows: EUR 640.7 million of provisions for commitments to employees, which include the funds recognised for flight staff assigned to standby duty; EUR 64.3 million of provisions for major aircraft repairs, and nearly EUR 698.8 million of provisions for third-party liability, which include the funds recognised for the restructuring of the workforce (workforce rejuvenation plan and the ongoing and the renewed collective voluntary redundancy procedure). In 2007 EUR 64 million were booked for future expenses associated with the renewal and updating of the collective redundancy procedures.

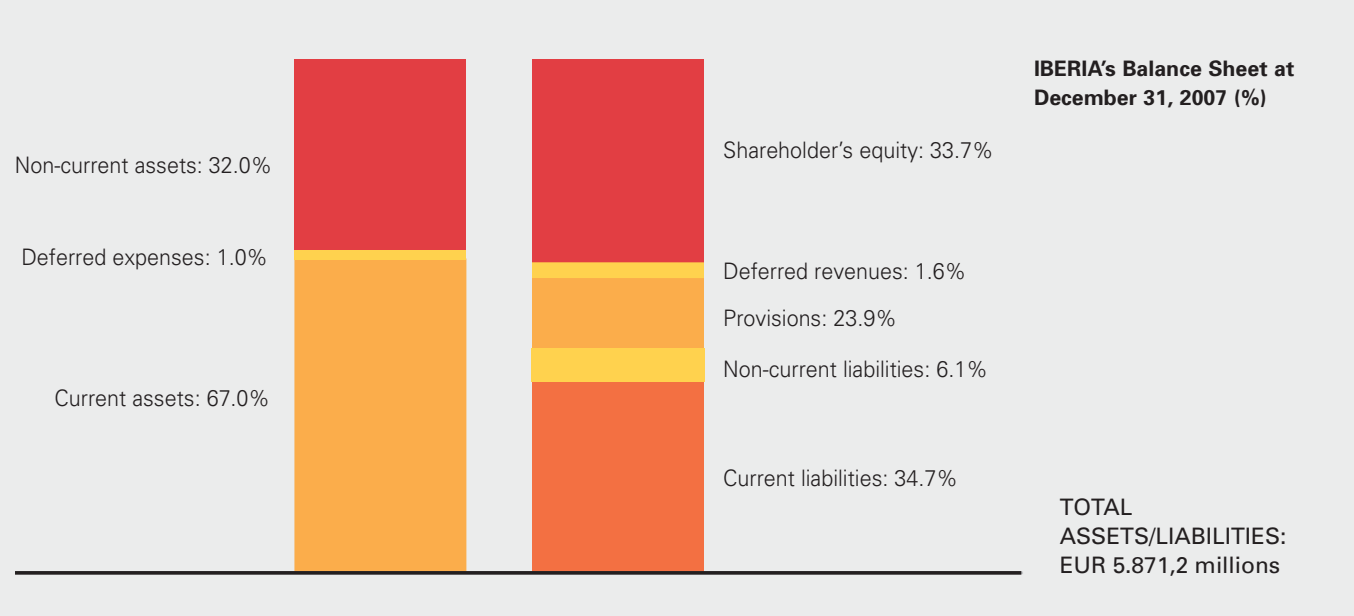
Interest-bearing current and non-current liabilities (issue of convertible debentures and bank borrowings, including interest on finance leases) amounted to EUR 523.3 million at 2007 year-end, a decrease of EUR 273.6 million (34.3%) from the 2006 figure.

The cash balance (current financial assets plus cash) amounted to EUR 2,934.1 million at 2007 year-end, an increase of EUR 522.1 million (21.6%) from 2006 year-end.

IBERIA's net indebtedness continued to improve and was clearly negative, i.e. the balance of the current asset finance accounts exceeded the total of interest-bearing liabilities, excluding interest on finance leases (which amounted to EUR 63.4 million at 31 December 2007). Accordingly, net indebtedness stood at EUR –2,474.2 million at 31 December 2007 (2006: EUR –1,700.1 million). This significant improvement of EUR 774.1 million (45.5%) with respect to 2006 was possible due to the aforementioned increase in the cash balance and the reduction in interest-bearing liabilities (excluding interest), which decreased by EUR 252 million with respect to 2006 year-end. Adjusted net debt, which includes the conversion to equivalent debt of operating lease instalments and other balance-sheet adjustments, amounted to EUR 607.9 million at 2007 year-end, down 55.6% from 2006.

The disposal of aircraft items was the principal reason for the decrease in the balance of "Property, Plant and Equipment, Net" (EUR –78.2 million with respect to 2006), which amounted to EUR 848.9 million at 31 December 2007.

The "Long-Term Investments" balance was down EUR 229.1 million from 2006 year-end, mainly due to the following events: the divestment corresponding to the Iberbus loans which mature in 2008 and finance four A340/300s (in part transferred to short term); the adjustment due to the exchange rate of the balance of these loans; the repayment of the loan granted by IBERIA to Wam Acquisition, S.A. amounting to EUR 47.5 million, and the sale of some of the shares held in this company.



2.5. Outlook

2.5.1. Growth forecast

World economic growth projections for 2008 were revised downwards at the beginning of the year, due to the turbulent situation of the financial markets sparked off in mid-2007, and on the basis of various indicators which confirm a marked slowdown in the economic expansion of certain developed countries, mainly the USA. However, the major emerging economies are expected to maintain their strong dynamism. According to the latest projections of the International Monetary Fund, the growth of the world economy, in terms of gross domestic product, will fall to 4.1% in 2008 from the 4.9% estimated for 2007.

As a result of this economic deceleration, in 2008 passenger air transport will grow at a more restrained pace than in 2007. According to IATA's latest projections, international travel will increase on average by around 5% in 2008 (2007: 7.4%). IATA also considers that it will be difficult for the aviation industry to continue improving the passenger load factor, which was one of the factors that bolstered revenues in 2007, because the rate of deliveries of new aircraft will probably speed up over the next two years.

In the area of international air cargo transport, IATA forecasts growth of around 4%-4.5% for the whole of 2008, similar to the 4.3% recorded in 2007.

According to IATA, in 2008 the growth of aviation revenue will slow down to 4.7%. In 2006 and 2007 strong economic growth enabled the companies to increase their unit revenue and offset the impact of the fuel increase. However, it will be difficult to maintain the yield increases if demand growth slackens and the capacity offered increases at a faster rate. Thus, IATA forecasts that, for the second consecutive year, the industry will obtain profits in 2008 which, at approximately USD 5,000 million, will be below those estimated for 2007.

An important event for European and US airlines was the entry into force on 31 March 2008 of the agreement to liberalise international routes between the European Union (EU) and the United States (US). Since this "Open Skies" agreement, recognises the concept of an "EU operator", any company in the 27 EU states will be able to fly to the US from any point in the EU and vice versa. Until now, Spain and certain other EU countries had restricted traffic rights on flights to the US; consequently, the agreement will foster the development of traffic between Spain and the US. In the mid-term, more competition is expected on transatlantic routes and this new regulatory framework is likely to facilitate future merger or acquisition agreements between airlines.

In the transport business, the Company will continue to strengthen the network operation at the Madrid-Barajas hub, and will complete the short- and medium-haul network restructuring process. Thus, although IBERIA expects to maintain a total supply volume (measured in ASK) in 2008 similar to that of 2007, there will be a significant increase in available capacity on flights into and out of Madrid, mainly on European connecting flights which provide traffic to the long-haul segment. This segment will experience modest growth in supply (approximately 2.6% compared with 2007).

To make good use of the potential advantage afforded by the aforementioned "Open Skies" agreement, IBERIA and American Airlines signed an agreement of intentions in July 2007, aimed at expanding their joint business and operations in the North Atlantic area. Simultaneously, the two companies and their oneworld allies Finnair, Malev and Royal Jordanian signed a multilateral cooperation framework agreement of a similar scope. The two agreements were presented to the US Department of Transport to obtain anti-monopoly immunity so that these activities could be coordinated.

In accordance with its short- and medium-haul aircraft renewal plan, IBERIA expects to carry on incorporating new units of the Airbus A-320 family during 2008, continuing the process of replacing the oldest aircraft and permitting the retirement of the MD aircraft. The Company estimates that it will have a total of 126 operating aircraft at year-end, with a significant increase in average fleet productivity. In any case, IBERIA has various options in the agreement entered into with Airbus, which together with the aircraft contracted under wet lease, provide it with ample flexibility to adjust its capacity to changes in the market.

In the area of maintenance services to other airlines, IBERIA plans to continue increasing production and billings, exceeding the objectives established in the Master Plan.

In 2008 the Handling area will continue to execute commercial activities, optimise the use of resources and reduce expenses, to offset the impact of the sharp rise in competition since February 2007, with the concomitant reduction of margins.

2.5.2. Description of main risks and uncertainties

In view of growing uncertainty as to how the economic environment and the market will evolve, management of the Company will continue to be based on three key aspects: focus on the customer, adaptability to change, and permanent cost-cutting efforts.

Oil and oil by-product prices will continue to be a determining factor for airlines' profitability. Most of the specialised analysts consider that world demand for petrol will continue to escalate rapidly in 2008, assuming that the major emerging economies (especially China, India, and countries of the Middle East) maintain their vigour, while the increase in production will continue to be limited by various conditions. Consequently, fuel prices are expected to remain high and unstable over the next few months. The Company has developed a complex structure of fuel price hedges for the coming quarters, through the use of various financial instruments.

The situation of strong competition in the European aviation market and, especially, in Spain, has affected the financial situation of certain rival airlines, which could eventually lead to acquisition or merger agreements in the industry.

Also of note is the current development of the high-speed rail network in Spain. In December 2007 the corridors linking Madrid with Malaga and Valladolid came into operation, and February 2008 saw the first high-speed train operating between Barcelona and Madrid. The last of these lines, especially, will have an impact on the high volume of air traffic between the two cities. IBERIA will therefore reorganise the total capacity available on this route (Puente Aéreo and pre-booked flights) maintaining a frequency structure similar to the current one, and using lower capacity aircraft on some of the routes. Additionally, the Company will develop a sales plan which will make the product more appealing for its customers. This plan will be supported by Group's future location in the new terminal area (T-Sur) of the El Prat airport from the first quarter of 2009.

On 31 December 2007, the Collective Labour Agreement covering IBERIA's ground staff expired. Accordingly, in 2008 Company management will have to reach agreements with the labour union representatives to renew this collective labour agreement. It will also hold negotiations with the new representatives of the technical crew group in order to reach a consensus on the terms of the new collective labour agreement. Productivity increases and salary restraint will continue to be the priorities targeted by these negotiations. The 15th Collective Labour Agreement covering passenger cabin crew members has been renewed to the end of 2008.

3. Management of non-operating risks

In order to control and limit the potential impact of exchange rate, interest rate and fuel price fluctuations on the Company's earnings, IBERIA has in place a global non-operating risk management programme.

To achieve this objective and within the framework established for the arrangement of hedges in accordance with International Accounting Standards, IBERIA uses a VaR (Value at Risk) model with the aim of making a probabilistic assessment of the possible effect of market variables on its earnings, and defines the maximum objectives of volatility and the Hedging Programme required to attain it.

The following three sections describe the Company's Hedging Programme.

3.1. Exchange rate risk

Due to the nature of its activities, IBERIA is exposed to exchange rate risk, at both operating (cash flows) and balance sheet level. The detail of the main hedging transactions in US dollars is as follows:

Cash flows

The Company took a short dollar-position of approximately USD 925 million in 2007, since US dollar revenue (22.8% of the total) was lower than expenses in US dollars (37.2% of the total).

In accordance with the Hedging Programme, this position is covered as follows:

- Up to 50% by strategic hedging of up to a five-year term, by means of swaps of aircraft lease income denominated in US dollars with euros.
- The remaining percentage is managed through tactical transactions with a time horizon of between one and three years, which can be adapted to market trends and which are also associated with the Company's actual flows of US dollar payments.

At 31 December 2007, IBERIA had hedged 70% of its US dollar cash flow position for 2008 and 45% of the 2009 position.

Balance sheet

The Company has assets denominated in US dollars amounting to USD 571 million, as a result of the loans granted to Iberbus companies, the advances paid to aircraft and engine suppliers, the equities of the A-320 aircraft and guarantees. It also has a liability position in dollars amounting to USD 421 million which, together with arranged swaps, enables the Company to neutralise the effect of the translation differences.

Aircraft additions

In order to limit the volatility of currency markets and the impact thereof on the financing or acquisition of new aircraft, the Company hedges the exchange rate risk relating to aircraft financing/acquisition/additions through forward purchase transactions and option structures that make it possible to assure a certain level or range. The addition of new aircraft projected for 2008 generated a short position of USD 78 million at 2007 year-end, which is hedged 45%.

3.2. Interest rate risk

Although IBERIA has negative net debt in its balance sheet, if the notional debt relating to operating lease payments (multiplying by eight the aircraft lease payments) is included, the adjusted total net debt amounts to EUR 608 million in its individual financial statements. At 31 December 2007, the Company maintained 55% of the adjusted gross debt at a fixed interest rate, 5% at a floating interest rate with protection and the remaining 40% at a variable interest rate.

Sensitivity to a 1% rise in euro interest rates is positive by EUR 24.4 million, due to the Company's cash position. However, sensitivity to a 1% rise in dollar interest rates is negative by EUR 10.2 million.

Liquidity risk

At 31 December 2007, IBERIA maintained an equivalent cash position amounting to EUR 2,934.1 million (cash plus current financial assets) in its individual financial statements, which is invested in highly liquid short-term instruments, debt repos, Eurodeposits, and commercial paper transacted through leading financial institutions, in accordance with the prevailing risk policy. The portfolio matures at a maximum of seven months.

Apart from the current financial assets and the cash position, the Company has credit facilities amounting to EUR 190 million that guarantee its liquidity requirements.

3.3. Fuel price risk

IBERIA controls the cost of aviation fuel, which is directly linked to changes in oil prices, through active risk management policies in order to mitigate the impact of fluctuations in the price of kerosene in the international market and limit deviations from the Company's budget in this respect.

The Company has directly hedged the price of kerosene using a combination of financial tools, such as, inter alia, swaps and cap and collar options.

In 2007, the price of fuel spiralled and once again exceeded the all-time highs experienced in 2006. In the last quarter of the year, the reference price of Brent crude hovered above USD 80, ultimately exceeding USD 96 per barrel. The hedges of the price of fuel covered around 50% of the volume consumed over the year. In the year as a whole, the average final price for IBERIA, after hedges, was around USD 68 per equivalent barrel.

IBERIA consumes slightly more than two million metric tonnes per year, equivalent to over 2,500 million litres of kerosene, at current production levels. This volume, measured at the average price for 2007, entailed an expense of EUR 1,150.6 million in the Company's individual financial statements. The price hedges arranged enabled the Company to reduce the fuel expense by EUR 17.8 million in 2007, resulting in a cost per ASK of 1.73 euro cents.

4. Responsibility for the environment

In 2007 the Company continued to implement measures aimed at improving its management of environmental issues, as an essential element of its Corporate Responsibility Policy. These activities were performed in keeping with the Agreement promoted by the Committee for Monitoring Social Dialogue in Public Services, which had already been approved in December by the Government and the stakeholders involved.

As regards flight operations, the reduction of the average age of the fleet through the replacement of aircraft, the adoption of new operational measures, and the improvements obtained in the load factors, enabled IBERIA, for yet another year, to reduce sound emissions and emissions affecting climate change. In relation to future European legislation to limit CO_2 emissions in the aviation industry, the Company is in favour of a system that would reward the least polluting companies and, at the same time, provide incentives to those open to further improvement. IBERIA also participates in working groups which, at international level, promote the study and application of cleaner aeronautical technologies and the development of a European air space (Single European Sky) which would considerably reduce greenhouse gas emissions.

In relation to ground operations, in 2007 the Company obtained new ISO 14.001/AENOR certification for its Environmental Management Systems, which include IBERIA's aeronautical maintenance facilities at the Madrid-Barajas airport. With this certificate and those already awarded in the Handling area and in IBERIA's other maintenance facilities in Madrid, all significant environmental aspects of the Company are covered by external certification.

In 2007 IBERIA was listed for the second consecutive year on the select Dow Jones Sustainability Index (DJSI), which assesses the Company's performance in the economic, social and environmental areas. As a result, IBERIA is now one of the 250 leading companies worldwide in matters regarding sustainability. In the airline industry, IBERIA ranked highest, based on 22 criteria referring to, inter alia, risk management, climate change, and the quality of environmental disclosures.

More detailed information on the Company's sustainability management is contained in IBERIA's Social Responsibility Report, which complements this Management Report. The aforementioned Social Responsibility Report received the highest report application level (A+) under the Global Reporting Initiative international standard.

5. Corporate governance information

The 2007 Consolidated Management Report provides information on various matters concerning governance at the Company, pursuant to Article 116 bis of the revised Spanish Securities Market Law.

IBERIA's shareholders and investors can also have access to the Annual Report on Corporate Governance, which the Company has been publishing together with its Financial Report and Corporate Responsibility Report since the 2002 business year.

6. Acquisition of treasury shares

Treasury shares held by the Parent at 31 December 2007 represented 0.845% of share capital and totalled 8,050,000 shares, with an overall par value of EUR 6.3 million and an average acquisition price of EUR 2.3728 per share. IBERIA had set up the related treasury share reserve in its year-end balance sheet.

Additionally, 5,338,628 shares were recorded at the beginning of January, bringing the total number of treasury shares held by the Company to 13,388,628.

Governing Bodies

Board of Directors of Iberia, L.A.E., S.A. at December, 31 2007

CHAIRMAN & CHIEF EXECUTIVE OFFICER
Mr. Fernando Conte García

VICE-PRESIDENT
Mr. Miguel Blesa de la Parra

MEMBERS
Mr. Felipe Benjumea Llorente
Mr. José M. Fernández Norniella
Lord Garel Jones
Inmogestión y Patrimonios, S.A. (1)
Mr. Antonio Masa Godoy
Mr. Roger Paul Maynard
Mr. José Pedro Pérez-Llorca Rodrigo
Mr. Jorge Pont Sánchez
Mr. José B. Terceiro Lomba
Valoración y Control, S.L. (2)

SECRETARY
Ms. Lourdes Máiz Carro

Committees of the Board

EXECUTIVE COMMITTEE
Mr. Fernando Conte García (Chairman)
Mr. Miguel Blesa de la Parra
Mr. Roger Paul Maynard
Mr. José B. Terceiro Lomba
Mr. Rafael Sánchez-Lozano Turmo (on behalf of Valoración y Control S.L.)
Mr. Antonio Masa Godoy
Ms. Lourdes Máiz Carro (Secretary)

AUDIT AND COMPLIANCE COMMITTEE
Mr. José Manuel Fernández Norniella (Chairman)
Mr. José B. Terceiro Lomba
Mr. Alberto Recarte García-Andrade (on behalf of Inmogestión y Patrimonios, S.A.)
Mr. Jorge Pont Sánchez
Ms. Lourdes Máiz Carro (Secretary)

NOMINATION AND REMUNERATION COMMITTEE
Mr. Jorge Pont Sánchez (Chairman)
Mr. José Manuel Fernández Norniella
Mr. Rafael Sánchez-Lozano Turmo (on behalf of Valoración y Control, S.L.)
Mr. José Pedro Pérez-Llorca Rodrigo
Ms. Lourdes Máiz Carro (Secretary)

SAFETY COMMITTEE
Mr. Roger Paul Maynard (Chairman)
Mr. José Pedro Pérez-Llorca Rodrigo
Lord Garel Jones
Mr. Antonio Masa Godoy
Ms. Lourdes Máiz Carro (Secretary)

(1) Represented by Mr. Alberto Recarte García-Andrade
(2) Represented by Mr. Rafael Sánchez-Lozano Turmo

Management Board of Iberia, L.A.E., S.A.

Chairman & Chief Executive Officer
Mr. Fernando Conte García

General Manager of the Airline
Mr. Enrique Donaire Rodríguez

General Manager Maintenance & Engineering
Mr. Manuel A. López Aguilar

General Manager of Airports
Mr. Jose Luis Freire Santos

Manager Legal Dept. & Secretary Board
Ms. Lourdes Máiz Carro

Internal Audit & Quality Manager
Mr. Martín Cuesta Vivar

Corporate Communications Manager
Mr. Luis Díaz Güell

CFO & Corporate Strategy Manager
Mr. Enrique Dupuy de Lôme Chávarri

International Relations Manager
Ms. Elvira Herrero Mateo

Control & Administration Manager
Mr. José Mª Fariza Batanero

Human Resources Manager
Mr. Sergio Turrión Barbado

Shared Services Center Manager
Mr. Juan Losa Montañés

Systems Manager
Mr. Antonio Bugallo Siegel

Production Management Manager
Mr. Juan Manuel Bujía Lorenzo

Commercial Manager
Mr. Manuel López Colmenarejo

Costumer Relationship Manager
Mr. Félix García Viejobueno

Cargo Manager
Mr. Alfonso Fuertes Suárez

Operations Manager
Mr. Ricardo Génova Galván

Inflight Services Manager
Mr. Víctor Sánchez García

Chief Safety Officer
Mr. Jesús de la Morena Bustillo

Financial Statements & Management Report
Iberia Group

Translation of financial statements and a report originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 27). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 27). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Iberia, Líneas Aéreas de España, S.A.:

We have audited the consolidated financial statements of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. AND SUBSIDIARIES comprising the consolidated balance sheet at 31 December 2007 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2007 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2006. Our opinion refers only to the consolidated financial statements for 2007. On 29 March 2007, we issued our auditors' report on the 2006 consolidated financial statements, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated financial statements for 2007 present fairly, in all material respects, the consolidated equity and consolidated financial position of Iberia, Líneas Aéreas de España, S.A. and Subsidiaries at 31 December 2007 and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that of the preceding year.

The accompanying consolidated directors' report for 2007 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2007. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Iberia, Líneas Aéreas de España, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

José Manuel Rodríguez
31 March 2008

Consolidated Financial Statements
Iberia Group

Consolidated balance sheets at December 31, 2007 and 2006

Thousands of Euros

ASSETS	Notes	2007	2006
NON-CURRENT ASSETS:			
Intangible assets	6	50,347	48,853
Property, plant and equipment	7	1,133,666	1,350,909
Aircraft fleet		792,269	998,336
Other property, plant and equipment		341,397	352,573
Investments in associates		15,693	16,750
Non-current financial assets		405,092	623,394
Held-to-maturity investments	8.1.1	25,174	25,174
Loans and receivables	8.1.2	116,418	255,166
Other non-current financial assets	8.1.3	237,885	331,017
Derivative financial instruments	16	25,615	12,037
Deferred tax assets	17	481,307	445,355
Other non-current assets		409	6,075
Total non-current assets		2,086,514	2,491,336
CURRENT ASSETS:			
Inventories		197,230	187,594
Repairable engine spare parts		111,247	111,847
Aircraft spare parts		87,968	63,025
Other inventories		46,926	56,784
Provisions		(48,911)	(44,062)
Accounts receivable	9	720,123	607,292
Current financial assets	8.2	859,769	1,489,334
Other current assets		10,266	11,963
Cash and cash equivalents	10	2,142,931	963,731
Total current assets		3,930,319	3,259,914
TOTAL ASSETS		6,016,833	5,751,250

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheets at 31 December 2007 and 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by European Union (see Notes 3 and 27).

Thousands of Euros

EQUITY AND LIABILITIES	Notes	2007	2006
EQUITY:			
Share capital	11.1	743,269	739,492
Share premium	11.4	119,472	115,405
Reserves of the Parent		817,293	836,645
Legal reserve	11.5	147,898	147,133
Other reserves		1,404	1,404
Reserves generated due to IFRSs		129,114	164,913
Treasury shares	11.2	(19,101)	(13,922)
Voluntary reserves		646,976	595,684
Valuation adjustments	11.8	(88,998)	(58,567)
Reserves at fully consolidated companies	11.6	(12,153)	(16,749)
Reserves at companies accounted for using the equity method	11.7	9,850	6,260
Translation differences		(533)	(361)
Profit attributable to the Parent	20	327,340	56,725
Consolidated profit for the year		327,608	56,969
Profit attributable to minority interests	11.9	(268)	(244)
Equity attributable to shareholders of the Parent		2,004,538	1,737,417
Minority interests	11.9	1,330	1,179
Total equity		2,005,868	1,738,596
NON-CURRENT LIABILITIES:			
Bank borrowings and other financial liabilities	12	77,206	205,248
Non-current obligations under finance leases	13	227,004	276,021
Long-term provisions	14	1,376,997	1,359,057
Deferred tax liabilities	17	1,176	1,915
Deferred income	5.16	97,101	62,468
Other non-current liabilities		116,592	51,709
Total non-current liabilities		1,896,076	1,956,418
CURRENT LIABILITIES:			
Convertible debenture issue		315	10,362
Bank borrowings and other financial liabilities	12	121,030	69,756
Current obligations under finance leases	13	41,506	158,226
Customer advances	5.16	455,366	435,541
Trade and other payables	15	1,496,672	1,382,351
Tax payables	17	161,302	169,141
Other payables		1,335,370	1,213,210
Total current liabilities		2,114,889	2,056,236
TOTAL EQUITY AND LIABILITIES		6,016,833	5,751,250

IBERIA GROUP

Consolidated income statements for 2007 and 2006

Thousands of Euros

	Notes	(Debit) Credit 2007	2006
REVENUE	18.1	5,304,475	5,187,953
Other operating income	18.2	231,305	276,593
Recurring		217,275	199,828
Non-recurring		14,030	76,765
Procurements	19.1	(1,354,192)	(1,405,109)
Recurring		(1,354,192)	(1,378,694)
Non-recurring		-	(26,415)
Staff costs	19.2	(1,444,565)	(1,421,002)
Recurring		(1,380,565)	(1,395,202)
Non-recurring		(64,000)	(25,800)
Depreciation and amortisation charge		(215,208)	(219,371)
Other operating expenses	19.3	(2,305,518)	(2,288,108)
Recurring		(2,288,241)	(2,272,560)
Non-recurring		(17,277)	(15,548)
Net gains on disposal of non-current assets	18.3	196,339	(2,350)
Impairment losses		(126)	6,555
RECURRING ORDINARY PROFIT		283,544	121,954
PROFIT FROM OPERATIONS		412,510	135,161
Finance income	18.4	126,244	88,050
Finance costs	19.4	(59,885)	(60,625)
Exchange differences (gains and losses)		(3,044)	(1,112)
Share of results for the year of associates		(29,531)	4,518
Other income and expenses		150	(799)
PROFIT BEFORE TAX		446,444	165,193
Income tax	17	(118,836)	(49,095)
Negative adjustments to income tax		-	(59,129)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		327,608	56,969
Attributable to:			
Shareholders of the Parent	20	327,340	56,725
Minority interests	11.9	268	244
BASIC EARNINGS PER SHARE (in euros)	11.3	0.346	0.061
DILUTED EARNINGS PER SHARE (in euros)	11,3	0.346	0.060

The accompanying Notes 1 to 27 are an integral part of the consolidated income statements for 2007 and 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by European Union (see Notes 3 and 27).

Consolidated cash flow statements for 2007 and 2006 (Note 26)

Thousands of Euros

	2007	2006
1. OPERATING ACTIVITIES:		
Consolidated profit before tax	446,444	165,193
Adjustments for		
Depreciation and amortisation charge and impairment losses	215,334	219,329
Provisions (net) (+/-)	156,788	107,437
Provisions used (-)	(146,740)	(129,657)
Gains/losses on disposal of property, plant and equipment and intangible assets (+/-)	(101,953)	(24,334)
Gains/losses on disposal of investments (+/-)	(94,386)	-
Result of associates accounted for using the equity method (+/-)	29,531	(4,518)
Gains/losses on hedging transactions (+/-)	7,175	28,889
Effect of foreign exchange rate changes that do not generate *cash flow*	(1,556)	(2,920)
Other *cash flow* adjustments (+/-)	(5,998)	(42,837)
Adjusted profit	504,639	316,582
Net change in assets/liabilities that do not generate cash flow	(54,557)	128,760
Taxes paid	(137,446)	101,105
Total net cash flows from operating activities (I)	312,636	546,447
2. INVESTING ACTIVITIES:		
Net investment		
Net investments in Group companies, jointly controlled entities and associates	(8,835)	(15,683)
Net investments in property, plant and equipment, intangible assets and investment property	182,730	(115,979)
Net investments in non-current financial assets	148,717	
Net investments in investments and other current financial assets	734,910	(294,148)
Net investments in other assets	(19,889)	39,290
	1,037,633	(386,520)
Dividends and interest collected (+)	101,735	55,460
Total net cash flows from investing activities (II)	1,139,368	(331,060)
3. FINANCING ACTIVITIES:		
Dividends paid (-)	(33,262)	(18,727)
Change in bank borrowings (+/-)	(208,276)	(35,538)
Interest paid on debts (-)	(33,925)	(41,661)
Other payables	(9)	435
Capital increase	7,847	7,946
Net change in treasury shares (+/-)	(5,179)	14,450
	(272,804)	(73,095)
Total net cash flows from financing activities (III)	(272,804)	(73,095)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	1,179,200	142,292
Cash and cash equivalents at beginning of year	(963,731)	(821,439)
Cash and cash equivalents at end of year	(2,142,931)	(963,731)

The accompanying Notes 1 to 27 are an integral part of the consolidated cash flow statements for 2007 and 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by European Union (see Notes 3 and 27).

Consolidated statements of changes in equity for 2007 and 2006 (Note 11)

Thousands of Euros

				Reserves of the Parent					
	Share Capital	Share Premium	Adj. of Share Capital to euros	Legal Reserve	Treasury shares	Voluntary reserves	Reserves Arising of IFRS	Other reserve	Valuation adjustments
Balances at December 31, 2005	**735,666**	**111,285**	**1,201**	**104,757**	**(28,372)**	**424,707**	**126,543**	**203**	**3,579**
Distribution of profit:	-	-	-	-	-	-	-	-	-
To reserves	-	-	-	42,376	-	170,977	36,315	-	-
Dividends	-	-	-	-	-	-	-	-	-
Capital increase	3,826	4,120							
Translation differences	-	-	-	-	-	-	-	-	-
Changes in treasury shares	-	-	-	-	14,450	-	(1,228)	-	-
Net profit for 2006	-	-	-	-	-	-	-	-	-
Changes in minority interests (Note 11,9)	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	3,283	-	(62,146)
Balances at December 31, 2006	**739,492**	**115,405**	**1,201**	**147,133**	**(13,922)**	**595,684**	**164,913**	**203**	**(58,567)**
Distribution of profit:									
To reserves	-	-	-	765	-	51,292	(36,664)	-	-
Dividends	-	-	-	-	-	-	-	-	-
Capital increase	3,777	4,067	-	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-	-	-	-
Changes in treasury shares	-	-	-	-	(5,179)	-	-	-	-
Net effect of hedging transactions	-	-	-	-	-	-	-	-	(28,671)
Net profit for 2007	-	-	-	-	-	-	-	-	-
Changes in minority interests (Note 11,9)	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	865	-	(1,760)
Balances at December 31, 2007	**743,269**	**119,472**	**1,201**	**147,898**	**(19,101)**	**646,976**	**129,114**	**203**	**(88,998)**

The accompanying Notes 1 to 27 are an integral part of the consolidated statements of changes in equity for the years ended 31 December 2007 and 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by European Union (see Notes 3 and 27).

Thousands of Euros

Reserves at Consolidated Companies							
Fully consolidated	Equity method	Translation differences	Interim dividen	Profit	Total	Minority interests	Total equity
(12,842)	155,876	(176)	(281,026)	395,789	1,737,190	1,043	1,738,233
-	-	-	-	-	-	-	-
(3,907)	(149,616)	-	-	(96,145)	-	-	-
-	-	-	281,026	(299,644)	(18,618)	-	(18,618)
					7,946		7,946
-	-	(185)	-	-	(185)	-	(185)
-	-	-	-	-	13,222	-	13,222
-	-	-	-	56,725	56,725	244	56,969
-	-	-	-	-	-	(108)	(108)
-	-	-	-	-	(58,863)	-	(58,863)
(16,749)	6,260	(361)	-	56,725	1,737,417	1,179	1,738,596
4,596	3,590	-	-	(23,579)	-	-	-
-	-	-	-	(33,146)	(33,146)	-	(33,146)
-	-	-	-	-	7,844		7,844
-	-	(172)	-	-	(172)	-	(172)
-	-	-	-	-	(5,179)	-	(5,179)
-	-	-	-	-	(28,671)	-	(28,671)
-	-	-	-	327,340	327,340	268	327,608
-	-	-	-	-	-	(117)	(117)
-	-	-	-	-	(895)	-	(895)
(12,153)	9,850	(533)	-	327,340	2,004,538	1,330	2,005,868

Notes to the Consolidated Financial Statements for 2007 and 2006, prepared in accordance with International Financial Reporting Standards (IFRSs) Iberia Group

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 27). In the event of a discrepancy, the Spanish-language version prevails.

1. Activity of the Parent and the Group

Iberia, Líneas Aéreas de España, S.A. engages mainly in the air transport of passengers and freight and also performs other complementary activities, the most noteworthy of which include assistance for passengers and aircraft at airports and aircraft maintenance.

As a carrier of passengers and cargo, Iberia, Líneas Aéreas de España, S.A. operates through a large network serving three main markets: Spain, Europe and the Americas.

Iberia, Líneas Aéreas de España, S.A. is a fully-fledged member of the Oneworld alliance, one of the world's largest airline groups, which facilitates the globalisation of its air transport business.

In addition to the activities carried out directly by Iberia, Líneas Aéreas de España, S.A. and for the purpose of complementing them or developing transport-related business activities, various companies have been incorporated which compose the Iberia Group of which Iberia, Líneas Aéreas de España, S.A. is the Parent.

The registered office of Iberia, Líneas Aéreas de España, S.A. is located in Madrid and since April 2001, its shares have beenlisted on the stock market.

2. Group companies

2.1 Subsidiaries

Subsidiaries are defined as companies in which Iberia, Líneas Aéreas de España, S.A., as the Parent, owns directly or indirectly more than 50% of the share capital and, accordingly, has the capacity to exercise effective control thereon.

The fully consolidated companies composing the Iberia Group, their main business activity and the ownership interests held by the Parent therein are as follows:

- Cargosur, S.A. (investments in companies), VIVA Vuelos Internacionales de Vacaciones, S.A. (aircraft maintenance), Campos Velázquez, S.A. (acquisition of urban property), Iberia Tecnología, S.A. (aircraft maintenance), Consultores Hansa, S.A. (market consultancy services), Binter Finance B.V. (financing and cash), and Iberia Mantenimiento Barcelona, S.R.L. (aircraft maintenance). Iberia, Líneas Aéreas de España, S.A. has a 100% direct or indirect ownership interest in these companies.
- Compañía Auxiliar al Cargo Exprés, S.A. (cargo transport) and Auxiliar Logística Aeroportuaria, S.A. (cargo transport), in which it has a direct or indirect ownership interest of 75%.

Notes 11.6 and 20 to the consolidated financial statements show the contributions made by these companies to Group reserves and profit. The assets contributed by these companies are not material.

2.2 Associates

Associates are companies over which the Parent exercises significant influence, i.e. it has the power to participate in decisions regarding the investee's financial and operational policies, but not control. In general, the Group considers that it has significant influence when its ownership interest in the subsidiary is 20% or more.

Exceptionally, the Iberbús companies (see Note 8.1.1), in which the Group owns more than 20% of the voting rights, are not considered to be associates and, accordingly, are not consolidated, since the commitments undertaken by the majority shareholder, Airbus, guarantee that Iberia, Líneas Aéreas de España, S.A., a minority shareholder of and lender to these companies, will recover its investment in full.

The associates, their main business activity and the ownership interests held by the Parent therein are as follows: 43.5% of Iberia Cards (issue and management of payment instruments), 49% of Multiservicios Aeroportuarios, S.A. (airport-related ancillary services), 49% of Iber-América Aerospace, LLC (purchase and sale of aircraft parts and engines), 50% of Empresa Logística de Carga Aérea, S.A. (operation of a freight terminal at Havana airport), 50% of Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A. (aircraft maintenance), 51% of Handling Guinea Ecuatorial, S.A. (HANGESA) (handling services operator in Malabo), 25% of Air Miles Group (Multisectoral loyalty building), 39% of Serpista, S.A. (airport equipment maintenance), 49% of International Supply Management, S.L. (Marketing of chemicals), 40% of Noamar Air Handling Holdco N. V. and 20% of Clickair, S.A. (passenger transport). The interest in the dividend rights of Clickair, S.A. amounts to 80%.

Notes 11.7 and 20 to the accompanying consolidated financial statements show the contributions made by these companies to Group reserves and profit.

Changes in the scope of consolidation

In 2006 Iberia, Líneas Aéreas de España, S. A. incorporated Clickair, S.A. with other shareholders. The ownership interest held by the Parent in the share capital of the subsidiary is 20%, which determines its voting rights therein. Also in 2006, Iberia, Líneas Aéreas de España, S.A. acquired a 49% ownership interest in International Supply Management, S.L.

In 2007 Iberia Tecnología, S.A., which is wholly owned by Iberia, Líneas Aéreas de España, S.A., formed Iberia Mantenimiento Barcelona, S.R.L., a sole-shareholder company.

3. Basis of presentation of the financial statements and basis of consolidation

3.1 Basis of presentation of the financial statements and basis of consolidation

The consolidated financial statements for 2007 were obtained from the accounting records and financial statements of the Parent and the Group companies.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and with Law 62/2003, of 30 December, on Tax, Administrative, Labour and Social Security Measures, so that they present fairly the Group's consolidated equity and financial position at 31 December 2007 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the Group in the year then ended.

The 2007 consolidated financial statements of the Group and the 2007 individual financial statements of the Group companies, which were prepared by the respective directors, have not yet been approved by the shareholders at their respective Annual General Meetings. However, the Parent's directors consider that the aforementioned financial statements will be approved without any material changes.

3.2 Main decisions relating to IFRSs

The Group took the following decisions in relation to the presentation of the financial statements and other disclosures included herein:

1. The Group's functional currency is the euro; accordingly, the financial statements are expressed in euros.
2. The balance sheet is presented distinguishing between current and non-current items; and the income statement is presented by nature.
3. The Group has elected to submit the cash flow statement using the indirect method.

The Group took the following decisions in relation to the adoption of new Standards and Interpretations issued:

1. Standards and interpretations applicable in 2007

In 2007 the Group adopted IFRS 7 "Financial Instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007, and the changes made to IAS 1 "Presentation of Financial Statements in relation to Capital Disclosures".

As a result of adopting IFRS 7 and the changes made to IAS 1, the qualitative and quantitative disclosures contained in the consolidated financial statements in relation to financial instruments and capital management have been broadened.

2. Standards and interpretations issued but not yet effective

At the date of preparation of these financial statements, the following standards and interpretations had been issued by the IASB but had not yet become effective, either because their effective date is subsequent to the date of the consolidated financial statements or because they have not yet been adopted by the European Union:

Standards and interpretations applicable in 2007		Effective Date
NIIF 8	Operating segments	1 January 2009
Revised IAS 23 (*)	Borrowing costs	1 January 2009
Revised IAS 1 (*)	Presentation of financial statements	1 January 2009
Revised IFRS 3 (*)	Business combinations	1 July 2009
Amended IAS 27 (*)	Consolidated and separate financial statements	1 July 2009
Amended IFRS 2 (*)	Share-based payment	1 January 2009
IFRIC 11	IFRS 2 - Group and treasury share transactions	1 March 2007
IFRIC 12 (*)	Service concession arrangements	1 January 2008
IFRIC 13 (*)	Customer loyalty programmes	1 July 2008
IFRIC 14 (*)	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

(*) Standards and interpretations not adopted by the European Union at the date of preparation of these financial statements.

The Group considers that the foregoing standards, IAS 23, amended IFRS 2 and IFRICs 11, 12 and 14 will not affect the consolidated financial statements. Regarding the other standards, the directors have not yet assessed the potential impact of their application on the accompanying consolidated financial statements.

3.3 Responsibility for the information and use of estimates

The information in these consolidated financial statements is the responsibility of the directors of the Parent.

In the Group's consolidated financial statements for 2007 estimates were made by the Group's directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The assessment of possible impairment losses on certain assets.
2. The assumptions used in the actuarial calculation of the liabilities for obligations to employees.
3. The useful life of property, plant and equipment and intangible assets.
4. The methods used to measure certain assets.
5. The amount of tickets and traffic documents sold that will not finally be used.
6. The calculation of the accrued liability at year-end in relation to the value of the unused points granted to the holders of "Iberia Plus" loyalty cards.
7. The calculation of provisions.

These estimates were made on the basis of the best information available at 31 December 2007 on the events analysed.

3.4 Basis of consolidation

The financial statements of the subsidiaries are fully consolidated. Accordingly, all material balances and equity effects of the transactions between consolidated companies are eliminated on consolidation.

The share of third parties of the Group's equity and results are presented under "Minority Interests" in the consolidated balance sheet and the consolidated income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statements from the effective date of acquisition or until the effective date of disposal, as appropriate.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The Group's share of the profits obtained by the investee in the year are presented under "Share of Results for the Year of Associates" in the accompanying income statement.

In the case of transactions with an associate, the related profits and losses are eliminated to the extent of the Group's interest in the associate's capital.

If as a result of losses incurred by an associate its equity were negative, the investment should be presented in the Group's consolidated balance sheet with a zero value, unless the Group is obliged to give it financial support.

The accounting principles and policies used by the companies included in the scope of consolidation were unified in consolidation with those of the Group.

The balances in the balance sheets and income statements of the foreign companies included in consolidation are translated as follows:

1. Assets and liabilities were translated by applying the official closing exchange rate.
2. Equity and reserves were translated at the historical exchange rates.
3. Income statement items are translated at the average exchange rate for the year.

The exchange differences arising from the use of these criteria were included in equity under "Translation Differences" from "Share Capital" chapter.

4. Distribution of the Parent's profit

The distribution of the Iberia, Líneas Aéreas de España, S.A.'s profit for 2007 that the directors will propose for approval is as follows: a dividend of EUR 0.17 per share, EUR 755,380 to the legal reserve and the remainder to voluntary reserves.

5. Accounting policies and measurement bases applied

The principal measurement bases and accounting policies used in preparing the Group's consolidated financial statements for 2007 were as follows:

5.1 Intangible assets

Intangible assets are defined as specifically identifiable non-monetary assets which have been acquired from third parties or developed internally by the Group. Intangible assets that are expected to be used in the future for the purpose of generating economic benefits are recognised at acquisition cost or in-house development cost.

Intangible assets include mainly computer software amortised from the date of entry into service using the straight-line method over five years.

5.2 Property, plant and equipment

Property, plant and equipment are measured at historical cost.

The improvements to items of property, plant and equipment leading to increased capacity, efficiency, or to a lengthening of the useful lives of the assets are capitalised.

The Group companies depreciate the depreciable amount of their property, plant and equipment using the straight-line method over the years of estimated useful life of the related assets.

The years of estimated useful life of the various property, plant and equipment items are as follows:

	Years of Estimated Useful Life
Aircraft (a)	18 – 22
Buildings and other structures	20 – 50
Machinery, fixtures and tools	10 – 15
Transport equipment	7 – 10
Furniture and fixtures	10
Computer hardware	4 – 7
Spare parts for property, plant and equipment	8 -18
Flight simulators	12 – 14

(a) Except for the aircraft acquired from Aviación y Comercio, S.A. which, because they are second-hand, are being depreciatedover 12 years (MD-88) and 10 years (MD-87).

In the case of owned aircraft, except for the MD aircraft, the Group separates from the cost of the aircraft the cost relating to the components that will be replaced in the major repairs that take place every four to seven years. This cost is depreciated on a straight-line basis over the period from one replacement to the next.

The estimated residual value of rotatable parts (those assigned to specific types or families of aircraft), which is recognisedunder "Spare Parts for Property, Plant and Equipment", ranges from 10% to 20% of acquisition cost, depending on the type of aircraft to which the parts are assigned. The estimated residual value of repairable fuselage parts is 10% of acquisition cost.

The Group depreciates in full the acquisition cost of other items of property, plant and equipment.

The cost of maintenance of items of property, plant and equipment and the cost of minor repairs to aircraft operated by the Group are recognised in the income statement as incurred.

For each aircraft operating under an operating lease, based on the terms of the related leases, the Group recognises an allowance for the total cost to be incurred in scheduled overhauls and allocates this cost to the income statement on a straight-line basis over the period between two consecutive overhauls (see Note 14).

5.3 Impairment losses on property, plant and equipment and intangible assets

Each year the Group reviews whether there are any indications that property, plant and equipment and intangible assets assigned to each cash-generating unit may have become impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the Group recognises an impairment loss in the income statement. If an impairment loss subsequently reverses, the carrying amount of the asset is increased up to the limit of the original amount at which the asset was recognised prior to the recognition of the impairment losses.

5.4 Leases

Leases are classified as finance leases whenever the terms of the lease include an option for the lessee to acquire the asset (purchase option) and Group management has decided to exercise the option. Other leases, with or without a purchase option, are classified as operating leases unless, based on the agreed terms and conditions, the transaction can be equated to an acquisition.

5.4.1 Finance leases

The Group recognises finance leases in the balance sheet at the commencement of the lease term by recognising an asset and a liability for the amount of the present value calculated by using the interest rate for the agreed minimum lease payments stipulated in the contract.

The value of assets acquired under finance lease agreements is presented in the consolidated balance sheet according to the nature of the leased asset (see Note 7).

Assets acquired under finance leases are depreciated using the same criteria as those applied to similar owned items.

Finance charges are recognised over the lease term on a time proportion basis.

5.4.2 Operating leases

The costs arising from operating leases are charged to the income statement in accordance with the terms of the related agreements since the Group considers that this allocation basis best reflects the time pattern of the benefits generated.

5.5 Inventories

Inventories are stated at the lower of acquisition and net realisable value as (market value) and include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

The acquisition cost is calculated by using the weighted average cost formula.

The net realisable value is assessed at the end of each period taking into account factors such as obsolescence and rate of consumption, the relevant provisions are recognised when the net realisable value is less than acquisition cost and the provisions recognised in prior years are reversed.

In 2006 the Group reclassified the repairable spare parts for engines from "Property, Plant and Equipment - Spare Parts for Property, Plant and Equipment" to "Inventories" since the rotation of the spare parts used to repair engines was less than one year.

5.6 Non-current and current financial assets

The non-current financial assets held by the Group companies are classified as follows:

1. Held-to-maturity investments: assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to the date of maturity.
2. Loans and accounts receivable: financial assets arising from the supply of cash, assets or services to a third party.
3. Other non-current financial assets: this heading includes non-current deposits and guarantees given and securities acquired that are not held for immediate trading purposes.

Held-to-maturity investments, loans granted and receivables are measured at the amount receivable at the balance sheet date, which includes the amount delivered at the transaction date plus any unpaid accrued interest or any other accrued premium agreed. Accrued interest or repayment premiums are calculated at the internal rate of return using the interest method.

These assets are recognised in the accompanying consolidated balance sheets net of the estimated allowances for uncollectible amounts.

Deposits and guarantees given are recognised at the amount delivered. Deposits include the amounts delivered under the contracts for the acquisition of new aircraft, which may be reimbursed on delivery of the aircraft. Other assets included under "Other Non-Current Financial Assets" relating to investments in companies (see Note 8.1.3.) are measured at fair value and the changes therein are recognised directly in equity until the asset is disposed of or has become fully impaired, at which time the cumulative gains or losses previously recognised in equity are transferred to net profit or loss for the year. The fair value of a financial instrument on a given date is taken to be its quoted price or the amount for which it could be bought or sold by two knowledgeable, willing parties in an arm's length transaction acting prudently. When this fair value cannot be determined reliably, the assets are measured at cost less impairment losses. At 31 December 2007, the Company measures these investments at cost (less the required allowances) considering this to be the best current estimate of their fair value.

The Company generally classifies its temporary cash surpluses under "Current Financial Assets" at the amounts actually paid. The interest income associated with these transactions is recognised as income when accrued while unmatured interest is presented in the balance sheet as an addition to the balance of the aforementioned heading.

5.7 Cash and cash equivalents

The Group includes under "Cash and "Cash Equivalents" cash and short-term highly liquid investments maturing in less than three months that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

5.8 Financial liabilities

Loans obtained from financial institutions are measured at the amount effectively received, net of arrangement costs and commissions.

These loan arrangement costs and finance charges arising on the loans are charged to income on a time proportion basis over the term of the loan.

The amount of the loan arrangement costs already recognised in income and finance charges relating to unpaid accrued interest are presented in the accompanying consolidated balance sheets as an addition to the balance of "Bank Borrowings".

5.9 Treasury shares of the Parent

The shares of the Parent held by consolidated companies at the reporting date are measured at cost and are presented in the consolidated balance sheet as a reduction of equity.

The net gains or losses from transactions with treasury shares are recognised in equity.

5.10 Derivative financial instruments and hedging transactions

The derivatives held by the Group relate mainly to OTC exchange rate, interest rate and fuel price hedges, the purpose of which is to significantly reduce these risks in the underlying hedged transactions.

Financial derivatives are initially recognised at cost in the consolidated balance sheet, and the required value adjustments are subsequently made to reflect their fair value at all times; increases in value are recognised under "Derivative Financial Instruments" in the consolidated balance sheet and reductions in value under "Other Non-Current Liabilities". Gains and losses from these changes are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument and the resulting hedge is highly effective, in which case the recognition criteria are as follows:

1. Fair value hedges: the hedged item and the hedging instrument are both measured at fair value, and any changes in the fair values are recognised in the consolidated income statement; the effects of these changes are offset under the same heading in the consolidated income statement.
2. Cash flow hedges: changes in the fair value of derivatives are recognised, with respect to the effective portion of these hedges, under "Equity – Valuation Adjustments". The cumulative gain or loss recognised in this heading is transferred to the consolidated income statement to the extent of the impact of the underlying (resulting from the risk hedged) on the consolidated income statement; thus this effect is netted off under the same heading in the consolidated income statement.

The fair value of the various derivative financial instruments is measured by discounting the expected cash flows based on spot and futures market conditions at year-end.

5.11 Current / non-current classification

In the consolidated balance sheet, assets and liabilities that are expected to be settled or fall due within 12 months from the balance sheet date are classified as current items and those which fall due or will be settled within more than 12 months are classified as non-current items.

5.12 Provisions for restructuring costs

In 1999 the Parent launched a voluntary redundancy scheme and in December 2001 obtained authorisation from the employment authorities for a voluntary collective redundancy procedure. Subsequently, the required authorisations were obtained (the last of which was granted in November 2007) to extend the procedure to various employee groups. The procedure will remain in force until 31 December 2010 for ground personnel. Also, a collective redundancy procedure for handling personnel associated with the process for the assignment of resources by way of subrogation was approved in 2006 which will remain in force until 2014.

The first scheme provides for the payment of certain amounts until the statutory retirement age to employees who meet certain conditions and decide to request early retirement.

The Parent recognises the total estimated costs of the voluntary redundancy scheme and the successive extensions of the voluntary collective redundancy procedure in the consolidated income statement when these measures, duly authorised, have been made public and the employees have been informed.

The actuarial studies used to determine the liability to the employees who have opted for early retirement under these conditions are based on similar assumptions to those described in Note 5.13. The successive payments resulting from these commitments are deducted from the provisions recorded.

5.13 Obligations to employees

Under the collective labour agreements in force at the Parent, on reaching the age of 60 flight crew cease to discharge their duties and are placed on reserve, although their employment relationship remains in place until their statutory retirement age. The Parent recognises the costs of staff placed on reserve throughout the active working life of each employee based on the related actuarial studies.

The collective labour agreements in force at the Parent also provide that flight crew who meet certain conditions may take early retirement (special leave of absence). The Company is required to pay certain amounts of remuneration to these employees until they reach the statutory retirement age. The Parent recognises, with a charge to the consolidated income statement in the year in which this circumstance arises, the provision required, calculated on the basis of actuarial studies, to meet the future payment obligations to the employees concerned. 172 employees are currently on special leave and 350 employees on special reserve.

"Other Long-Term Provisions" includes, inter alia, the liabilities incurred in this connection (see Note 14).

The aforementioned amounts were calculated on the basis of actuarial studies conducted by independent actuaries using the projected unit credit method and based on a discount rate of 4% and PERM/F-2000 P life expectancy tables. The main assumption used was 2.5% growth in pensions and the CPI.

5.14 Montepío de Previsión Social Loreto

The main purpose of the Montepío de Previsión Social Loreto is to pay retirement pensions to its members (who include the employees of Iberia, Líneas Aéreas de España, S.A.) and other welfare benefits in certain circumstances (death or permanent disability).

Under the current collective labour agreements, the Parent and its employees make the statutory contributions (defined contributions) to the Montepío, as established in these labour agreements. The Montepío's bylaws limit the Parent's liability to the payment of the statutory contributions established.

In 2007 the Parent's contributions amounted to EUR 22 million (2006: EUR 23 million) and were recognised under "Staff Costs - Recurring" in the accompanying consolidated income statements.

5.15 Other long-term provisions

In the preparation of the consolidated financial statements, the directors drew a distinction between:

1. Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the companies, which is certain as to its nature but uncertain as to its amount and/or timing.
2. Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies.

The Group's consolidated financial statements include, under "Long-Term Provisions - Provisions for Third-Party Liability" the estimated amount required for certain liabilities arising from legal proceedings and litigation in progress, indemnity payments, collateral and other guarantees provided with respect to which it is considered that it is highly probable that the obligation will have to be settled.

Contingent liabilities are not recognised in the consolidated financial statements until the related obligations arise.

Provisions are quantified on the basis of the best information available on the situation of and the possible changes in the events giving rise to them and are fully or partially reversed when such obligations cease to exist or are reduced.

5.16 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Ticket sales and sales of the traffic documents for cargo and other services are initially credited to "Customer Advances" in the consolidated balance sheet. The balance of this heading reflects the estimated liability for ticket sales and traffic documents sold each year prior to 31 December but not yet used at that date. The revenue relating to ticket sales and traffic documents is recognised when the transport or service is performed.

Iberia, Líneas Aéreas de España, S.A. has in place the "Iberia Plus" card the purpose of which is to foster customer loyalty. Cardholders accumulate points for taking certain flights, using the services of entities included in the programme or making purchases with credit cards covered by the programme. The points can be exchanged for free tickets or other services offered by the companies included in the programme. "Trade and Other Payables" in the accompanying consolidated balance sheets at 31 December 2007 and 2006 include provisions of EUR 103 million and EUR 92 million, respectively, in this connection, based on the estimated redemption value of the unused points accumulated at those dates.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and the effective interest rate applicable.

Dividend income from investments is recognised when entitlement to receive the dividend arises, based on the conditions approved by the entity paying the dividend.

In general, any incentives, bonuses or reductions received in cash or in kind by the Parent relating to aircraft coming into service under operating lease are recognised in the consolidated income statement on a straight-line basis over the term of the lease or when the discounted use arises.

5.17 Income tax; deferred tax assets and liabilities

The income tax of each year for each consolidated company is calculated on the basis of accounting profit before tax, increased or decreased, as appropriate, by the permanent differences from taxable profit, net of tax relief and tax credits, excluding tax withholdings and prepayments.

Since 1 January 2002 Iberia, Líneas Aéreas de España, S.A. and certain subsidiaries file consolidated tax returns under the tax system provided for by Chapter VII of Title VII of the Consolidated Spanish Corporation Tax Law (Legislative Royal Decree 4/2004, of 5 March) as a part of Tax Group 148/02, of which it is the Parent. The companies composing the Consolidated Tax Group are the fully consolidated companies except for Binter Finance, BV, which does not meet the legally established requirements to be included in the group.

Deferred tax assets and liabilities relate to the amounts that will be recoverable or payable, respectively, in the future on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These assets and liabilities are calculated and recognised at the tax rates that are expected to apply in the period when the temporary difference is recovered or settled.

Deferred tax assets and tax loss and tax credit carryforwards are recognised when it is probable that the Company will recover them in the future regardless of the date of recovery. Deferred tax assets and liabilities are stated at face value and are classified as non-current assets or liabilities in the consolidated balance sheet.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

5.18 Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies.

Diluted earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of shares that would have been outstanding during the year if at the beginning of the year all the convertible financial instruments issued by the Parent and outstanding at year-end had been converted into ordinary shares of the Parent.

5.19 Balances and transactions in currencies other than the euro

Transactions in currencies other than the euro and the resulting receivables and payables are recognised at their equivalent euro value at the transaction date.

The balances of accounts receivable and payable denominated in currencies other than the euro are translated to euros at the exchange rates prevailing at 31 December of each year. However, following customary airline practice, the balance of the liability for unused traffic documents is reflected in the consolidated balance sheet at the exchange rate prevailing in the month of the sale, as set by the International Air Transport Association (IATA). The IATA exchange rate for each month is the average exchange rate for the last five bank working days prior to the 25th day, inclusive, of the preceding month.

The changes in value arising from the differences between the official exchange rates at year-end and the exchange rates at which the receivables and payables in currencies other than the euro were recognised and those arising at the date of collection or payment of receivables and payables denominated in currencies other than the euro are allocated to "Exchange Differences" in the consolidated income statement.

5.20 Consolidated cash flow statements

The following terms, with the meanings specified, are used in the consolidated cash flow statements, which were prepared using the indirect method:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

5.21 Risk management policy

The Group has adopted numerous measures to control and manage risks and has implemented systems to enable it to identify, assess, manage and mitigate the main risks affecting its various business activities.

The measures taken in this respect cover the key parameters and levers of the Group's management, i.e. the income statement, borrowings, investments and divestments and the implementation of the Master Plan, in order to optimise the income statement and borrowings and to take balanced decisions in terms of the risk and return on new investments.

With regard to financial risks, the Group uses a global management programme designed to control and reduce the potential adverse effect of fluctuations in exchange rates, interest rates, and fuel prices on the Group's earnings and to maintain the required liquidity for its operational needs and investments.

In order to attain this objective, the Group uses a VAR (*Value at Risk*) model to conduct probabilistic assessments of the possible impact of these market variables on its earnings, defines maximum volatility parameters and designs the required hedging programmes.

Exchange rate risk

Due to the nature of the Group's international business activities, it generates collections and payments in currencies other than the euro. The greatest risk exposure relates to the appreciation of the US dollar against the euro, since the Group's payments in US dollars exceed its income in this currency.

Exchange rate risk is managed basically by a combination of two strategies: firstly, strategic hedges (up to five years) are arranged using currency swaps and options and other derivative products for an amount hedging a given percentage of the position; secondy, tactical hedges with a time horizon of one year or less are arranged; these hedges, which are associated with actual changes in the Company's US dollar payments, enable it to respond to market trends.

Interest rate risk

As a result of the Company's net borrowing position (including operating lease transactions on aircraft), the Group is exposed to a rise in interest rates in the currencies in which its debt is denominated.

In order to manage this risk, a minimum percentage of the Group's debt bears fixed interest or has hedged interest rates. Also, by diversifying the borrowing currencies (US dollar, euro, Swiss franc and GB pound), the Group is able to reduce the risk of an overall rise in the interest rates on its borrowings.

Fuel price risk

The Group manages the cost of aircraft fuel using active risk control policies and directly hedges the price of kerosene (JET Kero CIF-NWE).

This risk is normally reduced by arranging swaps and options.

Liquidity risk

In view of the cyclical nature of its business and the investment and financing requirements resulting from the renewal of its aircraft, the Group has a liquidity policy to ensure a significant volume of available cash, equivalent to approximately five months' revenue.

This cash position is invested in highly liquid, short-term instruments such as debt repos, eurodeposits and bank promissory notes arranged through top level banks, in accordance with the current counterparty risk policy.

In addition to short-term investments and the cash position, the Group has ongoing credit facilities which guarantee its liquidity requirements.

5.22 Activities with an environmental impact

In general, environmental activities are those the purpose of which is to prevent, reduce or redress damage to the environment.

Investments made in connection with environmental activities are measured at cost and are capitalised as an addition to non-current assets in the year in which they are made.

The expenses arising from environmental protection and enhancement measures are charged to income in the year in which they are incurred, regardless of when the resulting monetary or financial flow arises.

6. Intangible assets

The changes in "Intangible Assets" in 2006 and 2007 were as follows:

Thousands of Euros

2006	Balance at 31-12-05	Additions or Charge	Disposals	Transfers	Balance at 31-12-06
Cost					
With finite useful life					
Computer software	122,958	21,112	(1,146)	(574)	142,350
Intellectual property and leasehold assign. rights	865	119	-	-	984
	123,823	21,231	(1,146)	(574)	143,334
Accumulated amortisation					
Computer software	(75,738)	(19,179)	1,146	-	(93,771)
Intellectual property and leasehold assign. rights	(668)	(42)	-	-	(710)
	(76,406)	(19,221)	1,146	-	(94,481)
Total	47,417				48,853

Thousands of Euros

2007	31-12-06	Additions or Charge	Disposals	31-12-07
Cost				
With finite useful life				
Computer software	142,350	19,840	(9,125)	153,065
Intellectual property and leasehold assignment rights	984	136	(12)	1,108
	143,334	19,976	(9,137)	154,173
Accumulated amortisation				
Computer software	(93,771)	(18,433)	9,125	(103,079)
Intellectual property and leasehold assignment rights	(710)	(37)	-	(747)
	(94,481)	(18,470)	9,125	(103,826)
Total	**48,853**			**50,347**

Substantially all the Group's intangible assets were acquired from third parties.

7. Property, plant and equipment

The changes in this heading in the consolidated balance sheet in 2006 and 2007 were as follows:

Thousands of Euros

2006	31-12-05	Additions or Charge	Transfers	Disposals	31-12-06
Cost					
Aircraft	2,427,766	60,427	(18,083)	(100,781)	2,369,329
Other items of property, plant and equipment					
Land	2,518	-	-	-	2,518
Buildings and other structures	156,637	-	-	(4,660)	151,977
Machinery, fixtures and tools	442,052	32,534	5,023	(18,582)	461,027
Transport equipment	33,201	6,650	-	(390)	39,461
Furniture and fixtures	19,241	3,725	(30)	(2,513)	20,423
Computer hardware	112,097	11,042	80	(3,989)	119,230
Spare parts	279,315	14,081	(86,867) (a)	(5,628)	200,901
Flight simulators	11,102	-	-	(8,402)	2,700
Property, plant and equipment in the course of construction	31,576	22,196	(15,678)	(19,180)	18,914
	1,087,739	90,228	(97,472)	(63,344)	1,017,151
Accumulated depreciation					
Aircraft	(1,155,378)	(145,443)	24,982	70,912	(1,204,927)
Other items of property, plant and equipment					
Buildings and other structures	(113,809)	(3,587)	(6)	3,741	(113,661)
Machinery, fixtures and tools	(318,555)	(23,158)	-	16,984	(324,729)
Transport equipment	(21,543)	(3,404)	(282)	362	(24,867)
Furniture and fixtures	(13,832)	(1,506)	-	2,313	(13,025)
Computer hardware	(78,148)	(13,463)	-	3,949	(87,662)
Spare parts	(144,553)	(9,384)	-	56,848(a)	(97,089)
Flight simulators	(8,961)	(206)	-	8,401	(766)
	(699,401)	(54,708)	(288)	92,598	(661,799)
Impairment losses and provisions					
Aircraft	(176,966)	-	8,939	10,885	(157,142)
Provision for major repairs	(15,992)	-	-	7,068	(8,924)
Other items of property, plant and equipment	(4,184)	-	-	1,405	(2,779)
	1,463,584				**1,350,909**

(a) Relating to repairable engine spare parts transferred to "Inventories" since they are rotated in less than one year (see Note 5.5).

Thousands of Euros

2007	31-12-06	Additions or Charge	Transfers	Disposals	31-12-07
Cost					
Aircraft	2,369,329	84,741	146,980	(509,277)	2,091,773
Other items of property, plant and equipment-					
Land	2,518	-	(15)	-	2,503
Buildings and other structures	151,977	2,577	6,833	(2,074)	159,313
Machinery, fixtures and tools	461,027	24,183	4,210	(25,024)	464,396
Transport equipment	39,461	1,341	-	(5,939)	34,863
Furniture and fixtures	20,423	714	-	(627)	20,510
Computer hardware	119,230	8,109	-	(27,482)	99,857
Spare parts	200,901	18,803	-	(12,238)	207,466
Flight simulators	2,700	-	-	-	2,700
Property, plant and equipment in the course of construction	18,914	10,273	(16,087)	(5,031)	8,069
	1,017,151	66,000	(5,059)	(78,415)	999,677
Accumulated depreciation					
Aircraft	(1,204,927)	(142,703)	(39,260)	232,176	(1,154,714)
Other items of property, plant and equipment-					
Buildings and other structures	(113,661)	(3,719)	-	1,660	(115,720)
Machinery, fixtures and tools	(324,729)	(22,752)	(310)	18,381	(329,410)
Transport equipment	(24,867)	(3,312)	(19)	5,218	(22,980)
Furniture and fixtures	(13,025)	(1,527)	-	565	(13,987)
Computer hardware	(87,662)	(13,244)	-	27,463	(73,443)
Spare parts	(97,089)	(9,276)	-	7,471	(98,894)
Flight simulators	(766)	(206)	-	-	(972)
	(661,799)	(54,036)	(329)	60,758	(655,406)
Impairment losses and provisions					
Aircraft	(157,142)	-	(9,649)	27,901	(138,890)
Provision for major repairs	(8,924)	-	-	3,024	(5,900)
Other items of property, plant and equipment	(2,779)	(95)	-	-	(2,874)
	1,350,909				**1,133,666**

7.1 Aircraft

Additions

The detail of the additions shown in the foregoing tables is as follows:

Thousands of Euros

	2006	2007
Aircraft	18,176	29,272
Engines	8,854	35,757
Refurbishments	33,397	19,712
	60,427	**84,741**

Transfers

Transfers in 2007 include EUR 93 million in relation to deposits given previously for the acquisition of aircraft and engines, which were recognised under "Other Non-Current Financial Assets – Deposits and Guarantees Given" (see Note 8.1.3). Transfers also include EUR 49 million in relation to engines of the B747 aircraft classified in 2006 under "Other Non-Current Assets Held for Sale" (the related accumulated depreciation of EUR 39 million and impairment losses and provisions of EUR 10 million were also transferred) and EUR 5 million previously classified as property, plant and equipment in the course of construction under "Other Items of Property, Plant and Equipment".

Disposals

The disposals were as follows:

Thousands of Euros

Aircraft	2006 Cost	2006 Accumulated Depreciation	2006 Allowances	2007 Cost	2007 Accumulated Depreciation	2007 Allowances
A-320	-	-	-	314,308	(71,654)	-
MD	16,441	(13,375)	(3,066)	133,937	(110,805)	(20,686)
B-757	34,678	(19,641)	(4,692)	-	-	-
B-747	-	-	-	35,639	(28,511)	(7,128)
Other disposals	49,662	(37,896)	(10,195)	25,393	(21.206)	(3,111)
	100,781	**(70,912)**	**(17,953)**	**509,277**	**(232,176)**	**(30,925)**

In 2006 the Parent derecognised an MD-87 aircraft whose carrying amount was zero, and sold a B-757 aircraft for its carrying amount (EUR 10 million).

"Other Disposals" in the foregoing table includes engine sales, and the derecognition of refurbishment work made to aircraft under operating lease which are no longer in service.

Disposals in 2007 were as follows:

A-320 aircraft

In 2007 the Parent sold six A-320 aircraft operated under finance lease on which the purchase option had been exercised. This sale was made to banks which subsequently leased the aircraft to the Company under operating lease.

The carrying amount of these six aircraft at the time of sale totalled EUR 123 million and the Group recognised losses of approximately EUR 1 million as a result of the sale.

Additionally, the Parent sold another six A-320 aircraft purchased in the same year which it had never brought into service. These aircraft were sold to banks and as a result of the sale EUR 64 million were included under "Net Gains on Disposal of Non-Current Assets".

MD-87 and MD-88 aircraft

Disposals of MD-87 and MD-88 aircraft relate to the sale of six MD-87 aircraft and the derecognition of a MD-88 aircraft. As a result of these disposals, the Group recorded gains of EUR 5 million under "Net Gains on Disposal of Non-Current Assets" in the consolidated income statement.

B-747 aircraft

The Parent sold 14 B-747 aircraft engines giving rise to a gain of approximately EUR 1 million.

Aircraft allowances

In order to provide for possible impairment losses for planned aircraft disposals, the Group records allowances to adjust the carrying amount of the aircraft to be derecognised to their net realisable value. The changes in 2006 and 2007 were as follows:

Thousands of Euros

Aircraft	Balance at 31-12-05	Disposals	Transfers	Balance at 31-12-06	Disposals	Transfers	Balance at 31-12-07
B-747	70,596	(1,526)	(8,939)	60,131	(7,128)	9,649	62,652
MD	94,493	(1,904)	-	92,589	(20,686)	-	71,903
Other	11,877	(7,455)	-	4,422	(87)	-	4,335
	176,966	**(10,885)**	**(8,939)**	**157,142**	**(27,901)**	**9,649**	**138,890**

The MD aircraft are recognised at their estimated realisable value since they will be disposed of in 2008 and 2009.

Obligations and other guarantees on aircraft

The Group is using three aircraft under finance lease and seven aircraft under operating lease the payments under which secure, together with the aircraft, the repayment of a bond issue launched by the lessor in the European market in 2000. At 31 December 2007, EUR 149 million of the bonds had not yet been repaid.

Also, the Parent is guaranteeing the use of 20 aircraft under operating or finance lease for periods of between 9 and 14 years vis-à-vis the subscribers of a bond issue with outstanding amounts at 31 December 2007 of USD 115 million and EUR 120 million.

The Group is currently implementing a fleet renewal plan instrumented through various agreements entered into with Airbus for A-319, A-320 and A 340 type aircraft. The aircraft not yet delivered at 31 December 2007 and the year in which they are scheduled to be added to the fleet are as follows:

Type of Aircraft	2008	2009	2010	2011	Total
A-319	5	-	-	-	5
A-320	2	2	9	1	14
A-340-600	1	2	-	-	3
	8	4	9	1	22

Based on the basic prices established in the agreements, the total cost of the aircraft subject to firm purchase commitments not yet delivered at 31 December 2007 amounted to approximately EUR 1,191 million.

The Parent also has options on 3 A-340-600 aircraft and 29 A-320 type aircraft, giving rise to an advance of EUR 4 million, which is recognised under "Other Non-Current Financial Assets" in the consolidated balance sheet (see Note 8.1.3.).

Aircraft in service

Following is a summary of the Group's aircraft in service at 31 December 2007:

Type of Aircraft	Owned	Under Finance Lease	Under Operating Lease	Under Wet Lease [a]	Total
B-747 (b)	-	-	-	-	-
B-757 (c)	-	-	-	2	2
A-319	-	-	19	-	19
A-320	10	5(d)	30(e)	-	45
A-321	-	4	15	-	19
A-340-300	5	-	11	3	19
A-340-600	-	-	12(f)	-	12
MD-87	10(g)	-	-	-	10
MD-88	11	-	-	-	11
	36	9	87	5	137

(a) Lease type which includes the aircraft, maintenance and insurance.
(b) Excluding five owned aircraft grounded at 31 December 2007 because they were to be sold or scrapped. The carrying amount of these aircraft, after deducting the related provisions and impairment losses, is zero.
(c) Excluding one aircraft subleased to Privilege Style S.A. and an aircraft grounded in the process of being returned.
(d) Excluding one aircraft subleased to Compañía Mexicana de Aviación.
(e) Excluding one aircraft subleased to Compañía Mexicana de Aviación.
(f) Excluding one aircraft grounded in Quito.
(g) Excluding two aircraft being reconfigured prior to their disposal.

Aircraft operated under operating lease and wet lease contracts

In 2007 eight A-319 aircraft, six A-320 aircraft (previously operating under finance lease) and one A-321 aircraft were operated under operating lease. Additionally, as a result of the expiry of the related operating leases and early repayment agreements, 11 A-320 aircraft were returned. The wet lease agreements for five B-757 aircraft were also cancelled and an operating lease arranged in 2007 for an A-340-300 aircraft was converted into a wet lease.

The expiry dates of the aircraft operating lease contracts are summarised as follows:

Aircraft	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Number of Aircraft
A-319	-	-	-	-	6	10	-	-	-	-	-	3	19
A-320	-	2	2	1	1	6	2	2	5	-	-	9	30
A-321	-	-	-	-	-	1	-	2	3	2	1	6	15
A-340-300	1	2	3	1	3	-	1	-	-	-	-	-	11
A-340-600	-	-	-	-	-	-	-	3	2	3	4	-	12
Total	**1**	**4**	**5**	**2**	**10**	**17**	**3**	**7**	**10**	**5**	**5**	**18**	**87**

The foregoing table includes six A-320 aircraft, four A-319 aircraft and three A-340 aircraft leased from International Lease Finance Corporation. As a result of the execution of this contract, the Parent has deposited completion bonds totalling EUR 7 million and this amount is recognised under "Other Non-Current Financial Assets" in the accompanying consolidated balance sheet at 31 December 2007 (see Note 8.1.3).

Certain of the operating lease contracts include a purchase option on the aircraft that can be exercised during the lease term, and the possibility of extending the lease for periods ranging from one to nine years.

At the date of preparation of these consolidated financial statements the Parent's directors did not intend to exercise the purchase options on the aircraft that were being operated under operating lease contracts at 31 December 2007, or to extend contracts that would give rise to the use of aircraft for periods exceeding 16 years.

Lease expenses

The lease payments accrued in 2006 and 2007 for aircraft operating leases and wet leases amounted to EUR 406 million and EUR 393 million, respectively, and are included under "Other Operating Expenses - Recurring" in the accompanying consolidated income statements (see Note 19.3). The detail of the approximate total operating lease payments payable for these aircraft is as follows:

Year	Millions of Euros
2008	313
2009	297
2010	268
2011	252
2012 and subsequent years	1,048
	2,178(*)

(*) Equivalent to USD 3,206 million at the 2007 year-end exchange rate. The exchange rate risk on these lease payments is partially hedged with derivatives (see Note 16).

Assets held under finance lease

At 31 December 2007, there were items of property, plant and equipment acquired under finance lease, basically aircraft, for a total cost of EUR 384 million and accumulated depreciation of EUR 88 million (2006: cost of EUR 583 million and accumulated depreciation of EUR 134 million).

The lease payments outstanding at 31 December 2007, including the amount of the purchase options, fall due as detailed in Note 13.

7.2 Other items of property, plant and equipment

The additions to "Machinery, Fixtures and Tools" relate mainly to acquisitions of airport equipment.

The carrying amount of the buildings and facilities built on state-owned land, mainly at Spanish airports, amounted to EUR 26 million and EUR 34 million, respectively, at 31 December 2006 and 2007. The Parent's directors do not expect any material losses to arise as a result of the reversion process since the maintenance programmes ensure that the items are always in good operating condition.

7.3 Fully depreciated items

At 31 December 2006 and 2007, the cost of the Group's fully depreciated items of property, plant and equipment amounted to EUR 346 million and EUR 349 million, respectively, the detail being as follows:

Thousands of Euros

	2006	2007
Buildings	57,927	59,751
Machinery, fixtures and tools	189,018	198,275
Furniture and fixtures	6,880	7,168
Computer hardware	54,191	39,842
Flight simulators	146	146
Transport equipment and other items of property, plant and equipment	12,777	14,887
Aircraft	24,935	28,902
	345,874	**348,971**

7.4 Insurance coverage

The Group companies have taken out insurance policies for their property, plant and equipment and intangible assets which provide adequate cover for their carrying amount at 31 December 2007. Also, the Group has taken out insurance policies to cover aircraft leased to third parties.

7.5 Non-current assets not in service

The Group maintains certain assets in the consolidated balance sheet, basically aircraft and engines, which are not in service. The cost of these assets, EUR 352 million, is almost covered in full by the related depreciation and the impairment losses and provisions recognised.

8. Financial assets

8.1 Non-current financial assets

8.1.1 Held-to-maturity investments

The changes in the accounts under this heading in 2006 and 2007 were as follows:

Thousands of Euros

	Balance at 31-12-05	Transfers	Balance at 31-12-06	Balance at 31-12-07
Iberbond PLC 1999	30,810	(30,810)	-	-
Government debt securities	244	-	244	244
Iberbús companies	24,930	-	24,930	24,930
	55,984	**(30,810)**	**25,174**	**25,174**

The majority shareholder of the Iberbus companies, Airbus, has guaranteed Iberia, Líneas Aéreas de España, S.A. the recovery of the full amount of its investments in and loans to the aforementioned companies, and, accordingly, the value of the Group's ownership interest in these companies is the same as their acquisition cost and they are not included in the scope of consolidation.

8.1.2 Loans and receivables

The detail of the items making up this heading in the accompanying consolidated balance sheet at 31 December 2006 and 2007 and of the changes therein is as follows:

Thousands of Euros

2006	Balance at 31-12-05	Additions	Exchange Differences	Disposals/ Transfers	Balance at 31-12-06
Loans to Venezolana Internacional de Aviación, S.A. (b)	25,623	-	-	-	25,623
Loans to Iberbús companies	167,879	-	(17,502) (a)	-	150,377
Loan to Aerolíneas Argentinas, S.A.	35,665	-	-	-	35,665
Loan to Wam Acquisition, S.A.	40,388	5,660	-	-	46,048
Clickair, S.A. – Preference shares	-	14,410	-	-	14,410
Loans to Iberlease 2004 Ltd.	45,365	-	(4,729)	-	40,636
Other	14,542	79	-	(10,926)	3,695
Total cost	**329,462**	**20,149**	**(22,231)**	**(10,926)**	**316,454**
Allowances	**(69,045)**	**-**	**-**	**7,757**	**(61,288)**

Thousands of Euros

2007	Balance at 31-12-06	Additions	Exchange Differences	Disposals/ Transfers	Balance at 31-12-07
Loans to Venezolana Internacional de Aviación, S.A. (b)	25,623	-	-	-	25,623
Loans to Iberbús companies	150,377	-	(12,315) (a)	(59,820)	78,242
Loan to Aerolíneas Argentinas, S.A. (c)	35,665	-	-	-	35,665
Loan to Wam Acquisition, S.A.	46,048	1,479	-	(47,527)	-
Clickair, S.A. - preference shares	14,410	8,390	-	-	22,800
Loans to Iberlease 2004 Ltd.	40,636	-	(4,281)	-	36,355
Other	3,695	42	-	(1,916)	1,821
Total cost	**316,454**	**9,911**	**(16,596)**	**(109,263)**	**200,506**
Allowances	**(61,288)**	**-**	**-**	**(22,800)**	**(84,088)**

(a) Classified under "Exchange Differences (Gains and Losses)" in the consolidated income statements and hedged.
(b) The loans granted to Venezolana Internacional de Aviación, S.A. (VIASA) arose in prior years and had been provided for in full at 31 December 2006 and 2007.
(c) The loans of approximately EUR 36 million to Aerolíneas Argentinas, S.A. relate to the subrogation to a loan of USD 43 million granted by Banesto, S.A. secured by a mortgage on two B-747 aircraft, the repayment of which was guaranteed by Iberia, Lineas Aéreas de España, S.A. These loans have been provided for in full.

Iberbus companies

Iberia, Líneas Aéreas de España, S.A. granted a loan to each of its Iberbús investees. The principal ranges between USD 11 million and USD 22 million. These loans were granted for a period equal to the term of the operating lease for the related A-340-300 aircraft and earn annual interest ranging from 4% to 6%. The loans are repayable in a one-off lump sum upon maturity, which will take place in the period from 2008 to 2012. The Group has reclassified the loans maturing in 2008 to "Current Financial Assets" (see Note 8.2).

The long-term outstanding amounts in this connection, by maturity, are as follows:

Maturing in	Thousands of Euros
2009	27,210
2010	27,325
2011	7,505
2012	16,202
	78,242

Wam Acquisition, S.A

The full amount of the loan granted to Wam Acquisition, S.A. was collected in 2007.

Clickair, S.A

The preference shares of Clickair, S.A. had been fully provided for at 31 December 2007. Additionally, Iberia, Líneas Aéreas de España, S.A. owns ordinary shares in the share capital of Clickair, S.A. amounting to EUR 1,200,000 at 31 December 2007, which are classified under "Investments in Associates" in the accompanying consolidated balance sheet and had also been fully provided for at that date under this heading. Lastly, "Non-Current Liabilities – Long-Term Provisions" in the accompanying balance sheet at 31 December 2007 includes EUR 7 million recognised in connection with this investment in Clickair, S.A. since this investment was accounted for using the equity method on consolidation.

As a result of the capital increase performed by the shareholders of Clickair, S.A. in February 2008, Iberia, Líneas Aéreas de España, S.A. increased its ownership interest with a payment of EUR 24 million.

At 31 December 2007, following the aforementioned capital increase, Iberia, Líneas Aéreas de España, S.A. has a 20% ownership interest in the share capital of Clickair, S.A. and, based on the agreements with the other shareholders, its ownership interest in Clickair, S.A. is 80%. The shareholders' agreements provide for the possibility that, subject to certain conditions, the Company takes a majority ownership interest in the share capital of Clickair, S.A. and control over its operations. 2007 is Clickair, S.A.'s second year of operations and it is anticipated that it will return a profit in coming years.

Iberlease 2004 Ltd

Iberlease 2004 Ltd., the lessor of four aircraft held by the Parent under finance leases, is in turn the recipient of four loans granted by Iberia, Líneas Aéreas de España, S.A. for a term identical to that established in the finance leases, which are repayable in a single payment in December 2014. The principal of these loans amounts to USD 54 million and the interest is earned at a annual rate of between 6% and 6.5% payable quarterly.

8.1.3 Other non-current financial assets

The changes in the accounts under this heading in 2006 and 2007 were as follows:

Thousands of Euros

2006	% of Ownership at 31-12-06	Bal. at 31-12-05	Additions	Disposals and Recoveries	Transfers	Exchange Differences	Bal. at 31-12-06
Deposits and guarantees:							
Deposits for acquisition of aircraft (Note 7)	-	351,660	160,507	(191,060)	(1,358)	(30,751)	288,998
Deposit for convertible debentures	-	9,153	-	-	(9,153)	-	-
Deposits and guarantees for operation of aircraft leased from ILFC (Note 7)	-	11,295	-	-	-	(1,177)	10,118
Deposits and guarantees for operation of aircraft under dry and *wet lease* arrangements (Note 7)	-	10,669	1,615	(510)	-	(1,161)	10,613
Other deposits and guarantees	-	3,998	420	(858)	-	-	3,560
		386,775	162,542	(192,428)	(10,511)	(33,089)	313,289
Exchange differences due to hedging transactions		(19,321)	2,714	(5,376)	-	15,086	(6,897)
Other financial assets:							
Venezolana Internacional de Aviación, S.A.	45.00	88,446	-	-	-	-	88,446
Interinvest, S.A.	0.14	30,244	-	-	-	-	30,244
Opodo, Ltd.	2.38	19,246	-	-	-	-	19,246
Servicios de Instrucción de Vuelo, S.L.	19.90	8,853	-	-	-	-	8,853
Wam Acquisition, S.A.	11.68	14,107	-	-	-	-	14,107
Other	-	6,416	-	(3)	-	-	6,413
Allowances	-	(142,731)	(37)	84	-	-	(142,684)
		24,581	(37)	81	-	-	24,625
Total		**392,035**	**165,219**	**(197,723)**	**(10,511)**	**(18,003)**	**331,017**

Thousands of Euros

2007	% of Ownership at 31-12-07	Bal. at 31-12-06	Additions	Disposals and Recoveries	Transfers	Exchange Differences	Bal. at 31-12-07
Deposits and guarantees:							
Deposits for acquisition of aircraft (Note 7)	-	288,998	132,402	(107,042)	(92,806)	(20,698)	200,854
Deposits and guarantees for operation of aircraft leased from ILFC (Note 7)	-	10,118	-	(2,490)	-	(869)	6,759
Deposits and guarantees for operation of aircraft under dry and wet lease arrangements (Note 7)	-	10,613	2,724	(5,418)	(1,126)	(1,018)	5,775
Other deposits and guarantees	-	3,560	507	(112)	-	(206)	3,749
		313,289	135,633	(115,062)	(93,932)	(22,791)	217,137
Exchange differences due to hedging transactions		(6,897)	348	(1,102)	105	10,403	2,857
Other financial assets:							
Venezolana Internacional de Aviación, S.A.	45.00	88,446	-	-	-	-	88,446
Interinvest, S.A.	0.14	30,244	-	-	-	-	30,244
Opodo, Ltd.	2.38	19,246	-	-	-	-	19,246
Servicios de Instrucción de Vuelo, S.L.	19.90	8,853	-	-	-	-	8,853
Wam Acquisition, S.A.	11.57	14,107	-	(6,804)	-	-	7,303
Other	-	6, 413	70	(2,352)	-	-	4,131
Allowances	-	(142,684)	-	2,352	-	-	(140,332)
		24,625	70	(6,804)	-	-	17,891
		331,017	**136,051**	**(122,968)**	**(93,827)**	**(12,388)**	**237,885**

Deposits and guarantees

The amounts included in "Deposits for Acquisition of Aircraft" relate to the reimbursable advances paid for the acquisition of aircraft and engines, the detail being as follows:

Thousands of Euros

	2006		2007	
	Outright Purchase	Option/ Right	Outright Purchase	Option/ Right
A-319	135,069	3,721(a)	52,205	2,649 (a)
A-320	112,319		62,510	
A-321	16,158		-	
A-340	-	1,519	75,146	1,359
Engines	20,212	-	6,985	-
	283,758	**5,240**	**196,846**	**4,008**

(a) Deposits paid for all the A-320-type aircraft.

Based on scheduled aircraft deliveries, the Group considers that deposits amounting to EUR 107 million will be taken to income in 2008.

Other financial assets

The ownership interests in Venezolana Internacional de Aviación, S.A. and Interinvest, S.A. are fully provided for. Approximately EUR 18 million of the ownership interest in Opodo, Ltd. has been provided for.

The investment in Wam Acquisition, S.A. was acquired as partial consideration for the sale of Amadeus, S.A. and is instrumented in ordinary shares and preference shares. The preference shares grant the right to receive a fixed and cumulative dividend of 13.75% on the par value. "Finance Income" in the accompanying income statements for 2006 and 2007 include EUR 11 million and EUR 6 million, respectively, in this connection. These shares are convertible into ordinary shares in the event the investee is floated. The retirement of EUR 7 million relates to the cost allocated to shares sold. The selling price amounted to EUR 101 million and the gain obtained (EUR 94 million) is classified under "Net Gains on Disposal of Non-Current Assets" in the accompanying income statement for 2007 (see Note 18.3).

8.2 Current financial assets

The detail of this heading in the accompanying consolidated balance sheets at 31 December 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
Held-to-maturity investments		
Current financial assets	1,378,238	692,051
Loans to Iberbús companies	-	56,291
Unmatured interest receivable	25,373	49,991
Restricted deposits for convertible debentures	10,362	315
Iberbond bonds (Note 8.1.1)	30,810	-
Other short-term deposits and guarantees	11,585	15,564
Uncollected accrued dividends	10,987	6,566
Other current financial assets	10,708	3,733
	1,478,063	**824,511**
Investments at fair value		
Derivative financial instruments (Note 16)	11,271	35,258
	1,489,334	**859,769**

The average return on the amounts placed in current financial assets, mainly deposits, eurodeposits, euronotes and fixed-term deposits and promissory notes was 2.87% in 2006 and 3.93% in 2007.

9. Accounts receivable

This heading in the accompanying consolidated balance sheets at 31 December 2006 and 2007 includes mainly receivables from customers for sales performed directly by the Parent and from passenger and cargo agents marketing the services rendered by the Parent. This heading also includes receivables from airlines mainly for services provided by the Parent in relation to tickets sold originally by other airlines.

The collection periods established by the Group companies range between 20 to 45 days.

The allowances recognised by the Group on the basis of its analysis of the recoverability of accounts receivable, based on an ageing and a case-by-case analysis, form part of the balance of this heading.

10. Cash and cash equivalents

The detail of this heading in the accompanying consolidated balance sheets at 31 December 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
Cash	30,473	72,463
Current financial assets	933,258	2,070,468
	963,731	**2,142,931**

"Cash and Cash Equivalents" includes mainly the Group's cash and financial assets –basically eurodeposits, promissory notes and fixed-term deposits– maturing within no more than three months. The average annual interest rate earned by the Group on its cash and cash equivalent balances in 2007 was 4.50% (2006: 3.16%).

11. Equity

11.1 Share capital

The changes in 2006 and 2007 in the Parent's share capital were as follows:

	Number of Shares	Par Value (Euros)
Number of shares and par value of the share capital at 1 January 2006	943,161,939	0.78
Capital increase	4,904,693	0.78
Number of shares and par value of the share capital at 31 December 2006	948,066,632	0.78
Capital increase	4,842,183	0.78
Number of shares and par value of the share capital at 31 December 2007	952,908,815	0.78

In 2006 the Parent increased capital by EUR 3,825,660 by issuing 4,904,693 ordinary shares of EUR 0.78 par value each, with a share premium of the same amount per share. This capital increase was performed to cater for the conversion into shares of thesame number of convertible debentures issued to cover the share option plan approved by the shareholders at the Annual General Meeting in 2002 and aimed at certain executive directors, executives and other employees. In this connection, in 2007 capital was increased by EUR 3,776,903, relating to 4,842,183 ordinary shares of EUR 0.78 par value each, with a share premium of EUR 0.84 per share.

In 2003 the Parent issued 18,259,241 debentures of EUR 1.62 face value each, convertible into shares in the proportion of one to one.

This debenture issue is earmarked to cater for the aforementioned share option plan, the interest rate thereon is linked to three-month Euribor, the maturity dates coincide with the exercise dates of the option plan and redemption is guaranteed by a restricted deposit.

The changes in the accounts under "Convertible Debenture Issue" in 2006 and 2007 were as follows:

Thousands of Euros

	2006	2007
Beginning balance	18,306	10,362
Redemption	(7,944)	(10,047)
Ending balance	**10,362**	**315**

At 31 December 2007, 194,192 share options had been subscribed but not yet exercised. These share options may be exchange for shares at a price of EUR 1.62 per share on 25 April 2008.

At 31 December 2006 and 2007, the shareholders of the Parent were as follows:

	2006		2007	
	Number of Shares	Percentage of Ownership	Number of Shares	Percentage of Ownership
Caja de Ahorros y Monte de Piedad de Madrid	91,290,716	9.63	219,098,519	22.99
British Airways Holdings B.V.	94,309,090	9.95	94,309,090	9.90
Sociedad Estatal de Participaciones Industriales	49,212,526	5.19	49,212,526	5.16
State Street Bank	-	-	43,512,185	4.57
El Corte Inglés, S.A.	27,387,215	2.89	27,387,215	2.87
Banco Bilbao Vizcaya Argentaria, S.A.	69,492,448	7.33	-	-
Compañía de Distribución Integral Logista, S.A.	61,164,780	6.45	-	-
Other	555,209,857	58.56	519,389,280	54.51
	948,066,632	**100.00**	**952,908,815**	**100.00**

At 31 December 2007, all the shares were of the same class, were fully subscribed and paid and were traded by the book-entry system. The shares of the Parent are listed on the continuous market of the Spanish stock exchanges and all carry the same voting and dividend rights.

11.2 Treasury shares of the Parent

The changes in "Treasury Shares" in 2006 and 2007 were as follows:

	2006		2007	
	Number of Shares	Thousands of Euros	Number of Shares	Thousands of Euros
At beginning of year	13,924,050	28,372	6,702,368	13,922
Additions	4,062,318	8,981	2,559,890	7,733
Disposals	(11,284,000)	(23,431)	(1,212,258)	(2,554)
At end of year	**6,702,368**	**13,922**	**8,050,000**	**19,101**

The treasury shares held by Iberia, Líneas Aéreas de España, S.A. at 31 December 2007 represent 0.84% of the share capital, with an aggregate par value of EUR 6 million. The average buying price of the shares of the Parent held by the Group at 2007 year-end was EUR 2.3728 per share. The average selling price of the shares of the Parent in 2007 was EUR 2.68 per share.

At 31 December 2007, the treasury shares of the Parent held by the Group were intended for trading on the market.

The sale of the shares of the Parent, the only item included under "Disposals" in the foregoing table, gave rise to gains of EUR 4 million and EUR 697,616 in 2006 and 2007, respectively, which were recognised under "Equity – Reserves Arising from IFRSs".

11.3 Earnings per share

Basic earnings per share

The basic earnings per share for 2006 and 2007 were as follows:

	2006	2007
Profit for the year attributable to the Parent (thousands of Euros)	56,725	327,340
Weighted average number of shares outstanding (thousands of shares)	932,049	945,467
Basic earnings per share (euros)	0.061	0.346

Diluted earnings per share

Diluted earnings per share were determined as follows:

	2006	2007
Profit for the year attributable to the Parent (thousands of Euros)	56,725	327,340
Average number of shares outstanding (thousands of shares)	932,049	945,467
Dilutive effect of:		
Adjusted profit for the calculation of diluted earnings per share (thousands of Euros)	56,676	327,331
Adjusted average number of shares for the calculation of diluted earnings per share (thousands of shares)	938,445	947,094
Diluted earnings per share (euros)	0.060	0.346

11.4 Share premium

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

11.5 Legal reserve

Under the Consolidated Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

11.6 Reserves at fully consolidated companies

The detail, by company, of the balance of "Reserves at Fully Consolidated Companies" in the consolidated balance sheets at 31 December 2006 and 2007 is as follows:

Thousands of Euros

Entity	2006	2007
Iberia, Líneas Aéreas de España, S.A.	70,431	74,021
Compañía Auxiliar al Cargo Exprés, S.A.	2,350	2,722
Campos Velázquez, S.A.	56	81
VIVA, Vuelos Internacionales de Vacaciones, S.A.	1,415	2,052
Iberia Tecnología, S.A.	86	7
Auxiliar Logística Aeroportuaria, S.A.	112	147
Consultores Hansa, S.A.	3	4
Binter Finance B.V.	232	247
Total	74,685	79,281
Adjustments due to application of IFRSs	(91,434)	(91,434)
	(16,749)	**(12,153)**

11.7 Reserves at companies accounted for using the equity method

The detail, by company, of "Reserves at Companies Accounted for Using the Equity Method" in the consolidated balance sheets at 31 December 2006 and 2007 is as follows:

Thousands of Euros

Entity	2006	2007
Multiservicios Aeroportuarios, S.A.	1,143	1,768
Iber-America Aerospace LLC	126	152
Empresa Logística de Carga Aérea, S.A.	248	646
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A.	554	794
Handling Guinea Ecuatorial, S.A.	920	1,266
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	750	2,036
Serpista, S.A.	914	1,234
Air Miles Group	123	480
Other companies	(12)	(20)
Total	4,766	8,356
Adjustments due to application of IFRSs	1,494	1,494
Total	**6,260**	**9,850**

11.8 Valuation adjustments

"Valuation Adjustments" include mainly the changes in the value of hedging derivatives.

11.9 Minority interests

The detail, by company, of the balance of "Minority Interests" in the consolidated balance sheets at 31 December 2006 and 2007 and of the profit for 2007 and 2006 attributable to minority interests is as follows:

Thousands of Euros

	2006		2007	
Entity	**Profit Attrib. to Minority Interests**	**Minority Interests**	**Profit Attrib. to Minority Interests**	**Minority Interests**
Compañía Auxiliar al Cargo-Exprés, S.A.	232	1,130	252	1,266
Auxiliar Logística Aeroportuaria, S.A.	12	49	16	64
	244	**1,179**	**268**	**1,330**

The changes in this heading in 2006 and 2007 are summarised as follows:

Thousands of Euros

	2006	**2007**
Beginning balance	1,043	1,179
Share of profit	244	268
Dividends paid to minority interests	(108)	(117)
Ending balance	**1,179**	**1,330**

11.10 Capital management

The Group manages its capital to ensure that the Group companies are able to continue operating as profitable businesses whilst maximising shareholders' returns by maintaining a balanced debt-to-equity ratio. This policy makes it possible to reconcile thecreation of value for shareholders with access to financial markets at a competitive cost for the purpose of covering the borrowing requirements of the investment plan which are not covered by the funds generated by its business activities.

12. Bank borrowings and other financial liabilities

The detail, by maturity, of the bank borrowings at 31 December 2006 and 2007 is as follows:

Thousands of Euros

2006				2007			
Due in	Euros	Foreign Currencies ($)	Total	Due in	Euros	Foreign Currencies ($)	Total
Principal:				Principal:			
2007	46,314	23,084	**69,398**	2007	-	-	-
2008	4,276	123,503	**127,779**	2008	9,692	110,491	**120,183**
2009	5,463	9,862	**15,325**	2009	6,622	8,823	**15,445**
2010	1,768	54,528	**56,296**	2010	2,892	48,783	**51,675**
2011	1,768	-	**1,768**	2011	2,892	-	**2,892**
Subsequent years	4,080	-	**4,080**	Subsequent years	7,194	-	**7,194**
Interest:				Interest:			
2007	358		**358**	2008	847	-	**847**

These loans bore weighted average annual interest of 5.28% in 2006 and 5.74% in 2007.

The Group arranged credit lines with limits of EUR 267 million in 2006 and EUR 190 million in 2007, against which EUR 224 million and EUR 189 million had not been drawn down at 31 December 2006 and 2007, respectively.

13. Obligations under finance leases

The detail of the Group's finance leases at 31 December 2006 and 2007 is as follows:

Thousands of Euros

	Obligations Denominated in €		Obligations Denominated in $	
	2006	2007	2006	2007
Amounts payable under finance leases:				
Within one year	158,851	36,310	13,003	18,070
Between two and five years	96,718	106,064	52,406	46,885
After five years	70,818	28,348	119,739	95,404
Less: future finance costs				
Within one year	(10,859)	(7,695)	(2,769)	(5,179)
Between two and five years	(17,877)	(16,193)	(20,663)	(16,930)
After five years	(5,193)	(2,369)	(19,927)	(14,205)
Present value of finance lease obligations	**292,458**	**144,465**	**141,789**	**124,045**
Less- amount due for settlement within 12 months (shown under current liabilities)	147,992	28,615	10,234	12,891
Amount due for settlement after 12 months (shown under non-current liabilities)	144,466	115,850	131,555	111,154

The Group's most important finance leases relate to aircraft (see Note 7).

The terms of the finance leases on aircraft range from 7 to 16 years.

In 2007 the average effective interest rates on the obligations under finance leases were 5.28% for the obligations in euros and 5.46% for the obligations in US dollars (2006: 5.05% for the obligations in euros and 5.38% for the obligations in US dollars). The interest rates are set at the contract date. Taking into consideration the interest rate hedges arranged in 2007, the resulting effective rate was 3.6% (2006: 1.93%).

14. Long-term provisions

The changes in 2007 in the balance of this heading in the consolidated balance sheet were as follows:

Thousands of Euros

	Balance at 31-12-06	Additions	Amounts Used	Transfers	Balance at 31-12-07
Provisions for obligations to employees (Note 5.13)	618,332	74,341	(23,194)	(28,767)	640,712
Provision for major repairs (Note 5.2)	62,194	22,729	(20,600)	162	64,485
Provisions for restructuring costs (Note 5.12)	539,767	63,500	(107,558)	28,767	524,476
Provision for liability (Note 5.15)	138,764	22,681	(13,959)	(162)	147,324
	1,359,057	**183,251**	**(165,311)**	**-**	**1,376,997**

14.1 Provisions for obligations to employees

The additions to "Provisions for Obligations to Employees" include the period provision for the normal cost and for the amounts relating to the interest income from the provision already recognised, which is classified under "Staff Costs" (EUR 49 million)and under "Finance and Similar Costs" (EUR 25 million) in the consolidated income statement for 2007. The annual disbursements in this connection are amortised on an approximately straight-line basis.

14.2 Provisions for restructuring costs

The balance of "Provisions for Restructuring Costs" relates to the present value of the liabilities arising from the Collective Redundancy Procedure (see Note 5.12). EUR 410 million of this amount relates to the estimate made on the basis of actuarial studies carried out by professional valuers of the future payments to be made for the obligations assumed with employees who took early retirement pursuant to the terms and conditions of the workforce rejuvenation plan launched in 2000 (140 employees at 31 December 2007) and the voluntary collective redundancy procedure approved in 2001 and extended until 2010 for ground personnel (3,999 employees at 31 December 2007). Additionally, the Parent made a provision of EUR 114 million for the estimated cost of the group of employees who are expected to avail themselves of these measures. In 2007, 1,352 employees availed themselves of the voluntary collective redundancy procedure and the provision in this connection amounted to EUR 64 million, which is recognised under "Staff Costs – Non-Recurring" in the accompanying consolidated income statement for 2007.

The payments related to this provision will continue over the next seven years in accordance with the age of the employees who have availed or will finally avail themselves of the procedure.

14.3 Provisions for third-party liability

"Provisions for Third-Party Liability" includes the estimated amount required for probable liabilities of a diverse nature related mainly to litigation, unresolved tax assessments, etc (see Note 5.15).

15. Trade and other payables

The detail of the Group's "Trade and Other Payables" at 31 December 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
At amortised cost:		
Accounts payable for purchases and services	936,142	1,020,280
Other non-trade payables	216,477	201,650
Remuneration payable	159,762	186,286
Accrual accounts	7,966	5,608
	1,320,347	1,413,824
At fair value:		
Derivative financial instruments	62,004	82,848
	1,382,351	1,496,672

In general, the average payment period to suppliers and trade creditors is 60-90 days.

"Other Non-Trade Payables" mainly includes tax payables (see Note 17).

16. Derivative financial instruments

In line with the risk management policy described in Note 5.21, the Iberia Group arranges derivative transactions, mainly foreign exchange, interest rate and aviation fuel hedges.

The most frequently used foreign exchange derivatives are cross currency swaps, forwards and options. The most commonly used interest rate derivatives are interest rate swaps. The fuel price derivatives are mainly swaps and options.

The Parent classifies its derivates into three types pursuant to International Financial Reporting Standards (IFRSs):

1. Derivatives designated as cash-flow hedges: derivatives that mainly enable the cash flows from operating leases, ticket sales in currencies other than the euro and fuel purchases to be hedged.
2. Derivatives designated as fair value hedges: derivatives that enable the fair value of balance-sheet assets and liabilities to be hedged.
3. Other derivatives: those which have not been designated as hedges or do not meet the requirements established in IFRSs.

Foreign exchange hedges

At 31 December 2007, the derivatives hedging exchange rate fluctuations which were not specifically designated as hedges under IFRSs (since they are naturally offset in the income statement) were as follows:

Underlying	Currency	Amount in Millions	Derivative	Nominal Amount in Millions
Loans to IBERBUS companies	USD	198	Cross currency swaps	86
Advances on aircraft and engines	USD	296	Fx swaps	71
Guarantees	USD	23		
A-320 equities	USD	53		
4 A-320/321 debt	USD	(173)		
5 A-340 debt	USD	(247)		
Total		150		157

The fair value of these derivatives at 31 December 2007 was positive and amounted to approximately EUR 3 million and the EUR 10 million change in value as compared to 31 December 2006 was recognised in profit for the year, having offset the valuation losses on asset items.

At 31 December 2007, the total notional amount, by foreign exchange risk, of cash flow hedges was as follows:

Underlying	Currency	Amount in Millions	Type of Hedge	Forecast Cash Flows (in Millions) 2008	2009	2010	2011	2012
Foreign currency expenses	USD	(1,100)	Cross currency swaps	315	316	203	170	90
			Options:					
			USD four ways	321	212	-	-	-
			USD tunnels	109	22	-	-	-
			Fx forwards	72	10	-	-	-
Foreign currency income	GBP	90	Fx forwards	22	-	-	-	-
			Options:					
			GBP four ways	8	-	-	-	-
	CHF	124	Fx forwards	0	-	-	-	-
New aircraft	USD	(78)	Options:					
			USD four ways	25	-	-	-	-
			USD tunnels	0	-	-	-	-
			Fx forwards	10	-	-	-	-

In accordance with the hedge programme, short positions in USD arising from aircraft lease and fuel payments are 50% hedged with hedging instruments of up to five years, through swaps of aircraft lease payments denominated in USD to euros. The remaining 50% of the short positions in USD and the positions in GBP and CHF are hedged with tactical transactions within a time horizon of between one and three years.

The market value at 31 December 2007 of the exchange rate derivatives (Fx forwards and options) amounted to EUR -45 million (2006: EUR -37 million). EUR 17 million of this amount were included in assets under "Non-Current Financial Assets - Derivative Financial Instruments" and "Current Financial Assets" and EUR 62 million were recognised under "Trade and Other Payables" and "Other Non-Current Liabilities" in the accompanying consolidated balance sheet. These hedges are linked to the cash flows that will arise in 2008 and 2009.

Changes in the fair value of exchange rate derivatives that are effective as cash flow hedges amounted to EUR -9 million and were deferred in equity.

Changes in the fair value of the ineffective portion of forwards, amounting to EUR -2 million, were charged to income in 2007.

The exchange rate and interest rate risks related to aircraft leases were hedged with cross currency swaps (CCS) which convert payments originally in dollars to euros.

The effect of a change in exchange rates of more than 10% of the value of the hedges at 31 December 2007 would amount to EUR -106 million. If the change in exchange rates were less than 10%, the change in value of the hedged position at 31 December 2007 would be positive at EUR 125 million.

Cash flow hedges at 31 December 2007

Instrument	Iberia	Iberia	Amount (in Thousands) (*) Nominal Amount at 31-12-07	Nominal Amount at 31-12-08	Nominal Amount at 31-12-09	Nominal Amount at a 31-12-10	Nominal Amount at 31-12-11
Cross Currency Swaps							
Floating to fixed	Receives USD	Pays EUR	492,217	395,339	192,811	173,054	126,922
Floating to floating	Receives USD	Pays EUR	874,915	682,549	435,400	190,475	-
Floating to floating	Receives EUR	Pays USD	876,025	599,036	295,855	76,723	-
Fixed to fixed	Receives USD	Pays EUR	298,328	299,085	180,862	68,731	65,442

(*) The amounts are recorded in the currency in which the Company pays.

Interest rate hedges

The Group uses cross currency swaps and interest rate swaps to manage its exposure to interest rate fluctuations on its aircraft financing transactions.

		Amount (in Thousands) (*)				
Instrument	**Currency**	**Nominal Amount at 31-12-07**	**Nominal Amount at 31-12-08**	**Nominal Amount at 31-12-09**	**Nominal Amount at 31-12-10**	**Nominal Amount at 31-12-11**
Interest Rate Swaps						
Floating to floating (1)	USD	207,399	193,079	177,505	161,122	143,888

(1) The Parent pays floating interest with a cap and floor and receives floating interest.

The fair value of the cross currency swaps and interest rate swaps arranged at 31 December 2007 amounted to EUR -101 million (2006: EUR -46 million). This amount is made up of assets of EUR 34 million ("Derivative Financial Instruments" and "Current Financial Assets") and liabilities of EUR 135 million ("Trade and Other Payables" and "Other Non-Current Liabilities"). These hedges are linked to operating and finance lease payments which will be paid in 2008, 2009, 2010, 2011 and 2012.

The changes in value accumulated by the effective portion of the swaps in the cash-flow hedges were recognised in equity for EUR -42 million. The changes in value accumulated by the ineffective portion (EUR -12 million) were allocated to profit for the year.

The effect on the interest rate hedges of a sensitivity study of a change of +/-50 basis points on the EUR and USD interest rate curve is described below.

The effect of a change of more than 50 basis points in the euro interest rate curve on the value of the hedges at 31 December 2007 is approximately EUR 1 million. A change of less than 50 basis points would change the value of the hedged position at 31 December 2007 by EUR -2 million.

A change of +/- 50 basis points in the USD interest rate curve would have the following effects: more than 50 basis points would affect the value of the hedges by approximately EUR -2 million. Conversely, a change of less than 50 basis points would have an effect of approximately EUR 1 million.

Fuel price hedges

Underlying	**Commodity**	**Quantity (mT)**	**Type of Hedge**	**2008 Nominal (mT)**
Fuel purchases - JET Kerosene	JET Kero CIF-NWE	2 million	Options: four ways	840,000

Fuel price risk is hedged through options structures that hedge cash-flow fluctuations due to changes in fuel prices within a certain range. The hedge structures are composed of four options, the nominal values of which amount to 1,680,000 mT for the options bought and 1,680,000 mT for the options sold.

The market value of the fuel derivatives amounted to EUR 9 million at 31 December 2007, which was recognised in full as an asset ("Derivative Financial Instruments" and "Current Financial Assets").

Also, given that the entire value of the fuel derivatives is the effective portion of the hedge, the positive amount of EUR 9 million was recognised under "Equity – Valuation Adjustments" in the consolidated balance sheet at 31 December 2007. All the cash flows allocated will affect profit or loss in 2008.

The effect on the fuel derivatives of a sensitivity study performed on fuel prices applying a change of +/-20% on the price in accordance with the volatilities of the oil market is described below.

The effect of a change in fuel prices of more than 20% of the value of the hedges at 31 December 2007 amounts to EUR 11 million. In the case of a change in fuel prices of less than 20%, the change in value of the hedged position at 31 December 2007 would amount to EUR -53 million.

17. Tax matters

Consolidated Tax Group

The corporation tax for each fully consolidated company is calculated on the basis of accounting profit, which does not necessarily coincide with taxable profit.

Since 1 January 2002 Iberia, Líneas Aéreas de España, S.A. and certain subsidiaries file consolidated tax returns under the tax system provided for by Title VII, Chapter VII of the Consolidated Spanish Corporation Tax Law (Legislative Royal Decree 4/2004, of 5 March) as part of Tax Group 148/02, of which it is the Parent. The companies composing the Consolidated Tax Group are the fully consolidated companies, except for Binter Finance, BV, which does not meet the legally established requirements for forming part of the Group.

Years open for review by the tax authorities

As a result of various tax audits, the tax authorities issued certain assessments for 1993 to 1997 (relating mainly to personal income tax withholdings), which were signed on a contested basis and appealed against by the Parent.

Also, the Parent filed an appeal against the assessments issued in connection with customs duties for 1998 (second half), 1999 and 2000 (first five months).

The directors of Iberia, Líneas Aéreas de España, S.A. consider that no tax liabilities additional to those recognised under "Provisions for Third-Party Liability" will arise from the resolution of the various appeals described above (see Note 14).

The Parent and the Consolidated Tax Group are currently under review by the tax authorities for 2002, 2003 and 2004.

In relation to the tax periods for which the limitation period has not expired, from 2002 to 2007 for all the taxes applicable to the Group's operations, the directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities to arise in addition to those recognised which might have a material effect on the consolidated financial statements.

Tax receivables and payables

The detail of the tax receivables at 31 December 2007 and 2006 is as follows:

Thousands of Euros

	2006	2007
Deferred tax assets	445,355	481,307
Current tax receivables		
Foreign tax receivables	4,075	6,760
VAT	10,655	12,647
Other tax receivables	13	31
	14,743	19,438

The deferred tax assets arose mainly from the provisions made for obligations to employees and other provisions which will become tax deductible in coming years and from income received in relation to memorandum credits and other deferred aircraft-related incentives.

The detail of the tax payables at 31 December 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
Deferred tax liabilities	**1,915**	**1,176**
Current tax payables		
Take-off and security charges at airports	31,677	36,551
Foreign tax payables	48,278	38,528
Social security taxes	42,256	21,894
Personal income tax withholdings	30,581	29,351
Income tax payable	15,760	34,302
Other tax payables	589	676
	169,141	**161,302**

Deferred tax assets and liabilities are recognised in the balance sheet under "Deferred Tax Assets" and Deferred Tax Liabilities" as follows:

Thousands of Euros

	2006		2007	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Temporary differences arising in the period	46,334	-	81,800	-
Temporary differences arising in prior years	399,021	1,915	399,507	1,176
	445,355	**1,915**	**481,307**	**1,176**

The changes in the balance of deferred tax assets in 2006 and 2007 were as follows:

	Balance at 31-12-2005	Additions	Disposals	Balance at 31-12-2006	Additions	Disposals	Balance at 31-12-2007
Deferred tax assets	484,513	46,334	(85,492)	445,355	81,800	(45,848)	481,307

The deferred tax assets at 31 December 2007 are expected to be utilised as follows:

Year of Recovery	Thousands of Euros
2008	46,800
2009	40,000
2010 and subsequent years	394,507
	481,307

Reconciliation of the accounting profit to the taxable profit

The reconciliation of consolidated accounting profit for 2006 and 2007 of the Consolidable Group companies to the taxable profit for income tax purposes is as follows:

Thousands of Euros

	2006			2007		
	Increase	**Decrease**	**Amount**	**Increase**	**Decrease**	**Amount**
Accounting profit for the year (before tax)			165,193			446,444
Permanent differences	2,407	(127)	2,280	1,255	(1,361)	(106)
Timing differences:						
Arising in the year	171,116(a)	-	171,116	227,173(a)	-	227,173
Arising in prior years	1,426	(149,355)(b)	(147,929)	1,123	(167,304)(b)	(166,181)
Consolidation adjustments:						
Permanent differences	32,208	(10,504)	21,704	10,690	(6,179)	4,511
Offset of prior years' tax losses	-	-	(601)	-	-	(977)
Taxable profit			**211,763**			**510,864**

(a) Relating mainly to period provisions for obligations to employees and other provisions for contingencies and charges and amounts received in 2007 in relation to memorandum credits and other deferred incentives.
(b) Relating basically to amounts used of provisions recorded in prior years for obligations to employees and income recognised in 2007 in relation to credit memorandums and other incentives received in prior years.

Income tax expense

The detail of the balance of "Income Tax" in the accompanying consolidated income statements for 2006 and 2007 relates to the sum of the income tax expenses recognised by each fully consolidated company, the detail being as follows:

Thousands of Euros

	2006	**2007**
Application of the 32.5% tax rate to accounting profit adjusted for permanent differences	66,127	146,526
Add/(Less)-		
Tax credits	(13,959)	(24,218)
Adjustment of previous years' income tax	(5,714)	(353)
Other	15,566	6,317
Tax effect of IFRS adjustments	(12,925)	(9,436)
Income tax	**49,095**	**118,836**

The figure disclosed in the foregoing detail under "Other" basically includes the adjustments required to reflect the timing differences at the tax rate (30%) applicable for periods commencing on or after 1 January 2008.

Law 35/2006, of 28 November, on Personal Income Tax and partially amending the Spanish Corporation Tax, Non-Resident Income Tax and Wealth Tax Laws, provided for the reduction over two years of the standard Spanish corporation tax rate, which stood at 32.5% for 2007 and 30% for subsequent years.

The Spanish corporation tax efective rate for the years 2006 and 2007 has been 30% and 27%, respectively.

Current Spanish corporation tax regulations provide certain tax incentives to encourage investments and contributions to employees' mutual funds. The consolidated companies availed themselves of certain tax benefits in this connection and used tax credits amounting to EUR 7 million in the income tax return for 2006 and intend to use tax credits of EUR 4 million in theincome tax return for 2007.

The Iberia Group took domestic and international double taxation relief amounting to EUR 6 million and intends to use tax credits amounting to EUR 4 million in this connection in 2007.

In 2006 and 2007 the Group reinvested EUR 560,000 and EUR 123 million, respectively, arising from the sale of assets, which gave rise to tax credits of EUR 87,000 and EUR 16 million, respectively. The amounts reinvested in recent years and the related tax credits are as follows:

Thousands of Euros

	Reinvestment	Tax Credits
2003	31,516	4,822
2004	124,869	16,980
2005	824,576	128,710
2006	569	87
2007	123,325	16,381

18. Income

18.1 Revenue

The breakdown of the Consolidable Group's revenue in 2006 and 2007 is as follows:

Thousands of Euros

By Activity	2006	2007
Passenger ticket revenue (a)	4,222,904	4,324,916
Cargo revenue	329,738	343,116
Handling (aircraft dispatching and airport services)	331,154	279,978
Technical assistance to airlines	219,038	273,567
Other income	85,119	82,898
	5,187,953	**5,304,475**

(a) Including other income (recovery of unused tickets, commercial agreements, etc.) amounting to EUR 260 million and EUR 291 million in 2006 and 2007, respectively.

The breakdown of passenger ticket revenue, by network, is as follows:

Millions of Euros

	2006	2007
Domestic	1,206	1,113
Medium-haul	1,170	1,119
Long-haul	1,587	1,802
	3,963	**4,034**

18.2 Other operating income

The detail of "Other Operating Income" in the accompanying consolidated income statements is as follows:

Thousands of Euros

	2006	2007
Recurring		
Commissions	80,149	84,794
Rental income	22,122	24,363
Other sundry income	97,557	108,118
Non-recurring		
Recovery of provisions for repairable parts	53,279	-
Sale of Musini	14,738	-
Other non-recurring operating income	8,748	14,030
	276,593	**231,305**

The income from commissions relates basically to the commissions on the sale of tickets for other airlines, the commissions arising from the franchise agreement with Air Nostrum and the sale of tickets for Clickair, S.A. under Iberia's code.

18.3 Net gains on disposal of non-current assets

The detail of the balance of "Net Gains on Disposal of Non-Current Assets" in the accompanying consolidated income statements for 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
WAM Adquisition, S.A. (Note 8.1.3.)	-	94,386
Disposal of aircraft and engines (Note 7)	(1,599)	72,577
Compulsory purchase of land and disposal of buildings	-	27,900
Other	(751)	1,476
	(2,350)	**196,339**

18.4 Finance income

The detail of the balance of "Finance Income" in the accompanying consolidated income statements is as follows:

Thousands of Euros

	2006	2007
Interest on short-term deposits	57,458	104,401
Interest on loans to associates	7,187	6,294
Other finance income	23,405	15,549
	88,050	**126,244**

19. Expenses

19.1 Procurements

The detail of "Procurements" in the accompanying consolidated income statements for 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
Recurring		
Aircraft fuel	1,177,516	1,145,202
Aircraft spare parts	157,953	168,848
Catering materials	24,073	23,236
Other purchases	19,152	16,906
Non-recurring		
Provision for repairable engine parts	26,415	-
	1,405,109	**1,354,192**

19.2 Headcount and other staff costs

The detail of "Staff Costs" in the accompanying consolidated income statements for 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
Wages, salaries and similar expenses	1,049,905	1,044,330
Employee welfare costs	345,297	336,235
Non-recurring staff costs		
Provisions for extension of collective redundancy procedure (Note 14.2)	25,800	63,500
Other	-	500
	1,421,002	**1,444,565**

The average number of employees at the Group companies, measured in terms of equivalent average headcount, by professional category, in 2006 and 2007 was as follows:

	Number of Employees	
	2006	2007
Ground personnel		
Senior managers and other line personnel	1,194	1,128
Clerical staff	6,386	6,096
Other	10,158	9,653
	17,738	16,877
Flight personnel		
Pilots	1,826	1,707
Cabin crew	4,337	3,931
	6,163	5,638
	23,901	**22,515**

The distribution by gender and professional category of the workforce at 31 December 2007 and 2006 was as follows:

	Number of Employees			
	2006		2007	
	Women	Men	Women	Men
Ground personnel				
Senior managers and other line personnel	414	739	415	701
Clerical staff	4,644	2,410	4,341	2,214
Other	1,171	9,886	1,149	8,951
	6,229	13,035	5,905	11,866
Flight personnel				
Pilots	59	1,731	61	1,675
Cabin crew	3,079	1,092	3,167	1,131
	3,138	2,823	3,228	2,806
	9,367	**15,858**	**9,133**	**14,672**

19.3 Other operating expenses

The detail of "Other Operating Expenses" in the accompanying consolidated income statements for 2006 and 2007 is as follows:

Thousands of Euros

	2006	2007
Aircraft lease payments:		
Dry lease	351,864	347,008
Wet lease	51,245	45,953
Cargo	12,597	15,156
Cash-flow derivative transactions	24,605	12,767
Other	8,839	12,390
Other rent	76,376	75,580
Air traffic services	387,684	388,487
Navigation charges	285,758	274,103
Commercial expenses	246,054	242,590
Aircraft maintenance	179,806	236,039
Booking system expenses	147,767	144,519
In-flight services	67,957	72,570
Indemnities for passengers, luggage and cargo	51,638	36,961
Stopover expenses	41,899	40,757
Other maintenance	41,435	43,722
Other	297,036	299,639
Other non-recurring expenses	15,548	17,277
	2,288,108	**2,305,518**

"Aircraft Maintenance" includes the expenses for subcontracted maintenance work and the provision for major repairs of aircraft operated under operating leases.

The fees for financial audit services provided to Iberia, Líneas Aéreas de España, S.A. and its subsidiaries by the principal auditor and by other entities related to the auditor amounted to EUR 497,000 in 2007 (2006: EUR 501,000).

Also, the fees for other professional services provided to Iberia, Líneas Aéreas de España, S.A. and its subsidiaries by the principal auditor and by other entities related thereto amounted to EUR 118,500 in 2007 (2006: EUR 145,000).

19.4 Finance costs

The detail of "Finance Costs" in the accompanying consolidated income statements is as follows:

Thousands of Euros

	2006	2007
Interest on loans	16,131	11,892
Interest on finance leases	22,121	19,565
Interest on employee liabilities	20,063	24,733
Other finance costs	2,310	3,695
	60,625	**59,885**

20. Contribution of subsidiaries and associates to consolidated profit

The contribution of subsidiaries and associates to the consolidated profit in 2006 and 2007 is as follows:

Thousands of Euros

	Profit/(Loss)	
Company	**2006**	**2007**
Iberia, Líneas Aéreas de España, S.A.	51,546	355,292
Compañía Auxiliar al Cargo Exprés, S.A.	696	756
VIVA Vuelos Internacionales de Vacaciones, S.A.	612	197
Iberia Tecnología, S.A.	(802)	126
Other subsidiaries	188	546
Multiservicios Aeroportuarios, S.A.	929	75
Handling Guinea Ecuatorial, S.A.	(44)	379
Empresa Logística de Carga Aérea, S.A.	398	24
Empresa Hispanocubana de Mantenimiento de Aeronaves Ibeca, S.A.	498	344
Sociedad Conjunta para la Emisión y gestión de Medios de Pago EFC, S.A. (IBERIA-CARDS)	1,286	969
Air Miles Group	358	290
Clickair, S.A.	-	(31,062)
Internacional Supply Management, S.L.	689	(637)
Serpista, S.A.	320	(3)
Other	51	44
Profit attributable to the Parent	**56,725**	**327,340**

21. Business and geographical segments

Basis of segmentation

Segment reporting is structured on a primary basis by business segment and on a secondary basis by geographical segment.

Primary segments - business segments

The business lines described below were established on the basis of the Iberia Group's organisational structure at 2007 year-end and take into account the nature of the services provided and the customer segments at which they are targeted.

In 2007 the Iberia Group engaged mainly in the following major lines of business, which provides the basis for the Group's primary segment reporting:

1. Transport business (including passenger and cargo transport)
2. Airports business (mainly handling)
3. Maintenance and engineering business
4. Other business activities

Income and expenses that cannot be specifically attributed to any operating line or that are the result of decisions affecting the Group as a whole -including expenses incurred in projects or activities affecting several lines of business, or income from strategic investments, income tax expenses, etc.- are attributed to a "Corporate Unit" to which the reconciling items arising from the reconciliation of the result of integrating the financial statements of the various lines of business (prepared using a management approach) to the Group's consolidated financial statements are also allocated.

The costs incurred by the Corporate Unit are allocated among the various lines of business using an internal cost allocation system.

Secondary segments - geographical segments

The Group's activities are also classified into geographical segments: Domestic (Spain), Short- and Medium-Haul International (Europe, Africa excluding South Africa, and the Middle East) and Long-Haul markets.

Basis and methodology for segment reporting

The segment reporting below is based on monthly reports prepared by the Iberia Group which are generated on the basis of the Group's cost accounting system which classifies transactions carried out by the Group by business line and geographical segment.

Segment revenue relates to the external and internal revenue directly attributable to the segment and excludes finance income, dividends or proceeds from the disposal of investments.

The expenses of each segment are determined by the directly allocable expenses incurred in the operating activities of the segment plus the corresponding proportion of the corporate expenses which can be allocated to the segment using reasonable allocation bases. The expenses thus allocated do not include interest, losses arising from the disposal of investments or the income tax expense that are not related to the segments' operating activities and, therefore, that cannot be allocated using reasonable allocation bases.

Segment assets and liabilities are those directly related to each segment's operations, plus the assets and liabilities that can be directly attributed thereto using the aforementioned allocation bases. Segment liabilities do not include income tax debts.

Segment information about these businesses is presented below:

Thousands of Euros

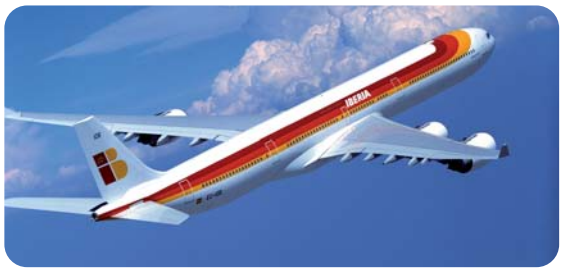
	Transport		Airports		Maintenance		Corporate Unit and Other Businesses		Total Group	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Operating income:										
External	4,780,593	4,904,637	333,840	295,379	229,940	288,580	43,408	33,154	5,387,781	5,521,750
Inter-segment	4,667	6,770	307,402	277,612	376,572	401,531	163,555	174,061		
Operating expenses:										
External	3,938,164	3,875,408	590,532	566,716	553,659	617,243	183,472	178,839	5,265,827	5,238,206
Inter-segment	775,558	775,121	32,005	32,843	27,176	29,391	17,457	22,619		
Operating profit	**71,538**	**260,878**	**18,705**	**(26,568)**	**25,677**	**43,477**	**6,034**	**5,757**	**121,954**	**283,544**
E.B.I.T.D.A.R.	685,808	856,969	35,340	(9,999)	49,702	67,360	19,626	17,696	790,476	932,026
Aircraft lease payments	(449,252)	(433,195)	-	-	190	-	(89)	(79)	(449,151)	(433,274)
E.B.I.T.D.A.	236,556	423,774	35,340	(9,999)	49,892	67,360	19,537	17,617	341,325	498,752
Depreciation and amortisation charge	(165,018)	(162,896)	(16,635)	(16,569)	(24,215)	(23,883)	(13,503)	(11,860)	(219,371)	(215,208)
Non-recurring profit							13,207	128,965	13,207	128,965
Financial profit							25,514	63,466	25,514	63,466
Investments in companies accounted for using the equity method							4,518	(29,531)	4,518	(29,531)
Profit before tax							165,193	446,444	165,193	446,444
Income tax							(49,095)	(118,836)	(49,095)	(118,836)
Negative adjustments to income tax							(59,129)	-	(59,129)	-
Net profit							**56,969**	**327,608**	**56,969**	**327,608**
Equivalent headcount	9,707	8,942	8,988	8,493	3,864	3,806	1,342	1,274	23,901	22,515
Investments	91,636	198,070	44,610	20,309	25,409	29,909	16,991	16,306	178,646	264,594
Property, plant and equipment	1,054,155	853,141	100,882	88,928	157,350 (a)	155,119	38,522	36,478	1,350,909	1,133,666
Inventories	44,786	41,553	496	125	137,345 (a)	153,236	4,967	2,316	187,594	197,230
Other assets	-	-	-	-	-	-	4,212,747	4,685,937	4,212,747	4,685,937
Total assets									**5,751,250**	**6,016,833**
Customer advances	435,541	455,366	-	-	-	-	-	-	435,541	455,366
Remuneration payable	91,680	106,823	37,429	43,564	20,447	24,548	10,206	11,363	159,762	186,298
Other liabilities	-	-	-	-	-	-	5,155,947	5,375,169	5,155,947	5,375,169

(a) See Notes 5.5 and 7 on repairable engine parts.

Inter-segment sales are made applying an internal transfer pricing system based on market prices on the basis of equivalent areas and volumes.

The following table shows the geographical breakdown of the Group's revenue:

Secondary Segment	Revenue 2006	Revenue 2007
Domestic	2,234,997	2,351,250
Short- and Medium-Haul International	1,253,803	1,198,543
Long-Haul	1,898,981	1,971,958
	5,387,781	**5,521,751**



All the Group's assets would be allocable to the domestic market except for the aircraft, which do not have defined geographical location. The percentages of use of the aircraft in each geographical market, measured in terms of total block hours, are as follows:

Secondary Segment	Percentage of Use 2006	Percentage of Use 2007
Domestic	33.05%	30.13%
Short- and Medium-Haul International	38.08%	37.82%
Long-Haul	28.87%	32.05%
	100.00%	**100.00%**

22. Related party transactions

Balances and transactions with other related parties

In 2006 and 2007 the Group companies performed the following transactions with related parties:

Thousands of Euros

Significant Shareholders	2006 Collected from IB Group	2006 Paid to IB Group	2007 Collected from IB Group	2007 Paid to IB Group
American Airlines	4,576	7,972	-	-
British Airways	9,494	34,538	6,967	19,043
El Corte Inglés, S.A.	23,716	32	21,461	122
Logista, S.A.	162	26	-	-
BBVA	3,204	1,216	3,852	458
Caja Madrid	9,014	20	7,284	11
	50,166	**43,804**	**39,564**	**19,634**

The transactions with British Airways relate mainly to commissions on passenger tickets collected from and paid to these companies, for tickets issued by one company with the related flight being flown by the other, collections and payments arising from loyalty building programmes, results from the joint operation of certain routes and collections for handling services provided by Iberia, Líneas Aéreas de España, S.A.

The main transactions with El Corte Inglés S.A., relate to the supply of uniforms for ground staff and flight personnel, commissions and incentives for passenger ticket sales under commercial agreements, technical advisory services and computer software maintenance and development, hardware and payments for media advertising.

Lastly, the transactions with BBVA and Caja Madrid relate mainly to the interest on aircraft financing transactions, guarantees given on aircraft and other items.

In addition, the accompanying consolidated balance sheets at 31 December 2006 and 2007 include the following balances with related parties arising in the normal course of business:

Thousands of Euros

Related Parties	31-12-06	31-12-07
American Airlines	91	-
British Airways	1,210	5,991
El Corte Inglés Group	7,351	9,203
	8,652	**15,194**

23. Remuneration of directors and senior executives

The detail of the remuneration received in 2006 and 2007 by the members of the Board of Directors in their capacity as directors of the Parent is as follows:

Thousands of Euros

Directors' Remuneration	2006	2007
Fixed remuneration	628	753
Attendance fees	578	703
Compensation in kind	85	86
Total retribucionesTotal remuneration	1,291	1,542

In 2007 Iberia, Líneas Aéreas de España, S.A. incurred expenses related to the performance of non-executive directors' functions amounting to EUR 8,165 (2006: EUR 8,695).

In addition, certain directors occupy executive positions in the Parent for which they received the following remuneration in 2006 and 2007:

Thousands of Euros

Executive Directors	2006	2007
Fixed remuneration	838	630
Variable remuneration (a)	755	448
Compensation in kind	21	8
Options (b)	350	310
	1,964	1,396

(a) Relating to payments for achieving objectives for the year prior to that indicated in the column.
(b) Relating to payments made under the share option plan approved in 2003.

The social security, insurance and other costs recognised by Iberia, Líneas Aéreas de España, S.A. in relation to the activities performed by the executive directors amounted to EUR 154,999 in 2007 (2006: EUR 571,060).

In 2007 no advances or loans were granted to the directors of Iberia, Líneas Aéreas de España, S.A., and there are no pension commitments to them.

Lastly, at 31 December 2007 the Parent's executive directors did not hold any unexercised stock options.

Remuneration of senior executives

The remuneration of the Parent's senior executives -excluding those who are simultaneously directors (whose remuneration is disclosed above)- in 2006 and 2007 is summarised as follows:

Thousands of Euros

Item	2006 (19 Persons)	2007 (9 Persons)
Salary (fixed and variable) (a)	4,073	2,544
Other long-term benefits	177	125
Share-option-based payments (b)	662	954
Other	204	121
	5,116	3,744

(a) Variable remuneration relates to payments for achieving objectives for the year prior to that indicated in the column.
(b) Relating to payments made under the share option plans approved in 2001 and 2003.

In 2007 senior executives exercised all the stock options unexercised at 31 December 2006 (1,000,840 shares).

In 2006 and 2007 no advances or loans were granted to the members of the Management Committee of Iberia, Líneas Aéreas de España, S.A., and there are no pension obligations to them.

24. Detail of the investments in companies engaging in similar activities and of the performance, by the directors, as independent professionals or as employees, of similar activities

Pursuant to Article 127 ter.4 of the Spanish Companies Law, introduced by Law 26/2003, of 17 July, which amends Securities Market Law 24/1988, of 28 July, and the Consolidated Spanish Companies Law, in order to reinforce the transparency of listed corporations, following is a detail of the activities carried on in 2007, as independent professionals or as employees, by directors that are identical, similar or complementary to the activity that constitutes the company object of Iberia, Líneas Aéreas de España, S.A. and subsidiaries:

Name	Activity	Employment Regime	Company	Office/Function
Miguel Blesa de la Parra	Handling	Employee	Flightcare (FCC)	Independent director FCC
Roger Maynard	Air transport	Employee	British Airways	Director of Alliances and Investments
	Air transport	Employee	Britsh Airways	
			Citiexpress	Chairman
Lord Garel-Jones	Handling	Employee	Acciona	Independent director

Fernando Conte is also a member of the Board and Chairman of the Audit Committee of IATA.

Also, pursuant to the aforementioned Act, it is hereby stated that the only members of the Board of Directors owns any equity interests in companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Iberia, Líneas Aéreas de España, S.A. are Miguel Blesa de la Parra that owns the 0.003% of the equity of Flightcarethrough FCC and Roger Maynard that owns the 0,0004994% of the equity of British Airways.

Lastly, directors (or persons acting on their behalf) have not entered into transactions other than ordinary business transactions or in conditions other than normal market conditions with Iberia, Líneas Aéreas de España, S.A. or with other Iberia Group companies.

25. Information on the environment

Within the framework of its environmental policy, the Group continued to undertake various activities and projects in 2007 in order to guarantee the proper management of the main environmental impacts of the air transport business as a whole.

In 2007 the Group incurred environmental expenses of EUR 3 thousand (2006: EUR 4 thousand), the detail being as follows:

Thousands of Euros

	2006	2007
Environmental repair and maintenance	1,676	1,055
Environmental technical services	919	367
Staff costs relating to environmental management	1,009	941
Environmental taxes and other	338	506
	3,942	**2,869**

At 31 December 2007, the acquisition cost and accumulated depreciation of the environmental assets, which include, inter alia, water-treatment plants, hazardous waste storage facilities, gas recharge and filter systems and water recycling infrastructure, amounted to EUR 63 million and EUR 33 million, respectively (2006: EUR 60 million and EUR 30 million, respectively).

With respect to its aircraft, the Group has a renewal policy in which the environment (minimising the impact of noise and air emissions) is an important factor to be borne in mind. Accordingly, the Group is continuing to add new aircraft models that reduce fuel consumption by approximately 20% compared to earlier generation aircraft. Therefore, in 2006 three A-340-600 were added for long-haul routes and two B-747 were retired; eight aircraft of the A-320 family were also acquired and three B-757, six A-320 and one MD aircraft were retired. In 2007, nine A-320 aircraft were added and three B-757, eleven A-320 and seven MD aircraft were retired.

In the area of ground operations, a new ISO 14001/AENOR Environmental Management System certification was obtained including the Parent's aircraft maintenance facilities at Barajas airport in Madrid. As a result of this certification, together with the existing ones in handling and the Parent's other maintenance facilities, all of the Parent's significant environmental issues are covered by external certification.

The Parent considers that any possible environmental contingencies that might arise are covered sufficiently by its third-party liability insurance policies and by the provisions relating to probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount.

26. Cash flow statement

The main items in the cash flow statement relate to the following:

"Provisions" includes mainly the net provisions relating to the obligations to personnel, major repairs and restructuring costs(see Note 14).

"Provisions Used" reflects basically the payment made to personnel in connection with the restructuring costs.

"Gains/Losses on Disposal of Property, Plant and Equipment and Intangible Assets" reflects mainly the gains arising on disposal of aircraft, engines, land and buildings (see Notes 7.1 and 18.3). Also, the gains obtained on the sale of a portion of the ownership interest in Wam Acquisition, S.A. are recognised under "Gains/Losses on Disposal of Investments". The cash received in connection with this transaction is recognised under "Net Investments in Non-Current Financial Assets".

"Net Investments in Property, Plant and Equipment, Intangible Assets and Investment Property" includes the investments related to the acquisition of non-current assets and other items (see Note 7).

27. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

Consolidated Management Report
Iberia Group

Key data

IBERIA GROUP [1]	2007	2006	% Change
Earnings (millions of Euros)			
Operating revenue	5,521.8	5,387.8	2.5
EBITDAR	932.0	790.5	17.9
Operating profit	283.5	122.0	132.5
Profit from operations [2]	412.5	135.2	205.2
Profit before tax	446.4	165.2	170.3
Consolidated profit for the year	327.6	57.0	n.m.
Profit for the year attributable to the Parent	327.3	56.7	n.m.
Consolidated profit (without tax adjustments)	327.6	116.1	182.2
Basic earnings per share (Euro cents) [3]	34.6	6.1	n.m.
Dividends per share (Euro cents)	17.0	3.5	n.m.
Passenger traffic: production and revenue			
ASK (millions)	66,454	65,802	1.0
RPK (millions)	54,229	52,493	3.3
Load factor (%)	81.6	79.8	1.8 p.
Passenger ticket revenue (millions of Euros)	4,034.2	3,963.2	1.8
Average revenue per RPK (Euro cents)	7.44	7.55	(1.5)
Average revenue per ASK (Euro cents)	6.07	6.02	0.8
Financial aggregates and ratios			
Equity (millions of Euros)	2,005.9	1,738.6	15.4
Net debt per balance sheet (millions of Euros) [4]	(2,500.4)	(1,722.2)	45.2
Adjusted net debt (millions of Euros) [5]	581.7	1,346.6	(56.8)
EBITDAR margin (%)	16.9	14.7	2.2 p.
Operating profit margin (%)	5.1	2.3	2.9 p.
Consolidated profit margin (%)	5.9	1.1	4.9 p.
ROE (%) [6]	16.3	3.3	13.1 p.
Operating revenue per ASK (Euro cents)	8.31	8.19	1.5
Operating cost per ASK (Euro cents)	7.88	8.00	(1.5)
Operating cost per ASK excluding fuel (Euro cents)	6.16	6.21	(0.9)
Resources			
Average no. of full-time equivalent employees [7]	22,515	24,053	(6.4)
Operating revenue per employee (thousands of Euros) [8]	246.4	224.6	9.7
Productivity (thousands of ASK per employee) [8]	2,980	2,757	8.1
Aircraft in service at December 31	136	150	(9.3)
Fleet utilisation (block hours per aircraft per day)	9.6	9.1	5.3

n.m.: not meaningful

(1) Consolidated data based on International Financial Reporting Standards (IFRSs).

(2) Profit from operations includes profit from recurring and non-recurring items.

(3) Weighted average number of shares outstanding (in thousands): 945,467 in 2007; 932,049 in 2006.

(4) Negative figure means cash and cash equivalents exceed interest-bearing debt (excluding the valuation of hedges at year-end 2007 and 2006).

(5) Calculated as follows: Net debt per balance sheet + capitalised aircraft leases (excluding the valuation of hedges) - capitalised interest on Iberbus loans.

(6) Return on equity: Consolidated profit / Equity.

(7) Including the employees of IBERIA, CACESA, ALAER and BINTER FINANCE. From January 2007 the criteria used to calculate the equivalent workforce were changed with the purpose of obtaining more representative data. The headcounts for 2006 were recalculated using the new criteria.

(8) Productivity of IBERIA's total workforce. Productivity data calculated in accordance with the data on the equivalent number of employees obtained using the new criteria.

1. Highlights

In the first half of 2007 the world economy continued to grow at the strong pace recorded in 2006. The sub-prime mortgage crisis in the US half-way through the year unleashed a period of financial turmoil, marked by tight lending restrictions. This situation, compounded by accelerating inflation rates due to the escalation of raw material prices, clouded the economic outlook, although it had a limited impact on economic growth in the second half of the year. Thus, for the whole of 2007, the International Monetary Fund (IMF) estimated a 4.9% increase in the world gross domestic product (GDP), only slightly lower than that achieved in 2006.

The vigorous growth of the world economy, combined with more intensive trading and the application of suitable macroeconomic policies, contributed to the progress of the European economy, in which certain Eastern European countries' performance was especially dynamic. In the Euro zone, GDP grew at an estimated 2.6% in 2007 and, in the Spanish economy, 3.8% growth was recorded.

For the Latin American and Caribbean economies, the Iberia Group's priority markets, the IMF estimated economic growth of around 5% in 2007, in keeping with the dynamism of the previous year.

Growth of actual GDP (a)	2007	2006
At world level (b)	4.9	5.0
USA	2.2	2.9
Latin America and the Caribbean (b)	5.0	5.5
Euro zone (b)	2.6	2.8
Central and Eastern Europe (b)	5.5	6.4
Spain	3.8	3.9

Sources: IMF, World Economic Outlook (January 2008 and December 2007).
(a) Annual change in GDP percentage, constant prices.
(b) The world and regional growth aggregates relate to the weighted average GDP per levels of purchasing power.

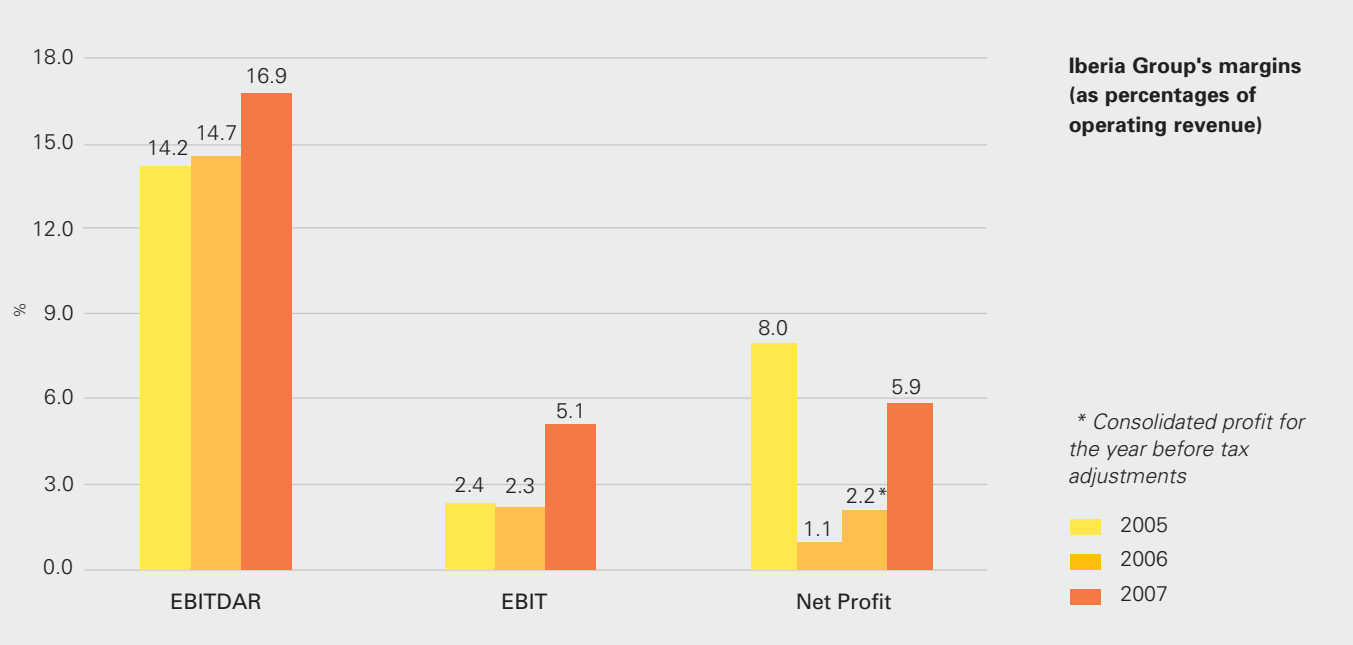
Underpinned by the sustained growth of the world economy, passenger air traffic made strong progress in 2007. According to data published by the International Air Transport Association (IATA) the number of revenue passenger-kilometres (RPK) in regular international flights increased by 7.4% compared with 2006 across the industry. The increase in capacity was somewhat more modest at 6.2%, with a load factor of 77.0%, up by 0.8 percentage points on 2006.

The increase in international traffic carried by European network airlines was 5.4% compared with 2006, according to data from the Association of European Airlines (AEA). In terms of total AEA traffic, including domestic flights, the RPK rose by 5.1%, with a modest increase of 4.2% in the number of available seat-kilometres (ASK), thus improving the load factor by 0.7 points compared with 2006. Low-cost European airlines expanded rapidly, recording a traffic increase of approximately 24%.

In Spain, air traffic grew rapidly in 2007, partly driven by the additional capacity of airport infrastructures. According to data from Aeropuertos Españoles y Navegación Aérea (Aena) the number of passengers on commercial flights (domestic and international) increased by 9.1% compared with 2006, nearly doubling the aforementioned traffic increase of the European companies belonging to the AEA.

After six consecutive years of losses, profit was reported in the world aviation industry in 2007, despite the unprecedented surge in the oil price in the last few months of the year, with the price of Brent crude approaching USD 100 per barrel in December. According to the latest estimates published by the IATA, the companies will obtain net profits of USD 5,600 million, versus the losses of USD 500 million in 2006, due to the increase in revenue, driven by economic growth, and to ongoing cost control, which have counteracted the impact of the rise in fuel prices.

Against this backdrop, the Iberia Group faced up to the second year of implementation of the 2006-2008 Master Plan, achieved most of the objectives set for this period and even some of those established for 2008, and significantly improved its returns on all levels.



In 2007, the number of RPK of Iberia, Líneas Aéreas de España, S.A. ("IBERIA") increased by 3.3%, compared with 2006, against a 1.0% increase in the number of services, and the passenger load factor improved by 1.8 percentage points to 81.6% which was –for the third consecutive year– an all-time high in the Company's average load factor, and also the highest among the European network airlines.

In keeping with one of the strategic lines of the Master Plan, in 2007 the Company continued to foster the development of the network operation at the Madrid-Barajas airport, its main hub. The recent expansion of the airport's capacity provides an opportunity to grow and to develop a more profitable network operation. Also, the Iberia Group is located in the new Terminal T4, which affords the right conditions to enable the Company to continue improving its service quality. During the year, IBERIA significantly increased the capacity made available on flights from and to Madrid, raised the number of frequencies on trunk routes and opened up to seven new international destinations.

In accordance with its plans to reinforce the network structure, growth of the air traffic activity remained focussed on long-haul flights, especially to South America and the US, in the latter case with the opening of the new routes to Boston and Washington. IBERIA's positioning in the American markets combined with vigorous demand during the year led to an 8.7% increase in the number of long-haul RPK compared with 2006. And, for the first time in its 80 years of existence, IBERIA carried over four million passengers on its transatlantic flights. Additionally, in 2007 the Company consolidated its leadership in the Europe-Latin American market by expanding its share to 19.9%, taking it further ahead of its main competitors.

Simultaneously, IBERIA continued to restructure its short- and medium-haul programme, making selective adjustments to the domestic and European flights to ensure sufficient profitability and to strengthen connections in the Madrid hub. The transportvolume thus decreased by 4.3% in the short- and long-haul operations as a whole, although it increased by 13.1% in the flights to and from Madrid-Barajas airport.

In 2007 IBERIA's passenger and cargo traffic revenue rose by 2.5% with respect to 2006, in the same proportion as total operating revenue, which amounted to EUR 5,521.8 million. An analysis of the year-on-year changes must take into account the impact of the sharp depreciation of the US dollar against the Euro, which reduced both operating revenue and expenses, although these impactswere offset in profit before tax. Had the exchange rates remained constant, operating revenue would have increased by 4.7%.

The average revenue per RPK fell by 1.5% from 2006, affected by the growth of the average stage length (6.9%) and by the depreciation of other currencies, mainly the dollar, against the Euro. The average unit passenger revenue (per ASK), bolstered by the increase in the load factor, increased by 0.8% with respect to 2006; had it not been adversely affected by the change in the currency exchange rates, the increase would have been 3.1%.

In the long-haul sector, the increase in the unit revenue (per ASK) was 6.4% on 2006, lifting the passenger revenue figure by 13.6%. These increases were partly driven by the significant improvement in the class mix. The high level of satisfaction expressed by the customers of Business Plus, the Company's business class on international flights, translated into an 18.8% increase in the number of passengers flying this class.

Following the in-depth restructuring of the programme, the unit passenger revenue (per ASK) in the domestic sector increased by 6.0% with respect to 2006, a figure that must be assessed in the context of a market affected by a strong growth in product offering. However, the unit revenue from international medium-haul flights dropped by 4.1% in 2007, mainly due to the pressure exerted on tariffs by the proliferation of low-cost carriers and, to a lesser extent, to the increase in the average stage length in this sector (3.0%).

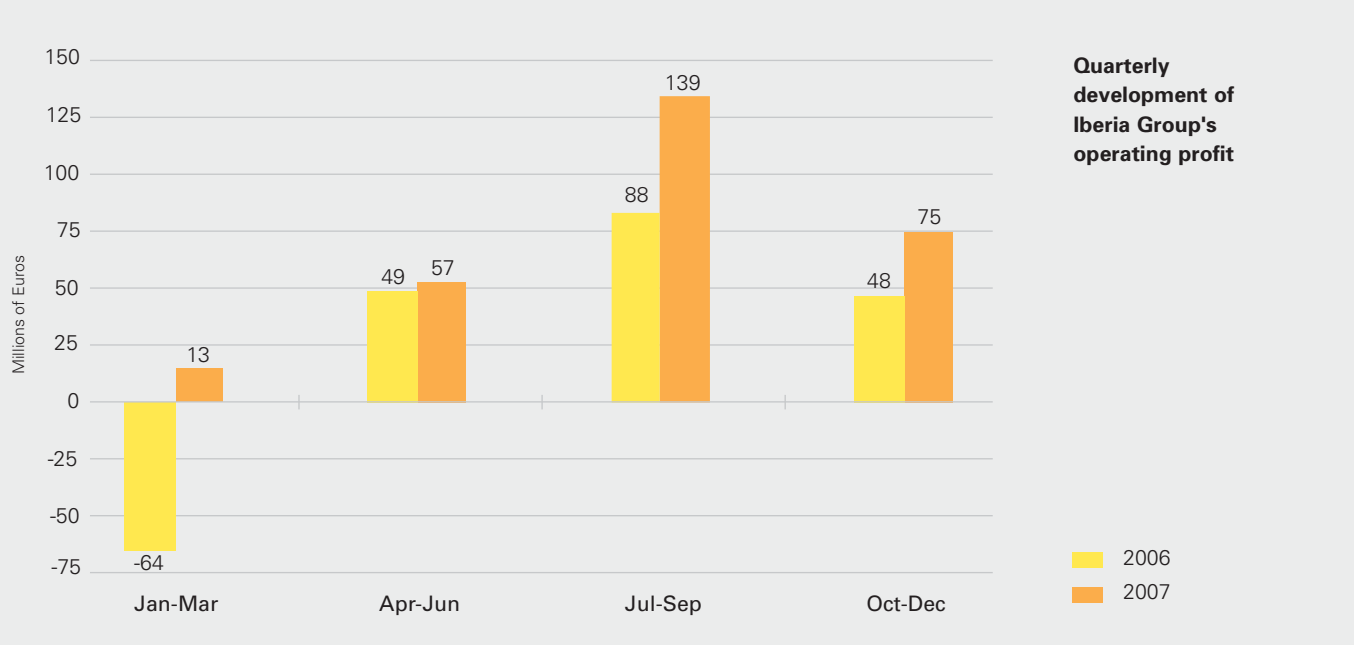
The aggregate amount of the other operating revenue (non-transport) grew by 2.3%, with yet another year of strong progress in revenues from aeronautical maintenance services (up 25% from 2006). In accordance with the 2006-2008 Master Plan, this business area has designed a sales policy which promotes the execution of higher value added jobs for other airlines, consisting mainly of engine and component inspections, and the outsourcing of jobs requiring a lower level of expertise.

This surge in revenue from maintenance services to other airlines offset the decline in handling revenue (15.5%), due to the incorporation of a larger number of ramp-handling operators at the major Spanish airports at the beginning of 2007, following the outcome of the public calls for tenders for the grant of the new licences in July 2006. IBERIA obtained licences for third parties' handling operations at 36 airports (plus the heliport at Ceuta). Additionally, IBERIA joined the winning unincorporated joint ventures (UTEs) in Barcelona, Lanzarote and Fuerteventura (airports where the Company was not awarded a licence) with a 32% share in the first case and a 30% share in the UTEs servicing the two Canary Island airports.

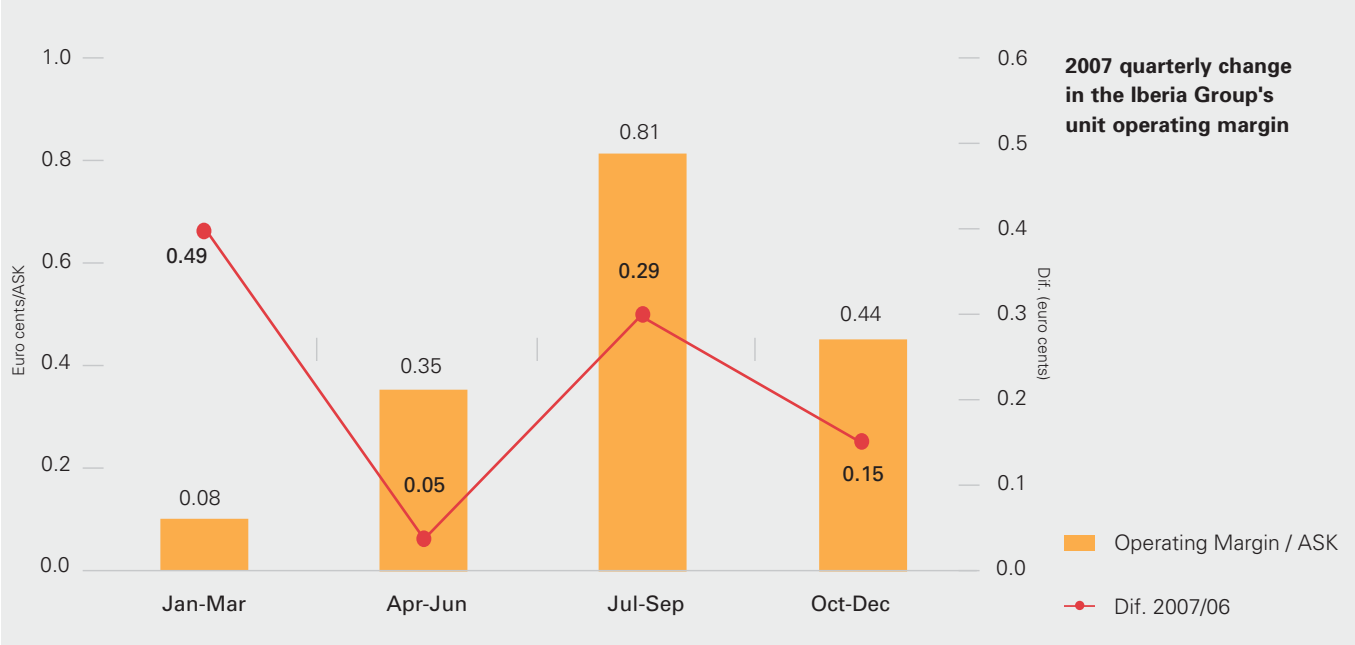
IBERIA's operating expenses decreased by 0.5% with respect to 2006, and by 1.5% in unit terms (per ASK), thanks to the implementation of the cost cutting measures addressed in the 2006-2008 Master Plan, combined with the favourable impact of the depreciation of the US dollar. Noteworthy, was the decrease of EUR 14.6 million in personnel expenses compared with 2006, due to the reduction in the workforce and restrained salary costs, after the inclusion of the variable remuneration agreed upon with the ground staff and passenger cabin crews, reflecting the Company's healthy financial results.

In 2007 there was also a marked improvement in the productivity of the company´s resources compared with 2006: 8.1% for the workforce (in terms of ASK produced per employee), and 5.3% for the passenger fleet, whose average utilisation (measured in block hours per aircraft and day) stood at 9.6 hours in 2007.

Consolidated operating profit, which does not include non-recurring revenue and expenses, amounted to EUR 283.5 million in 2007, an increase of 132.5% as compared with 2006. The margin of operating profit as a percentage of operating revenue increased by 2.9 percentage points with respect to 2006, while the net profit margin increased by 4.9 points (3.7 points before the tax adjustments recognised in 2006).



Of particular relevance was the fact that the Iberia Group obtained operating profits in all four quarters of 2007, thereby improving the unit profit margin in each period with respect to the levels achieved in 2006, which was partly due to the lower seasonality of demand arising from the increase in the relative weight of the long-haul sector and network operations.



Profit from non-recurring operations also improved significantly, and in 2007 amounted to EUR 129 million, up EUR 115.8 million on 2006, due mainly to the increased gains on asset disposals, noteworthy among which was the gain obtained on the refinancing transaction at Wam Acquisition, S.A., with the concomitant refund of contributions to the shareholders. Also, financial profitincreased by EUR 37.9 million with respect to 2006.

As a result of all the foregoing, the profit after tax of the Iberia Group amounted to EUR 327.6 million in 2007, representing an increase of EUR 270.6 million with respect to 2006, or of EUR 211.2 million excluding the tax adjustment in 2006 arising from the application of the new income tax rates and the impact thereof on the Company's tax assets.

Corporate culture

The tenets of IBERIA's corporate culture form part of its corporate responsibility policy, and include the mission, vision and values shared by all the employees.

IBERIA's mission is to offer air transport, airport and aircraft maintenance services that live up to the expectations of our customers and create economic and social value on a sustainable basis.

IBERIA seeks to become the leading Company in terms of customer satisfaction in its strategic markets (Latin America, Europe and Spain), and to offer the optimal price/quality relationship. The Company wishes to offer its shareholders notable and sustained profitability and strives to attain the maximum professional development of all its employees.

The Iberia Group wants to be recognised for its transparency and its firm social and environmental commitment. Thus, the Company backs entities that implement social cooperation projects and improve living conditions by means of sponsorship agreements with various institutions, promoting the involvement of its customers and suppliers in social action initiatives and counting on the active participation of its employees. Also, IBERIA pursues a global environmental protection policy that includes all its activities, both on the ground and in flight. The Social Responsibility Report and the Annual Corporate Governance Report provide ample information on these matters.

As regards the Risk Management System, in 2007 IBERIA kept the Risk Map permanently updated and it was submitted every six months for approval by the Executive Committee and the Audit and Compliance Committee of the Board of Directors.

Also in 2007 IBERIA updated the internal rules of the Risk Management System to include as its principal reference the recommendations on risk control envisaged in the "Unified Code of Good Governance of Listed Companies, of 22 May 2006", although in 2006 an analysis carried out evidenced that the configuration of the System covered all of the recommendations.

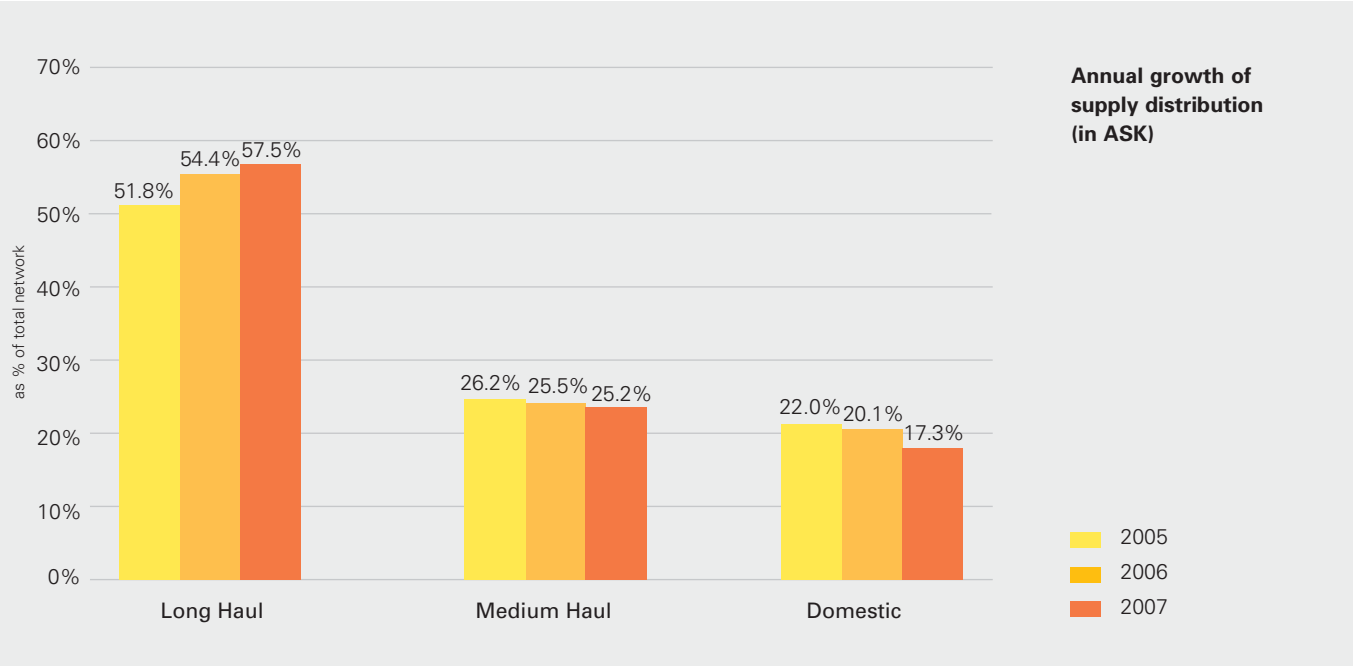
In recognition of the actions implemented by the Company in this field, in 2007 IBERIA joined, for the second year in succession, the select Dow Jones Sustainability Index - DJSI World. This index selects 250 companies from around the world with the best practices as regards economic, social and environmental matters, of which only three are airlines.

Fulfilment of the 2006/2008 Master Plan

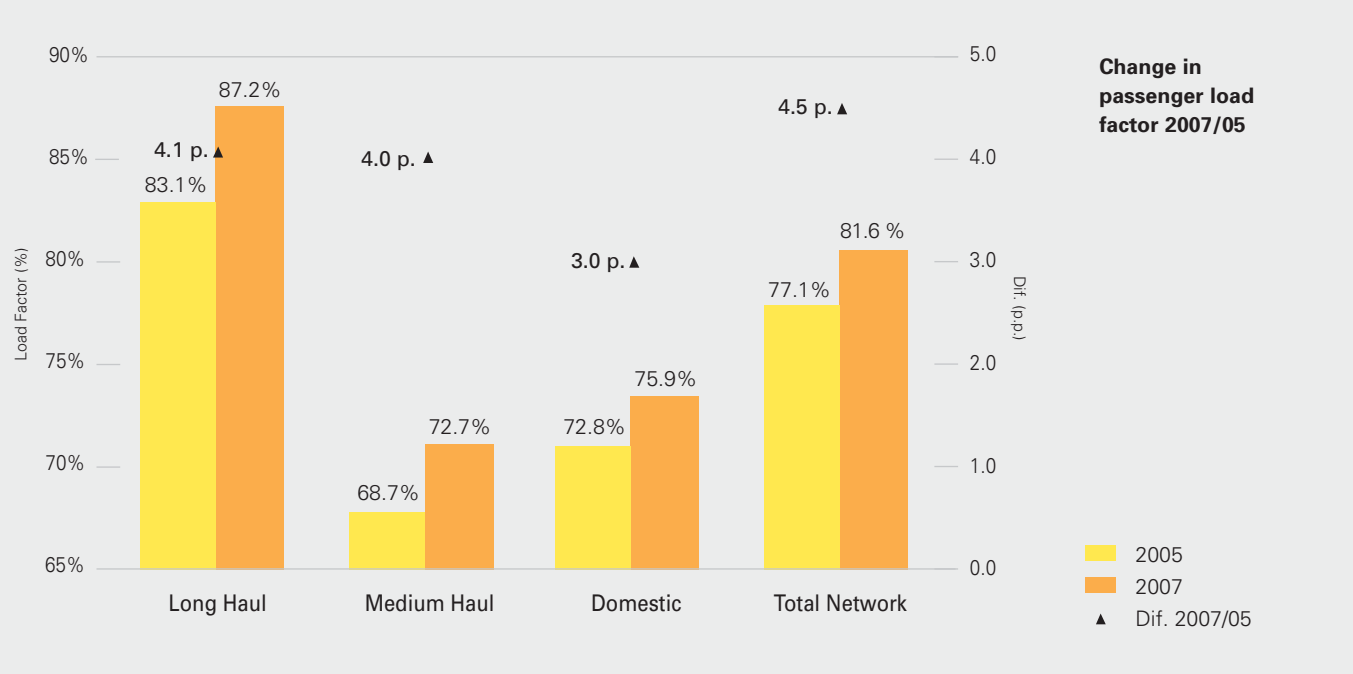
During the first two years of implementation of the 2006/2008 Master Plan, IBERIA effected most of the measures designed for the period, achieving or exceeding the main strategic objectives set out in the Plan guidelines.

One of the cornerstones of the 2006/08 Master Plan is the review and optimisation of the flight programme in order to develop network operations that lead to increased profitability. As a result, in 2007 the Company furthered the restructuring of the short- and medium-haul programme, selectively adjusting supply on the domestic and certain European routes and strengthening, in turn, the Madrid hub connections. Thus, IBERIA reduced the availability of seat-kilometres on the short- and medium-haul network (including the domestic flights) by 5.9% with respect to 2006, with a 10.9% increase in connecting flights from Madrid.

Also, the Company continued to back the expansion of the long-haul sector offering, which already exceeds - by 1.5 percentage points – the growth target set in the Plan for 2008, thereby improving IBERIA's positioning in the American markets. In 2007 the ASK of long-haul flights exceeded the volume capacity of 2005 by 16%, achieving a relative weighting of 57.5% in terms of overall supply, representing an increase of 5.7 points with respect to the base year of the Plan.



As a result of the progress made in restructuring the flight programme during the last two years and of the rapid growth in demand, the load factor of the network taken as a whole improved by 4.5 percentage points with respect to 2005, due to the significant increases achieved in each of the three large sectors and, to a lesser extent, to the greater relative weighting of long-haul traffic, which represented 61.4% of total RPK in 2007.



Aided by the improvement in the load factor, unit passenger revenue (per ASK) increased successively during the last two years. Unit revenue of the long-haul sector in 2007 exceeded that obtained in 2005 by 24%, even though the appreciation of the Euro against the dollar limited this increase by 4.4 points. In the domestic sector unit revenue rose by 9.5%. As regards medium-range international flights, unit revenue fell slightly (0.5% with respect to 2005), since it was adversely affected by the growth in the average stage length (4%) and by the substantial expansion of low-cost carriers in the Spanish-European market.

A second strategic line of the 2006/08 Master Plan is to improve product quality and increase revenue, mainly through the implementation of actions targeted at high-value passengers noteworthy among which are: the fitting of more comfortable seats in the aircraft and more modern entertainment systems; the meticulous and innovative in-flight service; the improvements to the VIP lounges; the personalised service at connections; and the facilities at the Madrid-Barajas airport Terminal T4.

In particular, mention should be made of the fact that Business Plus class was well received and valued by the passengers. In 2007 the load factor of the business class on long-haul flights stood at 62.3%, exceeding the level achieved in 2005 by over 16 percentage points, and has already exceeded the objective set for 2008. The number of paying passengers in this class increased by 48.5% as compared with 2005, and average revenue per passenger exceeded the projected level, leading the increase in the volume of revenue in the Business Plus to stand clearly above Plan estimates.

Also, the performance of the aircraft maintenance business enabled the Company to estimate that it will surpass the ambitious objective set in the plan, i.e. to double the volume of revenue obtained from third parties in 2005 in 2008. Total billings to third parties (for technical assistance services, rentals and sale of materials) amounted to EUR 288.6 million in 2007, up 71% on the revenue figure for 2005.

Lastly, in reference to the improvement in quality that constitutes the second strategic pillar of the Plan, of significance was the on-time performance achieved in 2007 of 80.8%, which improved the rate achieved in 2006 by 3.4 percentage points to place IBERIA as the most punctual European network company in 2007.

In 2007 the Iberia Group also made effective progress in the deployment of the extensive group of initiatives that make up the remaining two pillars of the 2006/08 Master Plan: the increase in the productivity of resources and the reduction of unit costs. At the beginning of the year the signing of the 15th Collective Agreement of Cabin Crew Members (CCMs) –in force during the period 2005 to 2007- enabled the implementation of various improvement initiatives from summer 2007 onwards. Also, in July the 17th Collective Agreement of Ground Employees, valid until 31 December 2007, was signed providing continuity to the main agreements reached in the Collective Agreement entered into in 2006, and including new initiatives aimed at improving productivity and optimising resource management.

As a result of the workforce restructuring process, until December 2007 the total number of ground employees who left the Company –within the framework of the initiatives envisaged in the Master Plan- was 2,461 (including 145 employees who left the Company abroad) as compared with the objective of 2,201 employees established in the Master Plan for 2006 and 2007. Also, 260 CCMs availed themselves of the collective redundancy procedure in 2007.

The productivity of IBERIA's ground employees (in terms of AKO per employee) increased by 9.1% in 2007, with a cumulative increase of 15.3% over the last two years. As regards the economic productivity of the workforce taken as a whole, operating revenue per employee grew 23% in 2007 and 2006.

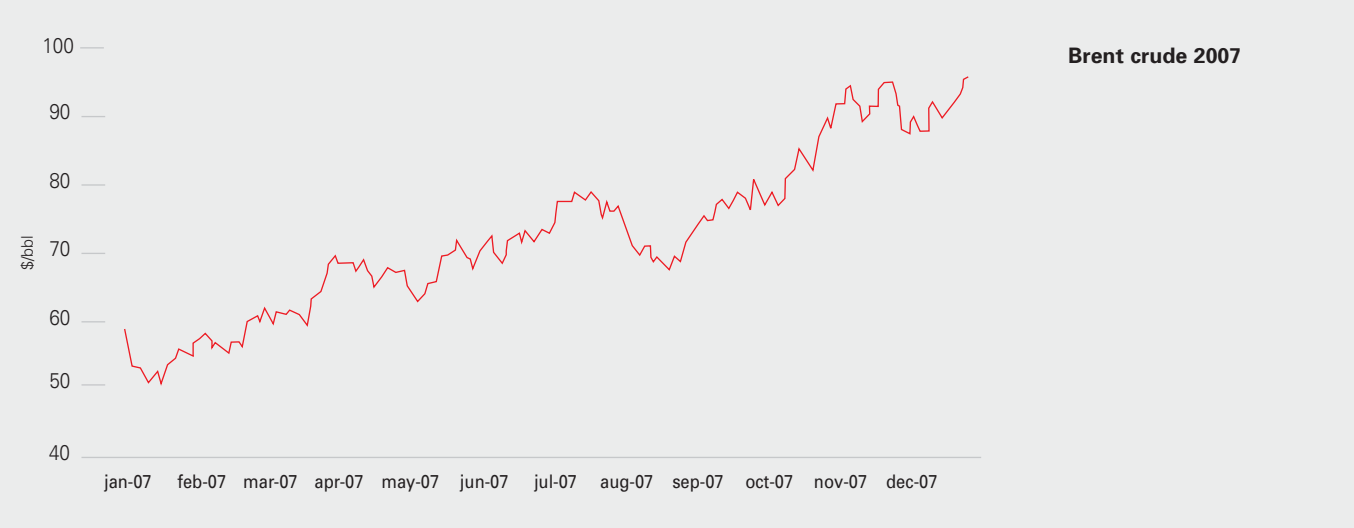
As regards aircraft productivity, in 2007 the number of block hours per aircraft increased by 5.3% with respect to 2006, achieving an average daily usage of 9.6 hours per aircraft. Also, IBERIA continues with the second programme of cabin space reconfiguration and optimization of all its short- and medium-haul Airbus aircraft, which began in the second half of 2006. The addition of more comfortable and less bulky latest generation seats enables passenger comfort to be increased, optimising the number of seats per aircraft. At 2007 year-end, a total of 50 aircraft had been reconfigured, leaving only 16 to be reconfigured.

The measures relating to personnel expenses included in the two aforementioned Collective Agreements fulfil the criteria established in the Master Plan, and the implementation of the programmes to rationalise other costs (charges, aircraft leasing, fuel consumption efficiency, new techniques and purchasing tools, etc.) all contribute to maintaining the objectives of reducing expenses set out in the 2006/08 Master Plan.

The unit operating cost (per ASK), excluding the effects of applying IAS 39 and the fuel expense, stood at 6.14 Euro cents in 2007, representing a decrease of 1.8% with respect to 2005. As regards the costs associated with the transport area, excluding the effects arising in total costs due to the increase in the business of maintenance services to third parties, the reduction approached 5%.

Fuel

In 2007 oil and refined product prices, such as aviation kerosene, continued on the prolonged upward trend that began in 2002, moving at very high levels and exceeding the all-time-highs reached in 2006. The price of a barrel of Brent crude began 2006 ataround USD 55 and gradually climbed during the first half of the year. In the last four months of the year the price rise quickened, reaching the highest levels in November and December, when it exceeded USD 96 per barrel. The annual average dollar price of crude oil increased by more than 10% with respect to the average price in 2006.



Against this backdrop of historically record prices, IBERIA had hedged approximately 50% of the volume of fuel consumed in 2007 at an average price of USD 61.5 per equivalent barrel. This policy of price hedging enabled IBERIA to mitigate the risk involving this basic item of consumption and to reduce the fuel expense by EUR 17.8 million over the twelve months taken as a whole.

Product and Quality

In order to increase customer satisfaction, IBERIA is permanently committed to improving service quality, which constitutes one of the strategic lines of the 2006-2008 Master Plan.

As a result of the ongoing endeavours of all the areas involved in operations, the Company achieved an on-time performance (flights operated within 15 minutes of the scheduled time) of 80.8% in 2007 for the network taken as a whole, an improvement of 3.4 percentage points with respect to 2006. The level achieved in 2007 placed IBERIA as the most punctual European network operator.

The launch of Business Plus class on long-haul flights in mid-2005 required an investment of more than EUR 100 million, which has seen ample returns due to the excellent response obtained from the market. In 2007 IBERIA revamped its in-flight service and the services offered to its Business Plus passengers, seeking the best way to complement seat comfort and the advanced communication and entertainment systems. A noteworthy initiative was the evolution of the gastronomic offering. Prestigious names such as the Chef Sergi Arola, the sommelier Custodio L. Zamarra or the pâtissier Francisco Torreblanca, or recognised companies such as Gategourmet and Todovino, worked alongside IBERIA to extend the variety and quality of the food and wines offered during in-flight service.

The Company also endeavoured to improve the service provided on its short- and medium-haul flights. The reconfiguration of the passenger cabins of all the Airbus aircraft began mid-2006, fitting latest-generation seats, more comfortable than the currentones and less voluminous. At 2007 year-end, 76% of the aircraft had been reconfigured. Also, from August 2007 onwards, IBERIA renewed the in-flight menu available to its Tourist class passengers, including "Tu Menú" (Your Menu), an option made up of fresh simple and healthy fare, prepared exclusively by the quality fast food company "Fast Good", created by the acclaimed Chef Ferrán Adriá and NH Hoteles.

Since August 2007 other innovations have been also introduced in connection with the in-flight products service. The Company entered into an agreement with the American company Duty Free World which specialises in the management and marketing of products aimed at in-flight sales. Duty Free World contributes its experience, innovating sales techniques and renewing the catalogues, which has unquestionably provided greater satisfaction to the passengers, while its extensive network gives rise to purchasing synergiesand widens the product offering.

At the beginning of 2007 IBERIA refurbished its three VIP lounges at Madrid-Barajas airport's T4 Terminal, fitting them out with the latest advances in audiovisual entertainment, improving the service offered to its passengers and to those of the members of the oneworld alliance. Also, in two of these lounges the passengers can enjoy a space given over specifically to the Business Plus wine cellar, and taste the various wines selected for the in-flight service.

The Iberia Plus programme, the first international customer loyalty programme to be launched in Europe and currently one of the largest, is designed to reward the best customers with free flights and exclusive benefits. At 2007 year-end there were 3.3 million Iberia Plus members, 12.8% more than in 2006.

Innovation and Technology

For the Iberia Group, innovation pervades all its business concepts: strategy, processes, services and products. Each year the Company manages dozens of projects aimed at improving service quality, the technological advancement of processes or resource savings. The great majority of them are recognised as innovative projects by the award of certifications or independent assessments made by both national and international official bodies.

The Company continued to improve the functionality of Iberia.com, its commercial Internet website, and included new options, most notably includes the development of a new communication platform that enables the content of the website to be consulted through various types of mobile devices, such as telephones or PDAs. The integration of the web page with the Company's other key products , such as IB Plus, CRM (Customer Relationship Management) and BRM (Business Relationship Management), was also improved.

Also, in 2007 the international expansion of Iberia.com continued, with the development of six new specific versions for Romania, the Czech Republic, Nigeria, Senegal, Equatorial Guinea and Algeria, giving a total of 44 versions in five different languages which cover all the countries to which IBERIA flies. The number of partners that offer their products through the IBERIA webpage also increased, leading to an increase in total sales (airline tickets, hotels, car rental services, etc.) to EUR 488.5 million in 2007, representing an increase of 7.1% with respect to 2006.

In mid-2007, IBERIA launched the first web site exclusively for travel agencies in Spain, www.iberiagencias.com, aimed at offering the agencies a single space in which they can easily look up all the existing commercial information, issue various types of requests on-line and obtain information relating to financial accounts between the agency and the Company.

The Company also offers the auto check-in service which can be used by all passengers travelling to destinations where they donot need to undergo passport checks or other security or immigration formalities. The customers can obtain their boarding passes either through Iberia.com or through the automated kiosks at the airports. The use of both these facilities has increased rapidly since they were introduced, with more use being made of the on-line auto check-in service. In 2007 the total number of auto checked-in (via machines and the web site) passengers, including those of the Puente Aéreo (Madrid-Barcelona shuttle service) represented 21.3% of all the domestic and international flight passengers travelling to Schengen member countries, exceeding by over five percentage points the average obtained in 2006.

The e-ticket is now the format used by nearly all of IBERIA's customers and represented 95.4% of all the tickets issued (in Spain and other countries) in 2007. During the year the Company continued to push for the use of interline e-tickets, which represented 91% of all the interline vouchers billed.

In order to boost its revenue in keeping with the one of the initiatives of the Master Plan, IBERIA executed a project known as "NO-DO", which will change the work processes and IT supports of the passenger revenue management model. The new model is based on an origin-destination optimisation tool, which can be used to evaluate the traffic of passengers flying from point to point and also of those taking connecting flights, choosing at all times the most interesting option to maximise the revenue of the network as a whole and not of a specific flight. The project also envisages the implementation of two specific tools to optimise revenue in point-to-point traffic, especially necessary in markets where low-cost carriers are proliferating.

The Company is also working towards implementing a tool to optimise cargo revenue (Yield Management Cargo), which will make it possible to manage cargo reservations in real time on the basis of the revenue and cost generated thereby. Also, an innovative electronic air waybill tool for the domestic area was successfully implemented in the Cargo Division.

In 2007, the Airports Division began to implement a software package (INFORM) for automated stopover management at Barajas, which will gradually be introduced at other stopovers. This package will improve the automatic planning and assignment of resources, thereby increasing productivity and management control in the handling business.

Noteworthy among the innovation projects undertaken in the Maintenance and Engineering Division are the creation of a fully automated blade workshop and the development of a system (GEROMA) to manage the scheduling and maintenance of IBERIA's aircraft fleet.

Fleet Renewal

IBERIA continued to renew its fleet, with the objective of using more modern aircraft equipped with the best features that reduce fuel, operating and maintenance costs and are more environment-friendly. Nine new aircraft, sourced directly from the Airbus plant (an A-321 and eight A-319s) during the year, replaced some of the older aircraft, and reduced the average age of the operating fleet as a whole to 7.7 years in 2007.

The renewal plan also targets aircraft uniformity in both fleets, in order to reduce maintenance costs and make better use of the technical crews, and at the same time offer advantages in the operational management of the commercial programme.

Since mid-2006 the Company has been operating all its long-haul flights with a single type of aircraft, the Airbus A-340. At 2007 year-end the fleet consisted of 31 A-340 aircraft (19 of the 300 version and 12 of the 600 version), with an average age of 6.7 years. IBERIA has thus become one of the airlines with the most modern long-haul fleets in the global aviation industry.

Pursuant to the plan for the renewal and standardisation of the short-and medium-haul fleet, in 2007 the Company added a further ten aircraft of the A-320 family (1 A-321, 1 A-320 and 8 A-319), and a total of 24 aircraft were disposed of (9 A-320, 5 B-757, 9 MD-87 and 1 MD-88) which meant that at year-end the operating fleet assigned to domestic and medium-haul international flights consisted of 105 aircraft, of which 83 were manufactured by Airbus. IBERIA's crews now only operate two families of aircraft (A-320 and MD-87/88) on short-and medium-haul flights. The process of retiring the MD aircraft will be completed by mid-2009.

Initiatives involving investees

IBERIA and the Barcelona free trade zone consortium will construct a maintenance hangar at Barcelona's El Prat airport, which will foreseeably come into service in 2009. On 18 September 2007 the agreement to form a development company for the project, *Iberia Mantenimiento Barcelona*, was executed, in which IBERIA will own 75 percent of the share capital. The project will entail an investment of EUR 24 million and will create 200 direct new jobs. With a surface area of 12,600 square metres, the new hanger will have the capacity to house average- and large-sized aircraft, such as the Airbus A-340. The facility will provide service to aircraft belonging to IBERIA, associate airlines and external customers, will specialise in A- and C-type inspections, and aims to become a benchmark centre in southern Europe and the Mediterranean area.

Clickair -a new generation company with its headquarters in Barcelona- in which IBERIA has an ownership interest of 20%, has grown strongly since it commenced operations in October 2006; in line with its Business Plan. In 2007 it carried 4.5 million passengers, operating close to 36,500 flights, and at year-end had 23 aircraft, 17 more than in 2006.

Changes in the shareholder structure and the managing bodies

The shareholders at the Annual General Meeting held on 30 May 2007 resolved to amend Article 44 of the Company's bylaws, which regulates the composition of the Board of Directors, the obligations of the Board members and the procedure for their appointment and re-election, to comply with the recommendations of the Unified Good Governance Code. Thus, the Company's Board of Directors will be composed of a minimum of ten members and a maximum of fourteen.

At the same Annual General Meeting, the Shareholders also approved the appointment of Felipe Benjumea Llorente as a new independent director on the Board of Directors and the re-election of the directors Fernando Conte García, José Manuel Fernández Norniella, Antonio Masa Godoy, José Pedro Pérez-Llorca Rodrigo and José Terceiro Lomba.

In November 2007, Caja Madrid resolved to purchase all the shares put up for sale by BBVA and Logista. At 31 December 2007, the Company's main shareholders were Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid), with a 22.99% ownership interest, and British Airways and American Airlines Holdings B.V., with a 9.90% ownership interest.

At the meeting of Iberia's Board of Directors on 20 December 2007, Valoración y Control, S.L. and Inmogestión y Patrimonios, S.A., represented by Rafael Sánchez-Lozano Turmo and Alberto Recarte García-Andrade, respectively, were appointed as directors of the Company. These two directors replace the directors Gregorio Villalabeitia Galarraga and Antonio Vázquez Romero, representatives of BBVA and Logista, respectively.

2. Operational performance in management areas

2.1. Transport

Passenger and cargo air transport is the Iberia Group's main business activity. In 2007 revenue generated by this activity represented 83.7% of total consolidated operating revenue.

Set forth below are the statistics of Iberia, Líneas Aéreas de España, S.A. ("IBERIA") for production, traffic and passenger transport revenue for 2007 and 2006, broken down into the three following commercial sectors: domestic, which includes the connecting flights among Spanish airports; medium-haul, which groups together the international flights that connect Spain with destinations in Europe, the Middle East and North and Central Africa; and long-haul, which includes the connections to America and South Africa.

2.1.1. Production and passenger traffic

In 2007 the total number of revenue passenger kilometres (RPK) on international flights operated by members of the AEA increased by 5.4% with respect to 2006, similar to the increase registered in that year. The increase in demand was greater on the short-/medium-haul international routes (7.4%) than on the long-haul flights (with an average increase of 4.6%), except for South Atlantic, which was the area which experienced the highest increase in RPK (11.8%). The total of the regular traffic, including domestic flights, of the AEA companies increased by 5.1% with respect to 2006, and the load factor improved 0.7 points to 77.1%.

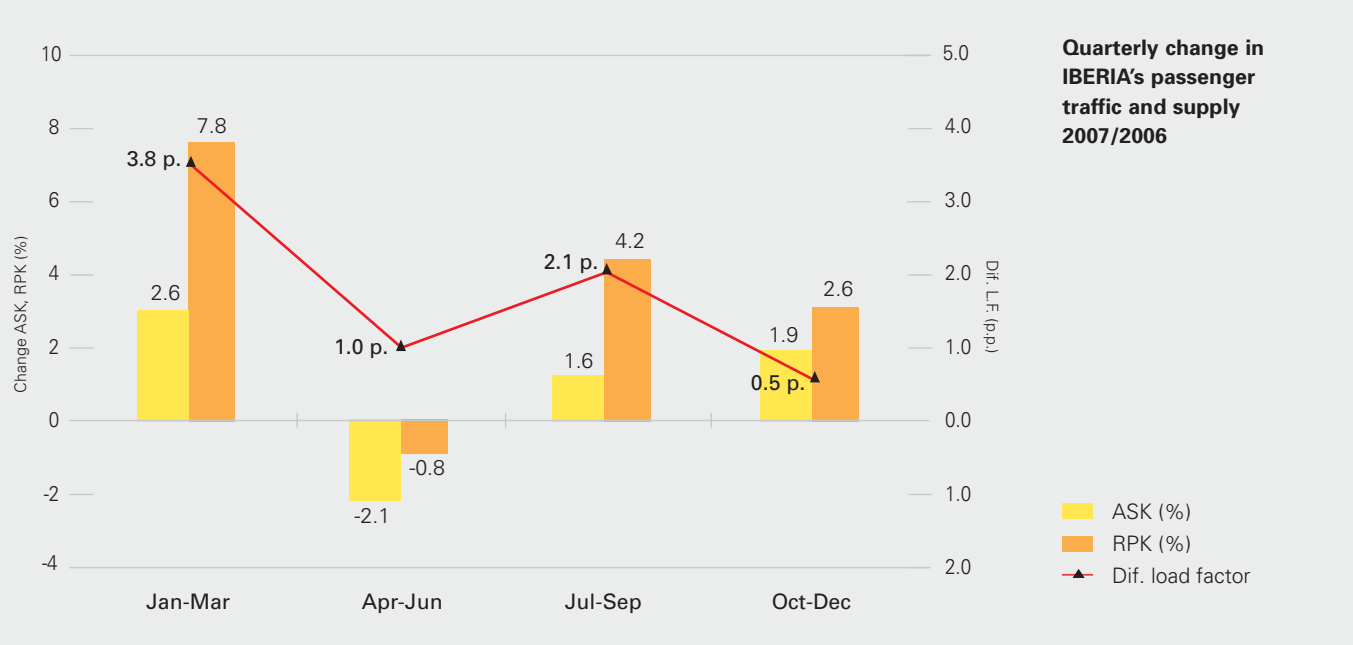
For the IBERIA network as a whole, the load factor went up by 1.8 percentage points as compared with 2006 to 81.6%, setting a new record in the Company's history. The number of RPK increased 3.3% in 2007, compared with the increase of 1.0% in the availability of seat-kilometres (ASK).

Pursuant to the strategy designed in the 2006/2008 Master Plan, the objective of which is the consolidation of network operations and improved profitability, in 2007 the Company continued to increase supply of intercontinental flights (6.8%) and extensively restructured the short- and medium-haul programme initiated in 2006, which prioritises the strengthening of its connections at the Madrid-Barajas hub and adjusts capacity on certain point-to-point connecting flights from other airports.

A portion of the Company's increase in supply was a result of the successful addition of seven new destinations in 2007: Algiers (in January), Bucharest (in March), Boston (in May), Washington (in June), Saint Petersburg (operating during the summer season), Prague and Warsaw (both from 28 October , coinciding with the start of the winter season).

At 2007 year-end IBERIA covered 82 destinations (24 domestic, 35 medium-haul international and 23 long-haul). Including the flights operated by its franchisee Iberia Regional Air Nostrum, the Group's network covers total of 104 cities. Also, during 2007 IBERIA continued to develop certain of the code-share agreements that it had entered into with other airlines (American Airlines, Avianca, British Airways, Clickair, Japan Airlines, Mexicana de Aviación, the TACA Group, Royal Air Maroc, etc.) which enabled it to increase to close to 200 the number of destinations that it offers to its passengers.

Traffic volume grew with respect to 2006 in each quarter of 2007, except for the second, in which there was a decrease of 0.8%, as a result of a temporary deceleration in the growth of long-haul flight supply (3.4%), which added to the effect of the adjustments to domestic and European connections, of which there were more in the second quarter than in the rest of the year. The load factor increased in the four quarters due to the excellent response of demand during 2007.



In the year as a whole, the Company achieved 66,454 million ASK in all its operations, with the following breakdown by market:

Millions

ASK	2007	2006	Change 07/06	% Change
Long-haul	38,201	35,783	2,417	6.8
Medium-haul	16,738	16,787	(49)	(0.3)
The Continent of Europe	14,762	14,945	(182)	(1.2)
Africa and the Middle East	1,975	1,842	133	7.2
Domestic	11,516	13,232	(1,716)	(13.0)
Total	**66,454**	**65,802**	**652**	**1.0**

The volume of supply in the long-haul sector increased by 6.8% with respect to 2006. In absolute terms, close to two thirds of this increase in supply related to flights to South America, which increased by 12.9% (these flight had already increased by 20.3% in 2006), achieving a relative weight of 20.5% of the Company's total number of ASK. All of the destinations in this region had significant increases in supply, achieving double-digit growth in Argentina, Brazil and Uruguay, due to increased frequency (Sao Paulo and Montevideo) and the programming of aircraft to greater capacity.

The number of ASK of the North American flights increased by 19.4% with respect to 2006, due mainly to the aforementioned opening of two new lines (Boston and Washington) and, to a lesser extent, to the increase in the weekly frequency of the flights to Chicago.

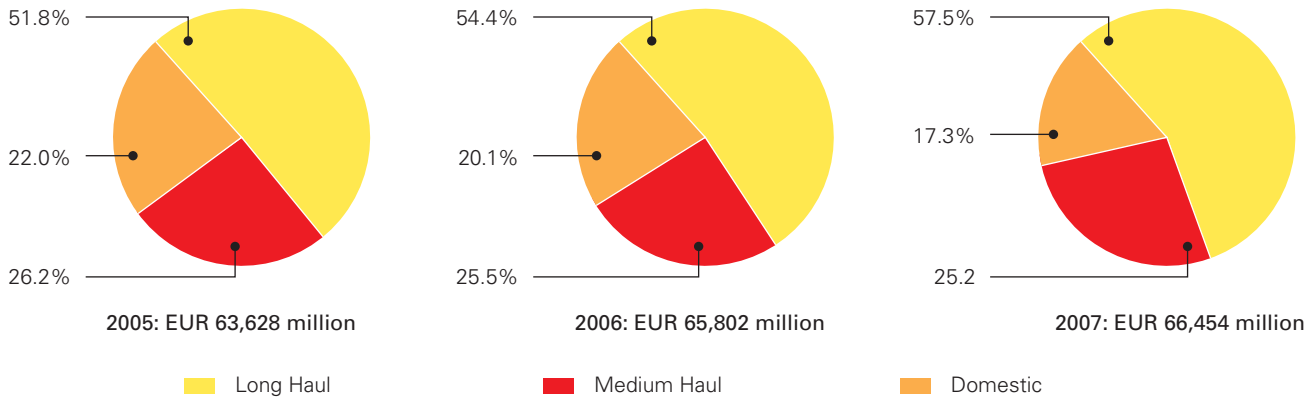
The Company increased the volume of supply for Central America as a whole by 0.8% with respect to 2006, with moderate growth on most routes, of particular note being the increase in the number of direct flights to Costa Rica. These increases were partially offset by adjustments to the programme, most notably the use of smaller aircraft to Cuba, together with the decrease in the number of frequencies to Puerto Rico.

In 2007 IBERIA continued to restructure the medium-haul international flight programme, adjusting supply on certain point-to-point connecting flights, in order to maintain profitability in a market characterised by intense competition and the rapid growth of low-cost carriers. Simultaneously, the Company increased the connections at its Madrid-Barajas hub to consolidate its position as a network operator. In this regard, although the volume of supply in Continental Europe fell by 1.2% with respect to 2006, the number of ASK on the European international flights flying from or to Madrid increased by 17.6% with respect to that year. The Company increased the number of frequencies from Madrid to various European cities (inter alia Amsterdam, Athens, Istanbul, London, Milan, Moscow, Porto, Rome and Vienna) to consolidate the trunk routes and to improve its competitive position, and opened four new routes (Bucharest, Prague, Warsaw and Saint Petersburg) in Eastern Europe, which is a high potential market.

The Company increased supply by 7.2% in the Middle East, and North and Central Africa sector, of particular note being the increases registered in the flights to and from Israel and Egypt, together with the new Madrid-Algiers connection. Although this sector still has a relatively low relative weight in the network taken as a whole (3.0% of total ASK), the Company intends to take advantage of Spain's privileged geographical position to capture European traffic towards Africa.

IBERIA maintained a strategy focused on improving the profitability of the Spanish domestic market, which suffered from oversupply in 2007 due to the sharp growth in the number of competitors. The Company continued to selectively order its flight programmes, and the number of ASK decreased by 13% with respect to 2006, although load supplied to and from Madrid increased slightly (1.0%) with respect to 2006.

Annual growth of supply (in ASK) . Breakdown by segment



IBERIA's passenger aircraft production in terms of block hours was 2.6% lower than in 2006 and there was also a 3.9% drop in the number of hours of aircraft operated under wet lease un 3,9%. Hours operated under wet lease represented 4.8% of the total hours produced in 2007.

Passenger aircraft block hours	2007	2006	Change 07/06	% Change
Owned aircraft	469,636	481,976	(12,339)	(2.6)
Wet lease	23,736	24,692	(956)	(3.9)
Other leases	88	80	8	10.0
Total	**493,460**	**506,747**	**(13,287)**	**(2.6)**

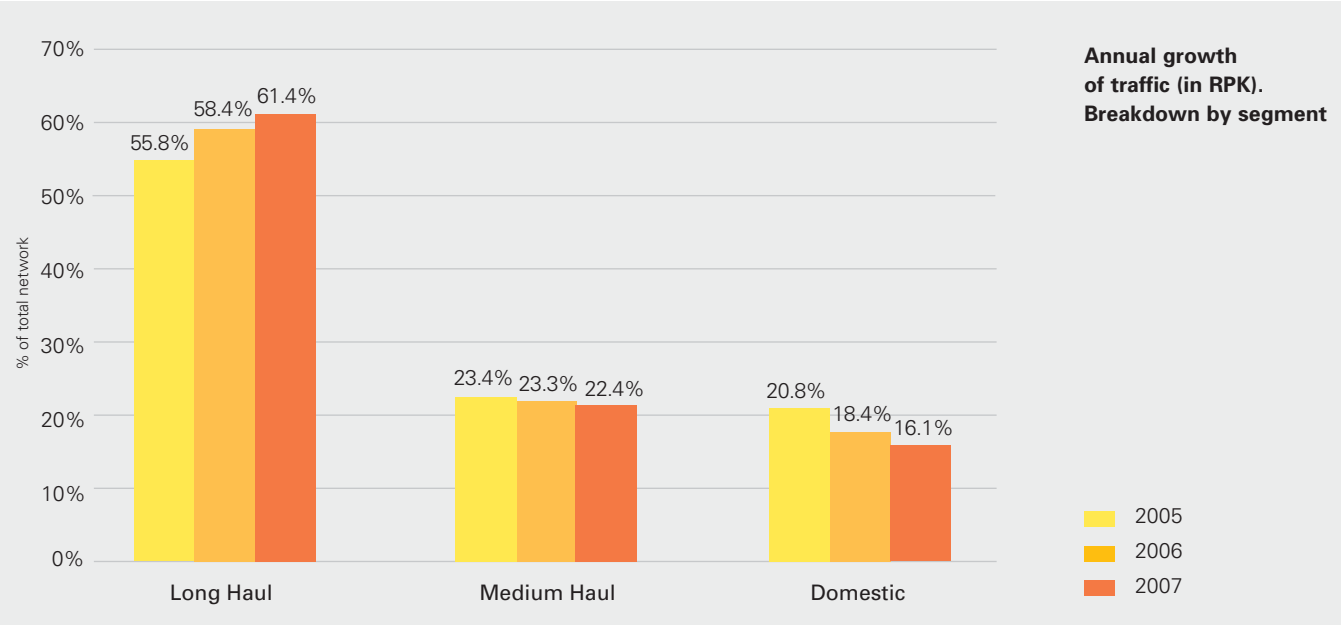
In 2007 IBERIA carried 26.9 million passengers in the network as a whole, and it was the first year in the history of the Company that the figure of four million passengers on long-haul flights was surpassed, with growth of 8.1% to reach 4.2 million passengers.

The distribution of RPK is shown in the following table:

Millions

RPK	2007	2006	Change 06/05	% Change
Long-haul	33,319	30,641	2,679	8.7
Medium-haul	12,172	12,220	(48)	(0.4)
The Continent of Europe	10,693	10,891	(197)	(1.8)
Africa and the Middle East	1,478	1,329	149	11.2
Domestic	8,738	9,633	(894)	(9.3)
Total	**54,229**	**52,493**	**1,736**	**3.3**

In the network as a whole, RPK increased by 3.3% with respect to 2006, with growth in the average stage length of 6.9% to 2,019 kilometres, due mainly to the increase in the relative weight of long-haul traffic in the network as a whole, which stoodat 61.4%.



Long-haul sector traffic increased by 8.7% with respect to 2006. In absolute terms, the greatest increase in RPK corresponded to South America, where demand performed strongly in the first quarter (in excess of 32%) and then decreased over the rest of the year, in parallel to the changes in the capacity made available with an average increase of 14% during the twelve months taken as a whole. The traffic on North American flights increased by 19.4% in 2007. The increases was 26.4% if only the second half of the year is considered, with the adition of the new routes (Boston and Washington). In Central America the number of RPK increased by 3.7% with respect to 2006, with slightly higher growth in the second half of 2007.

In 2007 IBERIA continued to consolidate its position of leadership in the Europe-Latin America market, achieving a market share of 19.9%, an increase of 0.9 percentage points with respect to 2006. The increase in IBERIA's share in this market was even higher in the business segment, in which it rose 3.6 percentage points with respect to 2006.

Demand in the medium-haul international sector decreased by 0.4% with respect to 2006. The significant increase in traffic to and from non-EU European destinations (32.3%), together with the sustained growth of Africa and the Middle East (11.2%), substantially offset the decrease in demand in EU flights as a whole. The EU market is characterised by intense competition and the rapid growth of low-cost carriers.

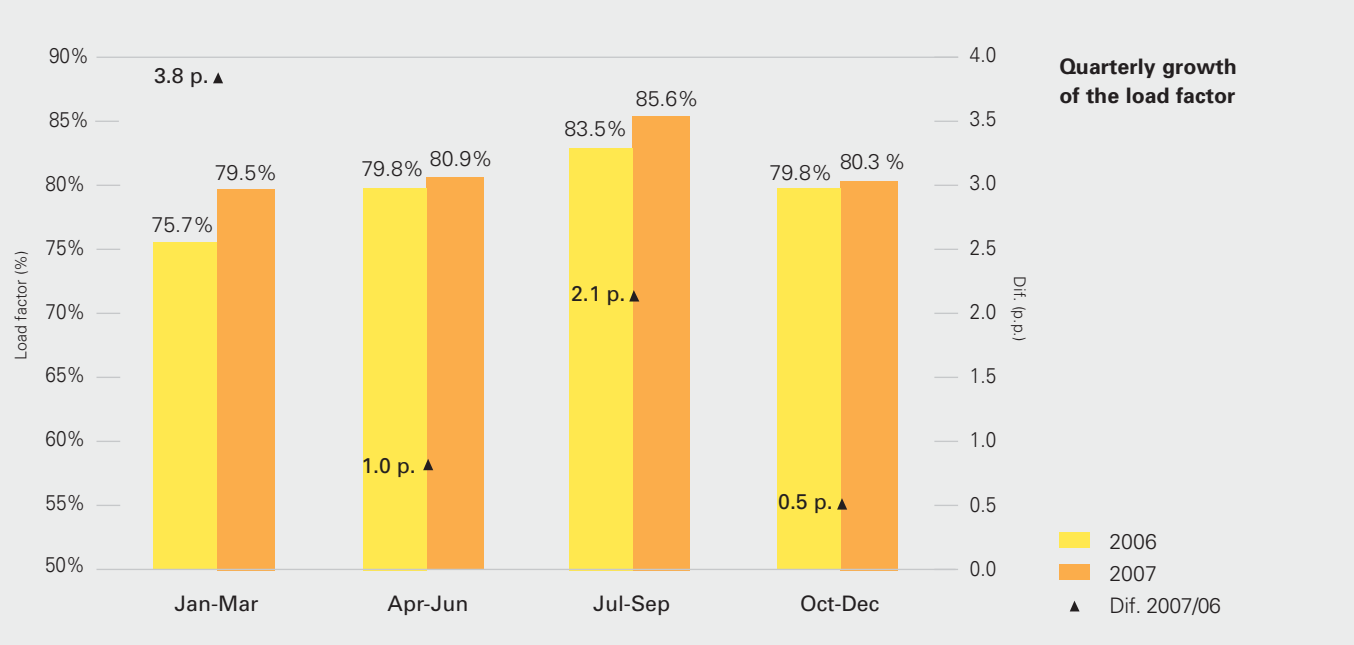
In the domestic sector the RPK descended 9.3% with respect to 2006, as a result of the aforementioned restructuring of the programme. RPK of flights in and out of Madrid increased by 5.0%.

The table below shows the breakdown, by sector, of the changes in the passenger load factor:

Load Factor (%)	**2007**	**2006**	**Change 07/06**
Long-haul	87.2	85.6	1.6
Medium-haul	72.7	72.8	(0.1)
The Continent of Europe	72.4	72.9	(0.4)
Africa and the Middle East	74.8	72.1	2.7
Domestic	75.9	72.8	3.1
Total	**81.6**	**79.8**	**1.8**

In the network as a whole, the load factor increased by 1.8 percentage points with respect to 2006 to 81.6%, which was the highest annual average level in the Company's history. In fact, IBERIA's load factor was the highest of the main European network operators in 2007, standing 4.5 points above the average level of the other AEA member airlines.

Also, in all four quarters of 2007 the load factor improved with respect to the levels achieved in 2006, as can be seen in the following figure:



Compared to 2006, the load factor remained steady in the medium-haul sector and improved in the long-haul network (1.6 points) and in the domestic connecting flights (3.1 points), in which a high annual average was achieved (75.9%).

The load factor achieved for long-haul flights was 87.2% for the twelve months of 2007 taken as a whole, a new record in the history of the Company in this sector. By sub-sector, the most significant advances in terms of load factor with respect to 2006 were registered in Southern Africa and Central America (3.2 points and 2.4 points, respectively). It also improved in South Americato 88.2%, and remained stable in North America (84.9%), despite the major increase in supply in this sub-sector.

The load factor of the European (continental) flights was 72.4%, down 0.4 percentage points on 2006. Conversely, in Africa and the Middle East the load factor increased by 2.7 points to 74.8%.

2.1.2. Passenger traffic revenue

For the network as a whole, IBERIA's yield in 2007 decreased by 1.5% with respect to 2006, due to the adverse effect of the growth in the average stage length (6.9%), to the high level of competition, particularly in the European market, and to the impact of the fall in value of the dollar against the Euro. With constant exchange rates, yield would have increased by 0.8% with respectto 2006.

The following table shows the breakdown by yield sector in 2007 and its comparison with 2006:

Euro cents

Yield	2007	2006	Change 07/06	% Change
Long-haul	5.41	5.18	0.23	4.4
Medium-haul	9.19	9.58	(0.38)	(4.0)
Domestic	12.73	12.52	0.22	1.7
Total	**7.44**	**7.55**	**(0.11)**	**(1.5)**

In the long-haul sector average yield increased by 4.4% with respect to 2006, buoyed by the performance of demand and the improvement in the class mix. The number of passengers in the Business Plus class increased by 18.8% with respect to 2006 along with the revenue therefrom. However, the progressive depreciation of the dollar during 2007 had an adverse effect on the yield of the long-haul flights, which saw lower year-on-year growth. For the year as a whole, with constant foreign exchange rates, this sector's yield would have increased by 8.2% with respect to 2006.

The decrease (4%) in yield of the medium-haul international flights was due to the adverse effect of the fall in value of the dollar and the increase in the average stage length in this sector (3.0%), together with the impact of the intense competitive pressure from the low-cost carriers in the Spain-Europe market.

In the domestic sector, IBERIA continued with its planned restructuring process focused on improving profitability. As a result, yield increased by 1.7% with respect to 2006, and the highest year-on-year increase was posted in the last quarter (7.9%).

Unit passenger revenue per ASK in the network as a whole increased by 0.8% with respect to 2006, driven by the process of flight programme optimisation and by the significant improvement in the load factor on the long-haul and domestic sectors, and despite the impact of the growth in the average stage length and the depreciation of the dollar. Excluding the adverse effect of the change in foreign exchange rates, the increase in revenue per ASK with respect to 2006 would have been 3.1%.

The following table shows the breakdown, by sector, of average revenue per ASK:

Euro cents

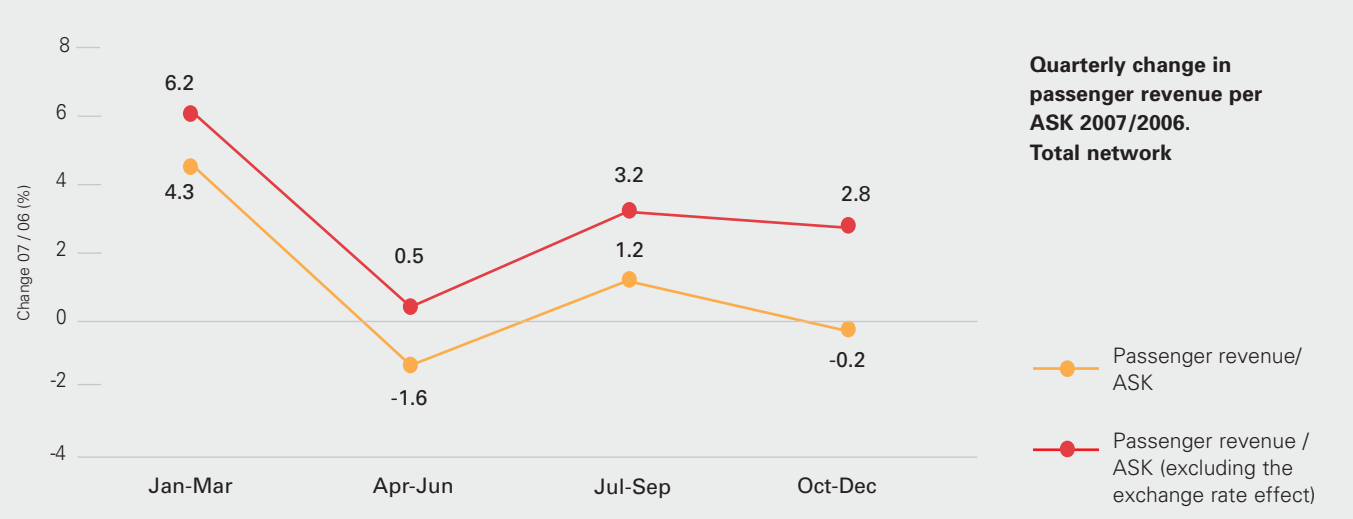
Revenue per ASK	2007	2006	Change 07/06	% Change
Long-haul	4.72	4.44	0.28	6.4
Medium-haul	6.68	6.97	(0.29)	(4.1)
Domestic	9.66	9.11	0.55	6.0
Total	**6.07**	**6.02**	**0.05**	**0.8**

In the long-haul operations sector average revenue per ASK increased by 6.4% with respect to 2006, due to the aforementioned increases in load and yield, offset in part by the adverse effect of the fall in the value of the dollar (which reduced it by 3.8 percentage points). In particular, unit revenue was favoured by the improvement in the class mix, with a six point increase with respect to 2006 in the load factor of the Business Plus class.

In the medium-haul international sector, average revenue per ASK decreased by 4.1% with respect to 2006, after the adverse effect of the decrease in yield (4%).

In the domestic sector, the significant improvement in the load factor (3.1 points with respect to 2006), together with the increase in yield (1.7%), boosted average revenue per ASK, with an increase of 6.0% in the year as a whole.

The following figure shows the quarterly evolution of the total changes in passenger revenue per ASK in 2007 in relation to 2006, an excluding the exchange rate effect (basically Euro / US dollar).



The following table shows the breakdown, by sector, of the changes in revenue per ASK:

Millions of Euros

Passenger Revenue	2007	2006	Change 07/06	% Change
Long-haul	1,802.6	1,587.1	215.5	13.6
Medium-haul	1,118.8	1,170.2	(51.4)	(4.4)
Domestic	1,112.8	1,205.8	(93.1)	(7.7)
Total	**4,034.2**	**3,963.2**	**71.0**	**1.8**

In 2007, IBERIA's passenger traffic revenue amounted to EUR 4,034.2 million in the network as a whole, an increase of 1.8% with respect to 2006. Broken down by sector, noteworthy was the progressive increase in the relative weight of the long-haul sector, which increased from 40% in 2006 to 45% in 2007.

Passenger revenue from long-haul operations increased by 13.6% with respect to 2006, due to the rise in the volume of traffic (8.7%) and the improvement in unit revenue.

2.1.3. Cargo

In 2007 cargo air traffic increased worldwide somewhat less than passenger traffic. In 2007 the revenue tonne kilometres (RTK) of the airlines belonging to the Association of European Airlines (AEA) increased by 2.7% with respect to 2006.

In the case of IBERIA, the RTK of goods and mail amounted to EUR 1,224.7 million in 2007, an increase of 9.5% with respect to 2006. 94% of the total tonne kilometres were transported in the holds of the Company's passenger aircraft, a percentage which remained stable compared with 2006. The load factor increased by 3.9 percentage points to 71.9%, with a 3.6% increase in the total number of available tonne kilometres.

In long-haul flights the RTK increased by 11.4% with respect to 2006, of particular note being the increase of South America (22%). Havana continued to be used as a bridge for traffic to Mexico and the Central American countries.

In the short- and medium-haul sectors the volume of capacity made available decreased due to the programme to optimise aircraft passenger cabin space and the process of gradually retiring certain domestic routes pursuant to the plan envisaged. As a result, cargo traffic decreased by 10.9% on the short- and medium-haul flights as a whole.

Revenue from goods and mail transport increased by 3.9% with respect to 2006 and reached EUR 299.7 million. Yield stood at 24.5 Euro cents in 2007, decreasing by 5.1% with respect to 2006, affected by the increase in the average cargo stage length (5.4%) and by the significant fall in value of the US dollar. With constant exchange rates, the decrease in cargo yield would have been limited to 2.3%.

Revenue from the various services provided to other airlines in the cargo terminals (physical and documental handling of ancillary goods and services) amounted to EUR 21.2 million, an increase of 2.7% with respect to 2006. Productivity, measured in tonnes handled per employee, grew in the four large Spanish terminals (Madrid, Barcelona, Las Palmas and Tenerife) 8.7% with respect to 2006.

The workforce decreased by 67 employees (7.3%) with respect to 2006, and operating revenue per employee increased by 11.4%.

In 2007 the audits for the renewal of Quality Certification under ISO 9001:2000 granted by AENOR were successfully passed in relation to cargo activities.

The main activity aggregates were as follows:

Cargo Transport (a)	2007	2006	Change 07/06	% Change
ATK (millions)	1,702.3	1,643.7	58.6	3.6
Holds	1,577.3	1,498.2	79.0	5.3
Cargo carriers	125.0	145.4	(20.4)	(14.0)
RTK (millions)	1,224.7	1,118.5	106.2	9.5
Holds	1,149.6	1,050.4	99.2	9.4
Cargo carriers	75.1	68.1	7.0	10.3
Load factor (%)	71.9	68.1	3.9	n.a.
Holds	72.9	70.1	2.8	n.a.
Cargo carriers	60.1	46.8	13.2	n.a.
Av. Rev. RTK (Euro cents/ RTK)	24.47	25.78	(1.31)	(5.1)
Cargo transport revenue (millions of Euros)	299.7	288.4	11.4	3.9
Av. number of equivalent employees (no. persons)	849	916	(67)	(7.3)

n.a.: not applicable
(a) From 2007 onwards the cargo statistics are grouped together by sector (which in turn correspond to geographical grouping by stage). The data for 2006 were obtained using uniform methods.
(b) The workforce in 2006 was recalculated in accordance with the new methods applied since January 2007.

2.2. Handling

The Airports Division (Iberia Handling) is responsible for the management of the ground handling services for other airlines and IBERIA itself at the Spanish airports.

In July 2006 the award was made public of the new concessions for third-party ramp handling services throughout the entire state airport network for a term of seven years. With the award of these public tenders the industry has been further deregulated, the number of handling agents increasing from 4 to 10 and licences from 58 to 73 in the Spanish airports taken as a whole. The effective addition of the new ramp handling operators began in November 2006 and ended in March 2007.

IBERIA is the operator that obtained most licences, a total of 21, maintaining its presence at 36 airports (plus the heliport at Ceuta). Also, IBERIA joined the unincorporated joint ventures (Spanish "Uniones Temporales de Empresas") which were the successful bidders at Barcelona, Lanzarote and Fuerteventura (airports at which the Company was not the successful bidder) with a share of 32% in the EL Prat UTE and 30% in the UTEs of the two Canary Island airports.

In this new context, the performance of the competition in 2007 lived up to the forecasts, with sharp changes aimed at capturing customers, or the maintenance thereof in the face of the risks of losses, which have led to three basic consequences: reduced fares (10-15%), inclusion of additional services in the basic price of handling, and greater flexibility vis-à-vis the demands of the customers with respect to the level of service. Also, the growth of the market was clearly lower than the forecasts in relation to "other airlines", since such a large number of auto-handling licenses were granted.

In 2007 Iberia Handling handled a total of 87.2 million passengers, a decrease of 5.8% with respect to 2006. The total weighted number of aircraft handled was 403,390; down 13.9% with respect to 2006, due mainly to the discontinuation of handling at the five airports in which the licenses were not renewed (Barcelona, Almería, Jerez de la Frontera, Lanzarote and Fuerteventura).

Production for IBERIA itself stood at 187,151 weighted aircraft handled in 2007, down 17.2%, which was also influenced by the decrease in the number of flights scheduled by the Company pursuant to the short- and medium-haul network restructuring plan.

The volume of business with other airlines, which in terms of weighted aircraft handled represented 53.6% of total production, decreased by 10.8% with respect to 2006. IBERIA's handling business managed to maintain a market share above that of its competitors at each airport.

Operating revenue (including billings to Iberia Transport) amounted to EUR 563.5 million in 2007, down 12.1% on 2006, due both to the non-renewal of certain licenses already discussed and to the decrease in unit revenue.

The average annual headcount of Iberia Handling was 8,493 equivalent employees in 2007 (including 527 transferred to the Barcelona UTE), decreasing by 822 employees with respect to 2006, a reduction of 8.8%. The number of hours of labour decreased in a proportion slightly below the fall in production, thereby improving employee productivity, which stood at 33.80 man hours per weighted aircraft handled in 2007 (2006: 34.07).

In 2007 the Airports Division initiated a major project, known as GAUDÍ, which entails the acquisition and implementation of a new system (Groundstart) to manage airport stopovers, which will replace the current GEA system in Madrid-Barajas airport. It is a global solution that integrates current functionalities and new developments which will make it possible to prioritise the aspects of planning and automatic allocation of resources, thereby increasing the productivity and the control thereof. It includes planning, rostering, real time and customer relations modules. At 2007 year-end the planning and rostering modules came into operation, and the real time module will be gradually implemented by department at Barajas airport in 2008. It will give rise to a saving of 500,000 man hours per year when the project is entirely up and running.

At the end of January 2007 the Prisma project was initiated with the objective of establishing certain actions to offset the loss of activity. In the first phase around 30 initiatives were identified involving changes in procedures and revision of contracts to reduce airport operating costs (ramp and passengers), and fixed and purchasing costs. A portion of these initiatives were set in motion during the second half of 2007, while the others will foreseeably be implemented during 2008.

2.3. Maintenance

The Maintenance and Engineering Division (Iberia Maintenance) manages one of the Iberia Group's three core businesses, the consolidation and development of which is one of the priority lines of the 2006/2008 Master Plan. IBERIA's Maintenance Division, in addition to performing the integral maintenance of the Company's aircraft, has an extensive customer base and is the second Spanish aeronautical company in terms of volume of billings and workforce (behind the manufacturer CASA/Airbus).

Iberia Maintenance carried out a total of 153 major inspections (C, D, E and IL) in 2007, 32% more than those performed in 2006. The number of inspections carried out for other airlines increased by 108%, accounting for a relative weight of 31.9% of the total figure (11.6 percentage points higher than the 2006 share).

In 2007 the engine inspection line continued to grow at an outstanding rate. Total production, measured in equivalent engines, amounted to 186.9 units, up 31.3% on 2006, due to the high increase (over 56%) in the number of inspections of engines of other airlines, which accounted for 72.3% of the total work performed in 2007.

Operating revenue from maintenance work for other airlines amounted to EUR 288.6 million in 2007, surpassing the 2006 figure by 25.5%.

The broad customer base of Iberia Maintenance consists of practically all the Spanish airlines, a market in which it is leader, and a numerous group of international airlines: Air Comet, Air Europa, Air Finland, Airbus, Aircraft Avionics, Aladia Airlines, Armavia, Belair Airlines, Berkut, Blue Airways/Kyrano Services, Clickair, Conviasa, Cygnus Air, Dubrovnic Airlines, DVB, Euro Atlantic, Eurofly, Finnair Technical Services, Gestair, Iberworld, Interjet, Krasair, Mare Nostrum Aviation Ferhat, Meridiana, Olympic Airways, Pluna, Precision Conversions, LLC, LTE, Mexicana Presidents Office, Privilege Style, Pullmantur, Santa Bárbara, Sky Service, Spanair, Swiftair and Wind Rose Aviation Company, among others.

In 2007 around 70 agreements were signed or renewed, the following being of particular note due to their special interest:

- The agreements entered into for total support with Conviasa, Cygnus Air and Spanair for A-340s, B-757s and MDs, respectively.
- The agreements entered into for the overhaul of the B-757 aircraft of Belair Airlines and the A-320 aircraft of Iberworld.
- The inspection of the RB211-535E4 engines of Aladia Airlines, Sky Service and Santa Bárbara.
- The overhaul and maintenance agreement entered into by IBERIA and TAP Maintenance & Engineering. IBERIA will inspect the landing gear of TAP's A-320s.
- The first inspection of the CF34 engine of the manufacturer General Electric was carried out. The Engine Workshop of IBERIA's engineering division is the only one in Spain and the third in Europe with the know-how to maintain this type of engine.

As regards component repair and maintenance work, Iberia Maintenance provided services mainly to Dubrovnic Airlines, Mare Nostrum Aviation Ferhat, Air Comet and Pullmantur.

Lastly, a salient feature of 2007 was the confidence placed in Iberia Maintenance by major bodies and institutions, such as the President's Office of the Republic of Mexico, with which lease, inspection and repair agreements were entered into for RB211engines.

The average number of equivalent employees of IBERIA's Maintenance and Engineering Division stood at 3,806 in 2007, a fall of 2.8% with respect to 2006.

IBERIA's Maintenance and Engineering Division was awarded new certifications in 2007: in June it obtained the certification of the D.N.A.C.I.A. (Uruguayan Civil Aviation) which rated the aircraft, engines, accessories, instruments, radio and specialised services, valid for one year; and, in July, it was awarded the DNA (Argentine Civil Aviation) certificate for engines, radio, instruments, accessories and specialised services, valid for two years.

In 2007 the ISO 14.001 Environmental Management certificate was renewed, extending its scope to the Antigua Zona Industrial of Barajas. The PECAL certificate was also renewed, required for the work performed for the Ministry of Defence, which is valid until the end of December 2009. Other certificates renewed in 2007 were the FAA (North America), IACC (Cuba), INAC (Venezuela), CAAC (China) and DOT (hydrostatic bench testing).

2.4. Project implementation

2.4.1. Improved service quality

In the strategic framework of the 2006/2008 Master Plan, in 2007 the Iberia Group carried out various actions aimed at improving the service quality that it provides, with the objective of increasing customer satisfaction.

Punctuality

In 2007 IBERIA significantly improved the punctuality of its flights, a basic aspect in the evaluation by passengers of the service offered.

The percentage of flights that went off-blocks at the scheduled time (measured within a limit of 15 minutes) stood at 80.8% for the network as a whole, exceeding the index obtained in 2006 by 3.4 percentage points. Also, the punctuality index achieved by IBERIA in 2007 placed it above the other principal European network operators.

Business Plus class

Business Plus, IBERIA's long-haul flight business class, continued to gain in popularity in 2007, evidenced by its market share exceeding that of its most direct competitors, showing double-digit growth, and its seats featuring amongst the best in the world in the ranking prepared by the market survey consultancy Skytrax.

The Business Plus class features ergonomic seats with ample legroom which can be reclined to form a bed. It also offers passengers the most advanced communications systems (telephone, SMS and e-mail) and in-flight entertainment (interactive games and audio and video channels on request). Furthermore, its success has been based on the services that complement it, including most notably the firm commitment to the gastronomic offering. In 2007 IBERIA periodically renewed its menus and the wines that it offers to its best passengers: original dishes prepared with top quality ingredients, and wines from the best Spanish designations of origin. To this end, it has benefited from the advisory services of the restaurateur Sergi Arola, the sommelier Custodio L. Zamarra, the pâtissier Francisco Torreblanca and the specialist wine company Todovino.

Also, IBERIA's Business Plus passengers are paid exquisite attention prior to flying; for this purpose, the Company refurbished the VIP lounges at the T4 Terminal at Madrid-Barajas airport and improved the available services.

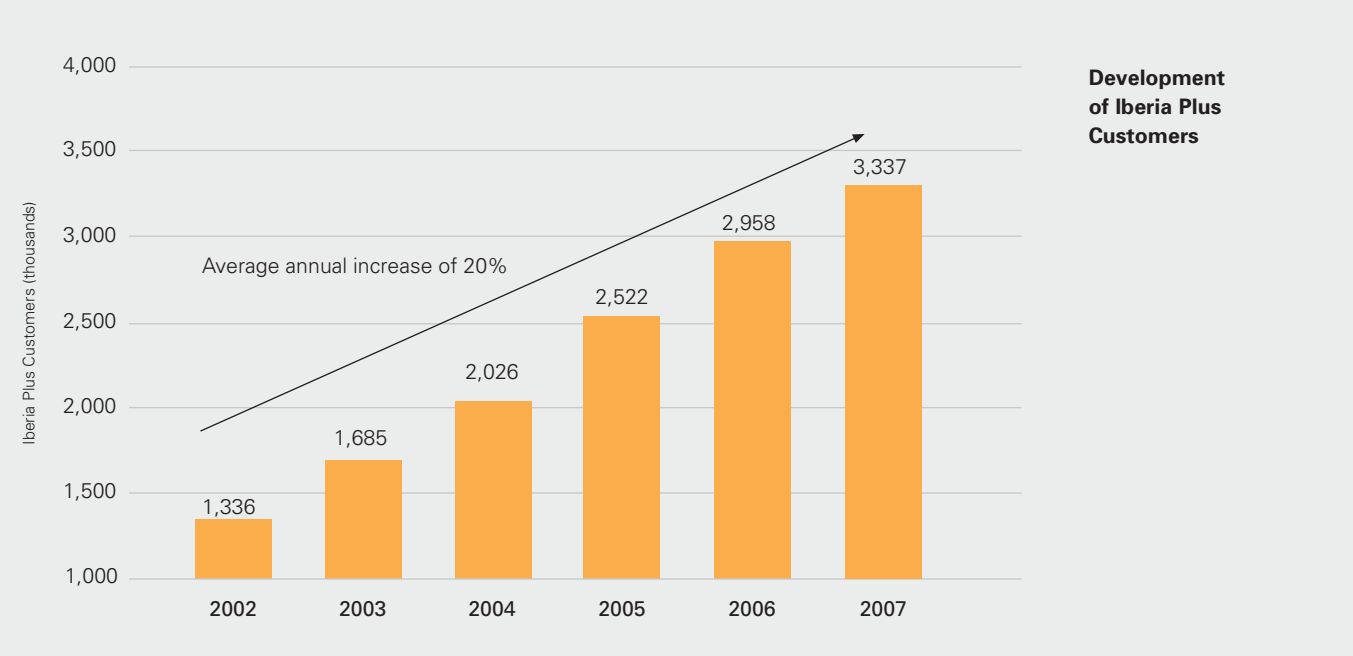
Iberia Plus

IBERIA has the systems and information required to provide an appropriate level of service to each passenger, whose loyalty is repaid by using the Iberia Plus programme. The programme consists of the accumulation of points through the use of the Iberia Plus card, whether on IBERIA flights or on services with the companies associated with the programme, which are exchangeable for flights, stays at hotels, car rentals, cultural or sporting events and tourist trips. Iberia Plus has four levels of card: Classic, Silver, Gold and Platinum.

Iberia Plus, which in 2007 celebrated its fifteenth anniversary, now has more than 3.3 million card holders, 12.8% more than in 2006, distributed among 200 countries. More than 1.4 million card holders have already registered with the Iberia Plus Online programme, through which they will obtain points by using this service to purchase their tickets.

The Iberia Plus Gold and Iberia Plus Platinum cards bring together the passengers of most value to the Company, who number more than 34,000. As a result of the programme and the possibilities offered by the latest technologies, the Company has established close links with its best passengers, who form one of IBERIA's most valuable assets. The loyalty shown to the Company and the volume of business that these passengers generate give rise to numerous privileges for them. They are attended exclusively 24 hours a day by the employees in the Platinum and Gold Service Centre.

The success of Iberia Plus Gold and Platinum does not lie only in the personalised service and the impeccable preferential treatment of these passengers by the Company, and IBERIA has wished to go further, and for some time now it has been carrying out campaigns with very direct initiatives aimed at bringing the passengers closer to the Company, getting to know their level of satisfaction, and thereby make good possible errors in the future. These campaigns include, inter alia, invitations to spend weekends at some of the Spain's "Parador" hotels, at hotels with charm and meals at prestigious restaurants.



IBERIA's loyalty programme added 29 new companies in 2007 (including the Villa del Duque Hotel, Habitat Hoteles, the Hospiten private hospital network, Europ Asistance, Wellness centres, Estancias de España, Sheffield Centre, Mundomar Cruceros, WiFly, Hilton Hotels and fashion boutiques) and as a result had 77 associated companies at 2007 year-end, 15 of which are airlines and the others hotel chains, car rental companies, petrol stations, credit cards, online stores, real estate groups, security companies, healthcare companies, opticians and insurance companies.

E-ticket

Since June 2007, IBERIA has used the e-ticket as the sole ticket medium on its domestic flights, including the Madrid-Barcelona Shuttle, getting ahead of the deadline set by the International Air Transport Association (IATA), which envisaged this objective for 2008. The e-ticket can also be used on nearly all the international destinations operated by the Company (except Algiers, Saint Petersburg and a further six destinations operated by Iberia Regional Air Nostrum).

Currently, the e-ticket is the format used by practically all of IBERIA's passengers. In 2007, e-tickets represented 96% of all the tickets issued through the Company's proprietary channels, and 95% of those issued by travel agencies. In 2007 close to 17.5 million e-tickets were issued, an increase of 12.3% with respect to 2006.

During 2007 IBERIA extended the validity of the e-ticket for journeys that combine its flights with those of other airlines, which makes it possible to transfer its multiple advantages to a greater number of passengers and destinations. The number of airlines that allow flight combinations with IBERIA using the e-ticket had risen to 60 at year-end, including the airlines forming the oneworld alliance. According to data available at 2007 year-end, e-tickets as a percentage of interline check-in coupons exceeded 91%.

Auto check-in

IBERIA passengers on domestic and Schengen-bound flights may obtain their boarding cards by accessing this specific function at Iberia.com (auto check-in online), or by using the kiosks installed at most of the main Spanish and European airports. The service has performed positively since being introduced, with a growing degree of usage. The percentage of all passengers using auto check-in (at conventional kiosks, Madrid-Barcelona Shuttle kiosks and online) exceeded 26% of all passengers on domestic and Schengen-bound flights in the last quarter of 2007.

In 2007 the number of passengers using auto check-in through the website grew by more than 47% with respect to 2006, representing an annual average percentage of 11.2% of the total passengers on domestic and Schengen-bound flights.

At the end of December 2007 a total of 138 auto check-in kiosks had been installed at 19 Spanish destinations, including 20 specific kiosks for the Madrid-Barcelona Shuttle. Also, the passengers had the possibility of using this service at 11 European airports, subsequent to the addition of Vienna in February 2007 to the group of stopovers which had already had implemented the system (Amsterdam, Athens, Brussels, Copenhagen, Frankfurt, London, Munich, Paris, Rome and Venice). The Company continues to study the possibility of extending the service to other European and long-haul airports. In 2007 the number of passengers using auto check-in at conventional kiosks increased by 7.7% with respect to 2006, with the highest growth seen in the Madrid-Barcelona Shuttle, up 24.5% on 2006.

Quality indexes

IBERIA has various quality control and monitoring mechanisms in place, in terms of both service parameters and the level of passenger satisfaction.

Through the measuring of Level of Quality Obtained (LQO) indexes, the fulfilment of the provision of service quality standards set by the Company is supervised. To this end the overall process of customer service is controlled, both on the ground and in flight, ranging from the request for information and the booking of tickets to the handling of complaints and claims. In 2006 the new SIMCA (Integrated Quality Measurement System) application was designed, and during 2007 it was implemented in the areas of the Company which provide ultimate customer service, introducing improvements to the information and the management of the system. Through this software application, management has online access to information relating to service quality during the 6,500 inspections carried out both on the ground and in flight, as well as to the Company's databases and systems, thereby allowing it to define improvement measures more accurately, the objective of which is to increase the quality of the product the Company sells to its customers.

To gauge the Company's service quality level an IBERIA index is prepared that aggregates the results of the various services (during stopovers, during flights, sales, claims, among others). This index stood at 88.7 on a scale of 100 in December 2007, improving over the year (in January of the same year it stood at 84.7).

To ascertain the passengers' opinion with respect to the fulfilment of their expectations (Perceived Level of Quality, PLQ), in 2006 close to 8,200 surveys were carried out among passengers at the end of their flights, on 30 basic attributes of the service process. In 2007 the new PLQ model was designed which will come into force in 2008. This new model will make it possible to increase the number of samples and make ongoing assessments of passenger satisfaction, as well as bringing Perceived Quality into line with Target Quality.

Also, the Quality Systems certified under ISO 9001:2000 standard include specific quality indicators related to the processes of the various activities that are controlled internally with sufficient regularity.

ISO certificates

The Iberia Group is committed to the objective of improving the quality of all its activities and to favour the attainment thereof, ISO 9001:2000 quality management systems have been implemented in various areas of the Company, specifically in Cargo, Systems, Maintenance and Engineering, Operations, Infrastructure and In-flight Service, and in Airports (passenger and ramp handling) where an integrated quality and environmental system is in place with ISO 9001 and ISO 14001 certifications. In 2007 these areas of the Company successfully passed the internal and external audits required to retain the related certifications.

In 2007 a total of 57 quality and environmental audits were carried out (22 external and 35 internal) and 512 corrective and preventive measures were implemented in various areas of the Company.

Also, IBERIA continued to work towards completing the certification of its activities, and in June the Purchasing Division was certified under AENOR ISO 9001:2000. A study was also conducted to initiate the certification process of the Customer Service Subdivision – Customer Care Unit.

2.4.2. Direct distribution channels

Iberia.com

Iberia.com, which in 2007 celebrated its tenth anniversary, is a key tool in the Company's commercial strategy, which enables it to apply a demand-adapted pricing policy that varies depending on the level of occupation, in addition to reducing distribution costs. It affords users the possibility of managing bookings in a trouble free manner, contracting flights and other products (including hotels, car rental and holiday packages), consulting special offers, prices and diverse information, or using auto check-in online. Iberia.com stands out as one of the most intuitive, user-friendly and best valued web pages. As a result, in 2007 it received the award, along with its booking engine Amadeus, for the "Best Internet Airline Webpage" from Interactive Media, a group of experts that assess design, content, ease of use, functionality and compatibility with other browsers.

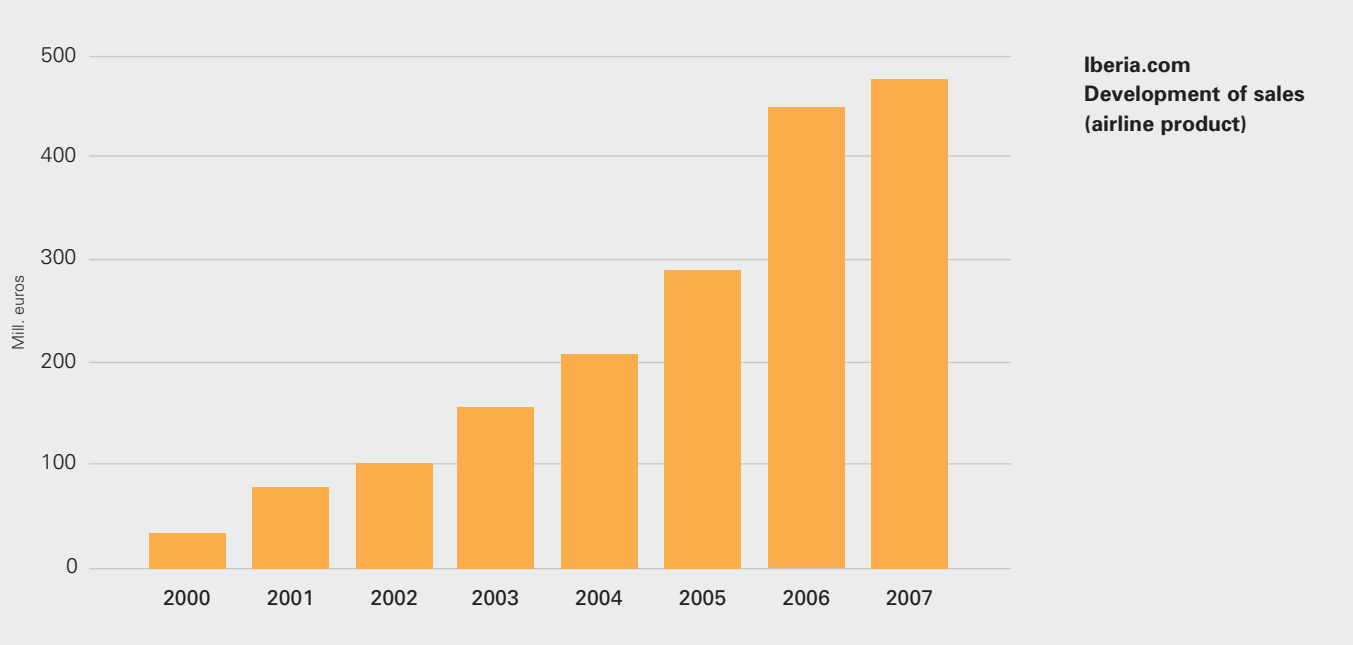
Among the enhancements introduced in 2007 was the design of a new webpage with a browsing menu that facilitates access to information and the functionalities most used by the users. The design of the new Iberia Plus area includes links to specific functionalities for customers and access to the programme's most interesting offers. Also, the new webpage shows the best prices of flights from Spain, which are updated on a permanent basis.

Other significant innovations implemented in 2007 were: the possibility of issuing tickets online during confirmation of the booking; the enhancement of the purchasing process, informing customers of the availability of flights and prices; the possibilty of purchasing tickets for the Madrid-Barcelona Shuttle with a charge to Iberia Plus points through Iberia Plus online, which is a webpage that is updated to facilitate balance enquiries and point movements; access to a lost-luggage monitoring system to gain information on the status of the loss; the extension of the auto check-in online system to new routes and to IB code flights operated by Clickair; and the new management services that enable customers to access information on the status of their booking, timetables, and even, where possible, changes of flights.

Also, a communication platform was developed to enable customers to access the content of Iberia.com through mobile devices, such as PDAs and telephones. At 2007 year-end diverse information on the flights programmed could be consulted: type of aircraft, connecting flights, in-flight services available, departure and arrival times updated in real time and the best offers by route. Early in 2008, Iberia.com extended this service, enabling users to purchase tickets for Madrid-Barcelona Shuttle flights and use auto check-in, while subscribers to the Iberia Plus programme can consult their movements and point balances.

According to a report recently issued by AIMC (the Association for the Investigation of Communication Media), Iberia.com is the Spanish tourism industry webpage that receives the highest number of hits. In 2007 the Company sold close to 2.5 million airline tickets through this channel, up 4.6% on 2006, with the related sales amounting to EUR 475.3 million, an increase of 6.3% with respect to 2006. The greatest growth in sales was seen on the international websites, especially in the US. The number of customer hits to the website reached a daily average of 325,000 sessions in 2007, with 1,300,000 pages visited a day. Around 12,500 boarding cards are issued each day through the auto check-in online system at Iberia.com. The number of Iberia Plus card holders who manage their account at Iberia Plus online was to 1.6 million in 2007.

17% of Iberia's tickets in Spain are sold through Iberia.com, which continued to expand abroad, adding new websites in Senegal, Equatorial Guinea, Nigeria, Algeria, the Czech Republic, Poland and Romania. Accordingly, there are currently 44 versions in five languages and cover all the countries with IBERIA destinations. The objective is to increase sales from the respective countries, providing our customers with contents in their own languages and presenting specific offers and information of interest for these markets.



Iberia.com also improved and extended the non-airline related products and services purchased online such as hotel stays, car rentals, holiday packages and travel assistance insurance. These non-airline businesses resulted in billings for the Company of EUR 13.2 million in 2007.

Serviberia

Serviberia, IBERIA's telephone assistance service (902 400 500), is operative 24 hours a day, 365 days a year, and centralises the calls from Spain, nine European countries and the US. For the price of a local call -dealt with in eight different languages- it provides booking, ticket sale and flight and fare information services. It has been observed that Serviberia is perceived by the customers more as an option to receive information or make changes than as a sales channel. In this connection, the number of calls received to request changes to bookings made exceeded the number of calls to purchase a ticket for the first time.

Serviberia has a specific assistance centre for Iberia Plus Gold and Platinum card holders, which manages ticket bookings, sales and issuances, the Iberia Plus programme, claims and lost luggage; provides assistance to customers from foreign offices; and resolves problems and emergencies.

In 2007 new technological advances were adopted in order to improve the service quality provided. As a result, from January a new service was available which through short messages to mobile telephones provides information on the flight itinerary, and from October the service also included information on boarding gates.

In 2007 Serviberia's total sales amounted to EUR 116 million. The degree of penetration of the e-ticket in the sales made by Serviberia amounted to 99% for the year as a whole, increasing by 2 percentage points with respect to 2006. Travel insurance continued to be the product best received by the market, showing an increase of 247% with respect to 2006. The ticket conversion rate, which measures the number of tickets sold by calls dealt with, improved in 2007, particularly in Spain, where sales effectiveness increased 5 percentage points to 23%; in the case of Europe it was 12%, having increased 1.5 points with respect to 2006.

2.4.3. Implementation of sales agreements

The oneworld alliance

oneworld is a global alliance of ten highly prestigious and internationally renowned airlines -American Airlines, British Airways, Qantas, IBERIA, Cathay Pacific Airways, LAN, Finnair, JAL Japan Airlines, Malév Hungarian Airlines and Royal Jordanian.

2007 was important for the oneworld alliance because one of its main objectives was achieved, which was to expand the network's coverage to geographical areas in which the alliance lacked presence, with the inclusion of JAL, Málev and Royal Jordanian. Also in 2007, eight airlines were included in the category of affiliates: five affiliates of JAL, LAN Ecuador, LAN Argentina and Dragonair, thereby reaching a total of 26 affiliated airlines. These ten airlines and their affiliates constitute a worldwide network that covers more than 700 destinations in more than 150 countries and the oneworld alliance is the only airline alliance with members in South America, Australia and the Middle East.

As regards the travel experience, oneworld allows a passenger to enjoy and benefit from a series of additional advantages such as: the possibility of obtaining and exchanging points from the Frequent Flyer programmes of each airline throughout the oneworld network, the possibility of accessing over 500 VIP lounges distributed worldwide and of enjoying the assistance provided by the more than 260,000 employees of the alliance members.

In recognition of its success, in 2007 oneworld received the World's Leading Airline Alliance award for the fifth successive year, presented as part of the World's Travel Awards.

Agreement with American Airlines

On 24 July 2007 IBERIA and American Airlines entered into a framework alliance agreement whereby the two airlines address extending the degree of cooperation in their commercial and operating activities in areas including, inter alia, code-share flights, loyalty programmes, route planning and flight programmes, advertising and promotion, revenue management, cargo, sales and information systems.

This agreement was submitted to the US Department of Transport (DOT) in order to obtain antitrust immunity in relation to the coordination of such activities.

Simultaneously, the two airlines together with their oneworld alliance partners, Finnair, Málev and Rojal Jordanian, submitted a similar multilateral framework agreement on cooperation to the DOT, with the objective also of obtaining antitrust immunity. This agreement will make it possible to extent the coverage and the benefits of this transatlantic cooperation.

The alliance will afford major benefits to the customers which include, inter alia, the possibility of accessing more destinations and more convenient timetables, a more attractive frequent flyer programme, greater possibilities of ticket exchange and an increase in the service features until the passenger's final destination.

Also, the improvement in the cost structure will enable the airlines to cover a wider range of destinations more effectively.

Agreement with British Airways

Since January 2005 IBERIA and British Airways have been jointly operating routes between the airports of London Heathrow, Barcelona and Madrid, on the basis of an agreement entered into in 2004 which enables them to plan and manage these trunk routes together and share the profits. Both companies' passengers have enjoyed greater choice and flexibility in terms of timetables and services, and better connections at the aforementioned airports and a larger number of destinations. The implementation of the agreement has had satisfactory operating and economic results during the three years that have elapsed.

Franchise agreement with Air Nostrum

The franchise agreement between IBERIA and the regional carrier Air Nostrum continues to give rise to excellent results for both companies.

Iberia Regional Air Nostrum operates a total of 114 routes throughout the year at 53 airports, in addition to a further 61 special routes at Christmas and the summer season at another 9 airports. Its fleet, which at 31 December 2007 totalled 70 aircraft, has 35 CRJ-200 and 11 CRJ-900 jets.

In 2007 Air Nostrum opened nine international routes: from Barcelona to Nantes, Marseille and Tangier, from Santander to Amsterdam and Paris, from Zaragoza to Lisbon, from Valencia to Bologna, from Madrid to Genoa and from Seville to Toulouse.

In 2007, Iberia Regional Air Nostrum opened 18 new domestic routes: from Barcelona to Salamanca, from Bilbao to Badajoz, from Málaga to Valladolid and León, and from Seville to Zaragoza and Valladolid, in addition to 12 new routes between the Canary Islands and the Balearic Islands and mainland Spain, certain of which will only be operated during the summer high season.

Iberia Regional Air Nostrum carried a total of 5.56 million passengers in 2007 of whom close to a million connected with IBERIA lines.

Codeshare agreements

IBERIA has codeshare agreements with 24 airlines, most notably including due to their size: American Airlines, British Airways, Finnair, Lan Airlines, JAL, Cathay Pacific, Avianca, Mexicana de Aviación, Royal Air Maroc, the TACA Group (Transportes Aéreos de Centroamérica), El Al, Malev and Clickair.

In August 2007 two agreements between IBERIA and Lan Peru and Lan Ecuador came into force.

IBERIA markets the flights between Madrid and Guayaquil operated by Lan Ecuador, and the latter markets the flights operated by IBERIA on the Madrid-Quito-Guayaquil route. Lan Ecuador also markets destinations beyond Madrid on connections with its flights: Málaga, Alicante, Barcelona and Bilbao in Spain, and Amsterdam, London and Brussels in Europe.

IBERIA and Lan Peru market each other's flights between Madrid and Lima, as well as destinations beyond these capitals. Thus, IBERIA markets the following destinations in Peru on connections with its flights: Chiclayo, Iquitos, Arequipa, Cuzco, Juliaca, Puerto Maldonado, Piura, Tacna, Trujillo; while Lan Peru markets the following destinations beyond Madrid in connection with its flights: Málaga, Alicante, Barcelona and Bilbao in Spain, and Amsterdam, Geneva and Zurich in Europe.

In July 2007 the agreement between Rossiya and IBERIA came into force whereby the Russian airline can market IBERIA's flights between Madrid and Saint Petersburg operated by IBERIA during the summer season.

As regards the addition of new routes included in the codeshare agreements: since March 2007 IBERIA has operated the Madrid-Bucharest route in which Tarom provides its code. Since October 2007 IBERIA has also operated the Madrid-Prague route marketed by CSA.

In 2007 code sharing operations with Clickair increased and opened up numerous domestic and international destinations. New routes were also included in the code-share agreement between IBERIA and American Airlines: on the one hand, American markets the Madrid-Boston and Madrid-Washington routes operated by IBERIA; and, on the other, IBERIA provides its marketing code on various domestic US routes beyond Boston and Washington operated by American Airlines.

Frequent Flyer agreements with airlines

As regards Frequent Flyer programmes (FFP), IBERIA currently has 13 agreements in force with airlines, which most notably include all the oneworld airlines, Mexicana de Aviación and the TACA Group. Japan Airlines and Royal Air Maroc were two of the latest additions to the programme in April 2007. The agreements with SN Brussels and Aer Lingus were terminated in March and April, respectively.

2.4.4. Systems projects

In 2007 the Systems Divisions continued to support all of the Company's businesses in implementing various initiatives with a technological component included in the 2006/2008 Master Plan, while maintaining a strict control of resources and operating expenses within the organisation itself. In addition to these specific support actions, the Systems Division carried out actions aimed at maintaining and enhancing the technological platform used by the Company and ensuring system security.

Following is a description of the most significant projects undertaken in 2007, grouped together by strategic objectives contained in IBERIA's 2006/2008 Master Plan. Due to their size, certain of these projects will not come into operation until 2008.

Increased revenue and quality

IBERIA's flagship project is the development of a new passenger traffic revenue management system, initiated in 2007 and scheduled for rollout in the first half of 2008. The objective of this project is to provide the Company with a tool to optimise revenue by origin-destination, unlike the current system that optimises revenue by segment. Moreover, the new system is supplemented by innovative modules aimed at maximising revenue from point-to-point routes in order to compete with low-cost carriers.

Work is also being performed in the Cargo area to introduce a yield management tool to make it possible in real time to accept or reject cargo bookings depending on the revenue/cost generated thereby. In 2007, the load optimisation and overbooking module came into service, both for long- and short-haul flights, as well as the electronic air waybill in the domestic area.

As in previous years, in 2007 the Iberia.com platform introduced enhancements to increase the Company's direct sales and provide better service to customers. With the same objective, functional enhancements were implemented in the Customer Relationship Management (CRM) and Business Relationship Management (BRM) systems.

IBERIA's Systems Division developed and brought into service RESIBERnet, which enables customers of the airlines which use the RESIBER hosting system to access the website in order to view the availability of their flights, book flights (creation of the PNR) and seats, issue e-tickets, consult information on flight departures and arrivals and pre-check in, with a cost for the client airline which is lower than that of traditional distribution systems, due to the fact that this system operates without being connected to the global distribution systems (GDS).

Increased productivity

The most significant project in this area initiated in 2007 was the implementation in the Airports Division of a market package to manage the Madrid-Barajas airport stopover. The tool acquired will strengthen issues relating to planning and the automatic allocation of resources, thereby increasing productivity and the control of the handling business. In 2007 two modules were brought into operation and the third will be introduced in 2008.

The objective of the MEDUSA project is to implement a new version of the flight programming and performance information system across the IBERIA network, collecting information on aircraft movements, slots, cargo, passengers and fuel of all the network's flights and the airlines handled. New functionalities were also added, such as the automatic allocation of aircraft registrations.

In 2007 a new system was under development for routing and maintenance management, known by the acronym GEROMA, the implementation of which will be completed in the first quarter of 2008. This system provides real-time graphic information on the current status and short-term programming of flights and the maintenance downtimes for each aircraft belonging to IBERIA's various fleets. The option was taken to implement the standard tool (Fleet Control of EDS), which is the same tool as that acquired for the Flight Monitoring project of the Operations Division.

In the first phase of development of the ICARO system, crew member administrative processes (including, inter alia, calculation of holidays or problems, fleet transfers and allocation of the line stations) and tracking -using a graphic system- were automated, with rules and alerts that enable the Company to pre-empt possible problems relating to flight services.

2.5. Corporate responsibility

More detailed information on the Company's sustainability management is contained in IBERIA's Social Responsibility Report, which supplements this Management Report. The Social Responsibility Report received the highest report application level (A+) under the Global Reporting Initiative international standard.

2.5.1. Environment

In 2007 the Company continued to implement measures aimed at improving its management of environmental issues, as an essential element of its Corporate Responsibility Policy. These activities were performed in keeping with the Agreement promoted by the Committee for Monitoring Social Dialogue in Public Services, was approved in December by the Government and the stakeholders involved.

As regards flight operations, the reduction of the average age of the fleet through the replacement of aircraft, the adoption of new operational measures, and the improvements obtained in the load factor enabled IBERIA, for yet another year, to reduce sound emissions and emissions affecting climate change. In relation to future European legislation to limit CO2 emissions in the aviation industry, the Company is in favour of a system that would reward the least polluting companies and, at the same time, provide incentives to those open to further improvement. IBERIA also participates in working groups which, at international level, promote the study and application of cleaner aeronautical technologies and the development of a European air space (Single European Sky) which would considerably reduce greenhouse gas emissions.

In relation to ground operations, in 2007 the Company obtained new ISO 14.001/AENOR certification for its Environmental Management Systems, which include IBERIA's aeronautical maintenance facilities at the Madrid-Barajas airport. With this certificate and those already awarded in the Handling area and in IBERIA's other maintenance facilities in Madrid, all significant environmental aspects of the Company are covered by external certification.

In 2007 IBERIA was admitted for the second year running to the select Dow Jones Sustainability Index, which values the Company's performance as regards economic, social and environmental matters. Inclusion in to this index placed the Company among the 250 leading companies in the world in this field. Of a total of 22 criteria, and in the airline industry, IBERIA gained the best score in matters such as, inter alia, risk management, climate change and quality of environmental disclosures.

2.5.2. Social action

IBERIA's unstinting commitment to social matters is acknowledged through its admission to the select DJSI, discussed above. The Company assumes its responsibility by converting social action into a priority strategy through projects relating to the access to employment for the disabled, the voluntary service of its employees, the transportation of passengers that require any manner of assistance and the giving over of hold space to transport humanitarian aid.

In 2007 IBERIA continued its close cooperation with the NGO *Mano a Mano* and *Asociación de Empleados Padres de Minusválidos de Iberia* (APMIB), which are the entities to which most of the its resources are dedicated: more than EUR 4.7 million in 2007.

Through sponsorship agreements, the Company continues to back the institutions with which its has cooperated in the past, such as the Ministry of Employment and Social Affairs and the *Agencia Española de Cooperación Internacional para el Desarrollo*, for which more than a million Euros were earmarked through the provision of cargo and passenger transport. Other types of public and private bodies included the *Fundación Crecer Jugando*, the *Fundación Ilusiones*, the Spanish Ornithological Society or the *Red Europea de Cooperación y Desarrollo*, among many others.

It should be noted that IBERIA continued to encourage its customers to participate in projects of this nature through the agreements entered into with the Spanish Red Cross (in excess of EUR 9 thousand contributed in 2007 by Iberia Plus card holders to the *Reagrupación Familiar* project) and the Special Olympics (more than EUR 17.600 Euros collected in 2007), and to involve its suppliers in social action projects such as the well-established collection of funds during the Christmas Campaign.

During 2007 a total of EUR 6.3 million were provided for social action projects. More in-depth information on the actions carried out may be found in the Corporate Responsibility Report.

3. Resources

3.1. Fleet

At 2007 year-end, the Iberia Group had a total of 136 passenger aircraft in operation, which included 31 long-haul aircraft and105 short- and medium-haul aircraft. The following table shows the composition of the fleet by aircraft type:

Aircraft Type (a	Owned	Aircraft under Finance Lease	Aircraft under Operating Lease	*Wet Lease*	Total Operated
A-340 / 300	5		11	3	19
A-340 / 600			12		12
Long-haul	**5**		**23**	**3**	**31**
A-319			19		19
A-320 (b)	10	5	30		45
A-321		4	15		19
B-757 (b)				2	2
MD-87 (c)	9				9
MD-88	11				11
Short/medium- haul	**30**	**9**	**64**	**2**	**105**
TOTAL	**35**	**9**	**87**	**5**	**136**

(a) Excluding inactive aircraft.
(b) Also, at 31 December 2007 IBERIA had two Airbus A-320s and one Boeing B-757 leased to other companies.
(c) Does not include an aircraft parked in the hangar awaiting the Technical Acceptance Certificate for delivery to the buyer.

At 31 December 2006 the Company operated a total of 150 aircraft. The following list shows the detail of aircraft additions and retirements in 2007:

Additions

- 1 A-320 under finance lease.
- 1 A-321 under operating lease.
- 8 A-319 under operating lease.
- 1 A-340/300 under wet lease.

Retirements

- 9 A-320 under operating lease.
- 5 B-757 under wet lease.
- 1 A-340/600 under operating lease.
- 9 MD-87 owned.
- 1 MD-88 owned.

Also, there was a change in the status of six A-320s, which had been under a finance lease at the beginning of the year and were subsequently acquired outright, and began to be operated under an operating lease from December onwards.

Since mid-2006, all IBERIA's long-haul flights have been operated with one and the same family of aircraft, the A-340 airbus, in its two versions: the 300, with 260 seats, and the 600, with 352 seats. Iberia has one of the most modern long-haul fleets in the industry, with an average aircraft age of 6.7 years.

At 2007 year-end IBERIA only operated two types of its own aircraft (the A-320 and MD-87/88 families) on medium-haul international and domestic flights, while the last two B-757 aircraft operated under wet lease.

The wet arrangement lease affords the Company greater flexibility to adjust its capacity to changes in the market. This was borne out in 2007 when IBERIA increased the number of wet lease block hours by 50.9% on the long-haul routes (A-340 aircraft), and reduced them by 36.8% on the short- and medium-haul flights (B-757 aircraft).

Under the short- and medium-haul aircraft renewal and standardisation plan, in 2007 the Company added nine new aircraft from the Airbus factory under operating leases (one A-321 and eight A-319s). Additionally, in July an A-320 previously leased at another company was added to IBERIA's operating fleet under a finance lease. The A-320 fleet is based on state-of-the art technology, enabling the Company to provide a better service to its customers in a more efficient manner in terms of operating costs and environmental aspects.

In the context of this short- and medium-haul fleet renewal plan, in February 2007 IBERIA entered into a contract with *Tiger & Engine Support* for the sale of all the MD-87 and MD-88 aircraft. In accordance with the timetable established in the contract, the delivery of a total of 30 aircraft (including their engines) will be phased in between April 2007 and September 2009 at the rate of approximately one aircraft per month. In 2007 a total of 10 aircraft (nine MD-87s and one MD-88) were retired from service.

The average utilisation of total passenger aircraft, measured in block hours per aircraft and day, was 9.6 hours in 2007, 5.3%above the 2006 figure. The utilisation of the Company's owned aircraft improved by 5.5% in the case of long-haul aircraft and by 3.6% in the case of short- and medium-haul aircraft.

BH/Aircraft/Day	2007	2006
Average short- and medium-haul aircraft usage	8.2	7.9
Average long-haul aircraft usage	14.3	13.5
Average usage of own aircraft	**9.5**	**9.1**
Average usage of aircraft under *wet lease* (a)	10.7	9.4
Average usage of total aircraft	**9.6**	**9.1**

(a) In 2007 aircraft operating under wet lease contracts for IBERIA included: three A-340/300s, one since April and the other two all year; and seven B-757s, of which five were retired between January and September.

3.2. Personnel

3.2.1. Headcount

The table below shows the number of Iberia Group employees in 2007 and 2006, measured in terms of the average number of equivalent employees.

	GROUND		FLIGHT		TOTAL	
	2007	2006	2007	2006	2007	2006
IBERIA	16,662	17,999	5,638	5,866	22,300	23,865
CACESA	125	131			125	131
ALAER	87	53			87	53
BINTER FINANCE	2	4			2	4
IBERIA GROUP	**16,877**	**18,187**	**5,638**	**5,866**	**22,515**	**24,053**
2007/2006 change (%)	(7.2)		(3.9)		(6.4)	

The Group's average headcount decreased by 6.4% with respect to 2006, to 22,515 equivalent employees. The headcount of the IBERIA company , which accounts for more than 99% of the total, decreased by 6.6%.

IBERIA's ground personnel decreased by 7.4% with respect to 2006, with decreases in all management areas both in Spain and abroad, due to the implementation of the productivity improvement initiatives addressed in the 2006-2007 Master Plan. In the Handling area, there was a significant reduction of 822 equivalent employees (8.8% compared with 2006), due mainly to the early retirements taken in the framework of the collective redundancy procedures, and to the process of subrogation of staff at various airports, following the entry of new handling operators.

The number of equivalent employees of flight personnel, who represented 25% of the Group total in 2007, decreased 3.9% with respect to 2006. The average number of technical crew members decreased by 3.2% and that of the passenger cabin crew members by 4.2%. The reduction in the latter group was adversely affected by the higher quota of long-haul flights in the operation as a whole, which require the assignment of larger crews than those assigned to short- and medium-haul routes.

In December 2004 the Directorate General of Employment authorised the extension of collective redundancy procedure 72/01 to 31 December 2007 for IBERIA's ground staff, passenger cabin crew members and flight technicians. Also, in October 2005 the Directorate-General of Employment authorised collective redundancy procedure 35/05, to be applied specifically to employees working in the Handling area. This latter procedure is another tool to enable the Company to make the necessary adjustments to its workforce because of the reorganisation of the Spanish handling market.

In 2007, 1,092 of IBERIA's ground staff employees and 260 passenger cabin crew members left the Company, availing themselves of one or other of the redundancy methods addressed in the collective redundancy procedures, in most cases early retirement. A further 36 ground employees in Spain availed themselves of the National Employment Agreement, and another 73 employed abroad also left the Company. Consequently, in the framework of the initiatives addressed by the Master Plan, a total number of 1,461 employees departed in 2007.

On 27 November 2007 the Directorate-General of Employment authorised the extension of IBERIA's collective redundancy procedure 72/01 to 31 December 2010 for the ground staff. On the same date, the extension of collective redundancy procedure 35/05 to 31 December 2014 was also authorised.

3.2.2. Productivity

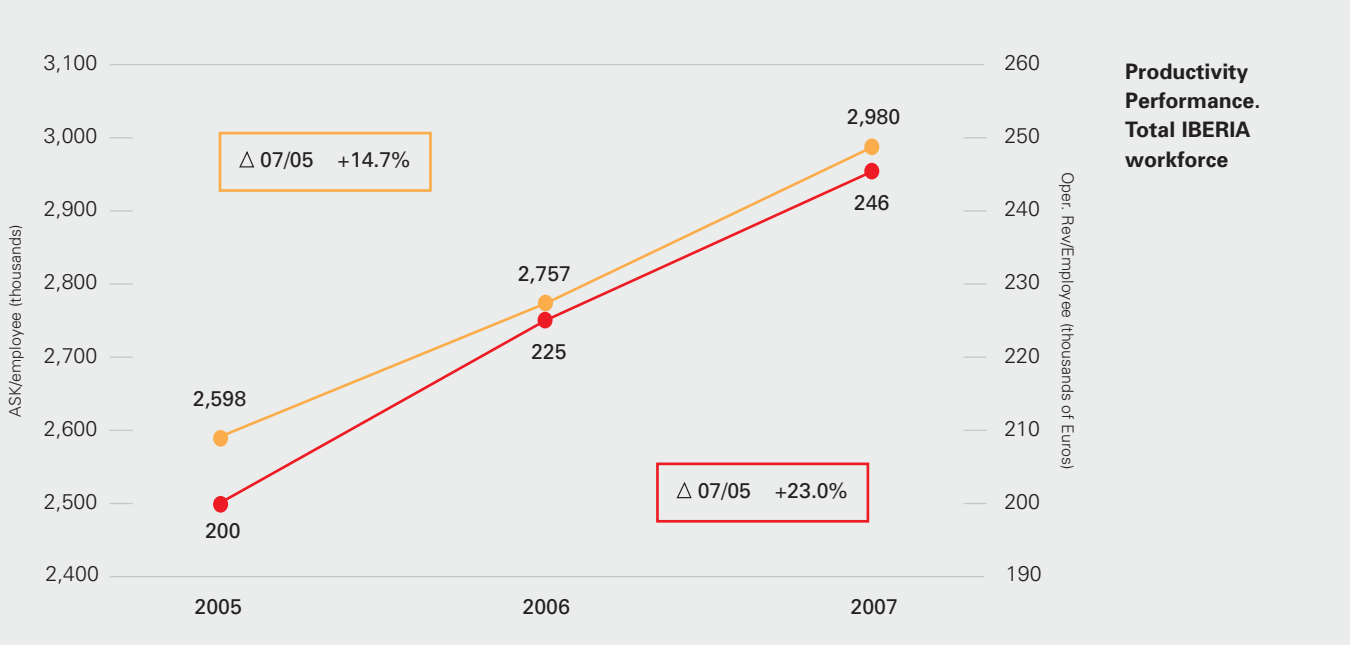
In terms of seat-kilometres produced, the productivity of IBERIA's workforce increased by 8.1%, compared with 2006, to 2.98 million ASK per employee in 2007. In the case of ground staff, productivity increased by 9.1%, mainly due to the decrease in the number of equivalent employees over the past two years. Productivity in terms of block hours per crew member increased by 0.7% in the case of technical crews and 1.0% in the case of passenger cabin crews.

The following table details the productivity by group of employees:

Productivity of IBERIA's Employees (*)	2007	2006	% Change
Total workforce (thousands of ASK per employee)	2,980	2,757	8.1
Ground workforce (thousands of ASK per employee)	3,988	3,656	9.1
Technical crews (BH per crew member)	275.1	273.3	0.7
Auxiliary crews (BH per crew member)	121.4	120.2	1.0

(*) Productivity data calculated on the basis of equivalent workforce data obtained by the new methods. The 2006 figures were recabulated to achieve uniformity.

Productivity – measured in terms of ASK per employee – of IBERIA's total workforce showed a cumulative increase of 14.7% over the past two years since the beginning of the 2006-2008 Master Plan. In the cumulative figure for 2006 and 2007, economic productivity – measured in terms of operating revenue per employee – increased by 23%, with significant growth (9.7%) recorded in 2007 compared with 2006.



Productivity Performance. Total IBERIA workforce

4. Financial performance

4.1. Application of IFRSs

The consolidated financial statements for 2007 presented in this report were prepared in accordance with International Financial Reporting Standards (IFRSs). The application of IAS 39 (Financial Instruments: Recognition and Measurement) has had a particular impact on the Iberia Group's results in the last two years.

IBERIA uses various derivatives to implement its risk hedging policy. In the case of the hedges applied to aircraft operating leases, the objective of the derivatives is to hedge foreign currency (dollar) and interest rate risks. Also, the Company uses price and exchange rate hedges in its fuel purchases.

On 1 January 2006 the Company recognised at market value all its hedging transactions, in accordance with the first-time application of IFRSs. Subsequently, these financial instruments have been measured at each quarterly close, recognising the changes in value thereof. Most of the derivatives used by the Company are effective from the viewpoint of IFRSs, and the changes in value over time do not affect profit or loss and are recognised in reserve accounts in the balance sheet. However, the derivatives considered to be "ineffective" do generate impacts on items in the income statement.

The current measurement of the derivatives had a negative effect of EUR 7.2 million on profit before tax for 2007, which breaks down as follows: EUR 12.8 million increase in expenses relating to the measurement of the financial instruments linked to aircraft operating leases; EUR 5.4 million decrease in expenses arising from the temporary and statistical "ineffectiveness" (according to IFRS terminology) of a portion of the fuel hedges; and EUR 0.2 decrease in expenses relating to the measurement of other financial instruments. In 2006 the application of IAS 39 had a negative effect of EUR 29.1 million on profit before tax, of this amount, EUR 24.6 million related to an increase in expenses arising from the hedges applied to aircraft leases.

Also, on 31 December 2007 the change in value of the derivatives decreased the balance of "Reserves" in the consolidated balance sheet by EUR 41 million with respect to 2006 year-end.

4.2. Operating profit

In 2007 the Iberia Group's operating profit, excluding non-recurring items, amounted to EUR 283.5 million, up EUR 161.6 million on 2006, representing an increase of 132.5%. The operating profit margin with respect to operating revenue was 5.1%, as compared with 2.3% in 2006.

The EBITDAR (operating profit before depreciation and amortisation and aircraft leases) generated by the Iberia Group was EUR 932 million in 2007, an increase of 17.9% over the figure obtained in 2006. The EBITDAR margin as a percentage of revenue stood at 16.9%, an improvement of 2.2 percentage points with respect to 2006.

The table below shows the breakdown, by company, of the Iberia Group's operating profit in the last two years in accordance with International Financial Reporting Standards (IFRSs):

Thousands of Euros

Operating profit	2007	2006
IBERIA	275,468	114,924
CACESA	1,339	1,351
ALAER	168	132
BINTER FINANCE	21	30
IBERIA GROUP (a)	**283,544**	**121,954**

(a) The total figures for the Iberia Group include the consolidation adjustments.

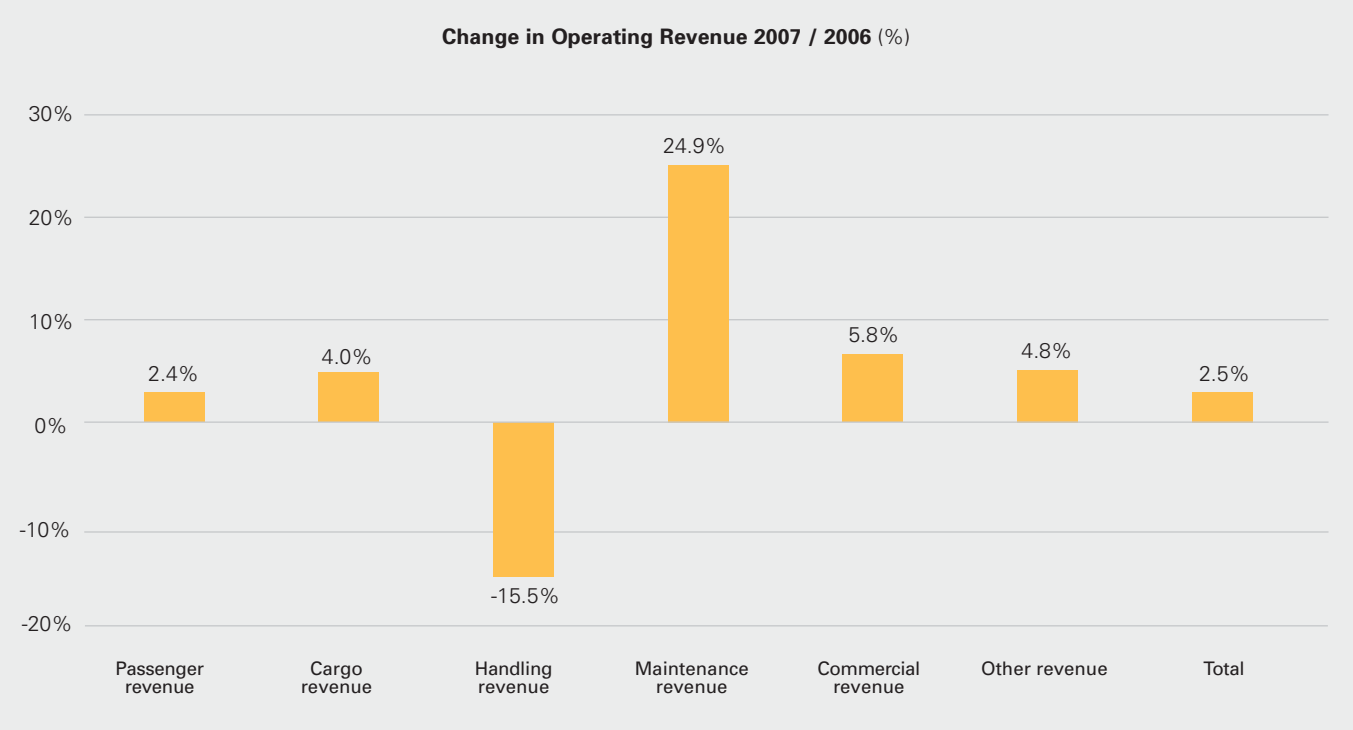
Following is the Iberia Group's management operating statement that differs from the audited income statement due solely to the fact that various revenue and expense items are aggregated for management purposes.

Millions of Euros

IBERIA GROUP	2007	2006	Change 07/06	% change
OPERATING REVENUE				
Passenger revenue	4,275.6	4,174.9	100.6	2.4
Cargo revenue	348.3	334.9	13.3	4.0
Handling revenue	280.0	331.2	(51.2)	(15.5)
Maintenance revenue	273.6	219.0	54.5	24.9
Commercial revenue	84.8	80.1	4.6	5.8
Other operating revenue	259.6	247.6	12.0	4.8
TOTAL OPERATING REVENUE	**5,521.8**	**5,387.8**	**134.0**	**2.5**
OPERATING EXPENSES				
Personnel expenses	1,380.6	1,395.2	(14.6)	(1.0)
Fuel	1,145.2	1,177.5	(32.3)	(2.7)
Traffic services	446.9	451.8	(4.9)	(1.1)
Aircraft lease expenses	433.3	449.2	(15.9)	(3.5)
Aircraft maintenance	409.0	337.8	71.3	21.1
Navigation charges	274.1	285.8	(11.7)	(4.1)
Commercial expenses	242.6	246.1	(3.5)	(1.4)
Depreciation and amortisation charge	215.2	219.4	(4.2)	(1.9)
Booking systems	144.5	147.8	(3.2)	(2.2)
In-flight services	93.9	87.4	6.5	7.4
Indemnity payments for passengers and baggage	37.0	51.6	(14.7)	(28.4)
Insurance	18.4	29.7	(11.3)	(38.0)
Other operating expenses	397.6	386.7	10.8	2.8
TOTAL OPERATING EXPENSES	**5,238.2**	**5,265.8**	**(27.6)**	**(0.5)**
OPERATING PROFIT	**283.5**	**122.0**	**161.6**	**132.5**
EBITDAR	**932.0**	**790.5**	**141.6**	**17.9**
EBITDA	**498.8**	**341.3**	**157.4**	**46.1**

4.2.1. Operating revenue

The Iberia Group's operating revenue (recurring) amounted to EUR 5,521.8 million in 2007, up 2.5% on 2006. The same increase was recorded for passenger and cargo transport revenue which amounted to EUR 4,623.9 million, representing 83.7% of total operating revenue. Following the trend of 2006, of particular note in 2007 was the significant increase obtained in revenue generated by maintenance service to other airlines, up 24.9% on 2006.



Passenger revenue

Passenger revenue amounted to EUR 4,275.6 million, an increase of EUR 100.6 million (2.4%) compared with 2006, despite suffering the impact of the falling US dollar against the Euro, which reduced the inter-annual increase by more than two percentage points.

The difference between the amount of passenger revenue in the operating statement and the amount in the tables of "Key Data" and "Passenger Traffic Revenue" (section 2.1.2.) is explained by the fact that the latter relates directly to the actual production in each year, excluding accounting adjustments and revaluations, and also the revenue arising from the unused ticket recovery process, which is included in the figure in the operating statement.

In the network as a whole, passenger revenue from tickets effectively used amounted to EUR 4,034.2 million in 2007, exceeding the 2006 figure by EUR 71 million. EUR 17.8 million of the increase was due to the growth in traffic (3.3%), which was mainly driven by the improvement in the load factor (1.8 points). The performance of average revenue was affected by the growth in the average passenger stage length (6.9%) and by the fall in the value of the dollar. The change in the exchange rates of various currencies against the Euro gave rise to a decrease of EUR 90.8 million with respect to 2006. Unit passenger revenue stood at 6.07 Euro cents per ASK, representing an increase of 0.8% with respect to 2006.

The aggregate amount of other passenger revenue (not linked to the activity) stood at EUR 241.3 million in 2007, EUR 29.6 million above the 2006 figure, partly due to the increase in the revenue from the unused ticket recovery process (EUR 18.5 million).

Cargo revenue

Iberia´s cargo revenue (including the billings for goods and mail transport, fuel and security charges or surcharges and excess baggage revenue) amounted to EUR 348.3 million in 2007, up 4.0% on 2006. IBERIA's revenue tonne kilometres increased by 9.5%, with growth concentrated mainly on the routes between Spain and South America, while average revenue (per RTK) fell by 5.1% for the network as a whole, adversely affected by the depreciation of the dollar and the increase in the cargo average stage length.

Handling revenue

Revenue from ground handling services to other airlines' passengers and aircraft amounted to EUR 280 million, a decrease of 15.5% with respect to 2006 due to the lower activity levels and the drop in unit revenue arising from the new competitive framework and rising competition, both of which resulted from the award of the new ramp handling licences.

Maintenance revenue

Revenue from maintenance services to other airlines amounted to EUR 273.6 million, which exceeded the 2006 figure by EUR 54.5 million and represented an increase of 24.9%. The revenue increase related mainly to technical assistance at workshops, due to a larger volume of activity. Noteworthy was the increase in revenue from engine inspections, especially of the RB211 and the CFM 56.

Commercial revenue

Revenue from passenger and cargo sales commissions, together with various other commissions, stood at EUR 84.8 million in 2007, EUR 4.6 million (5.8%) more than the 2006 figure.

Other operating revenue

The aggregate amount of other operating revenue amounted to EUR 259.6 million in 2007, increasing by EUR 12 million with respect to 2006, which represented an increase of 4.8%.

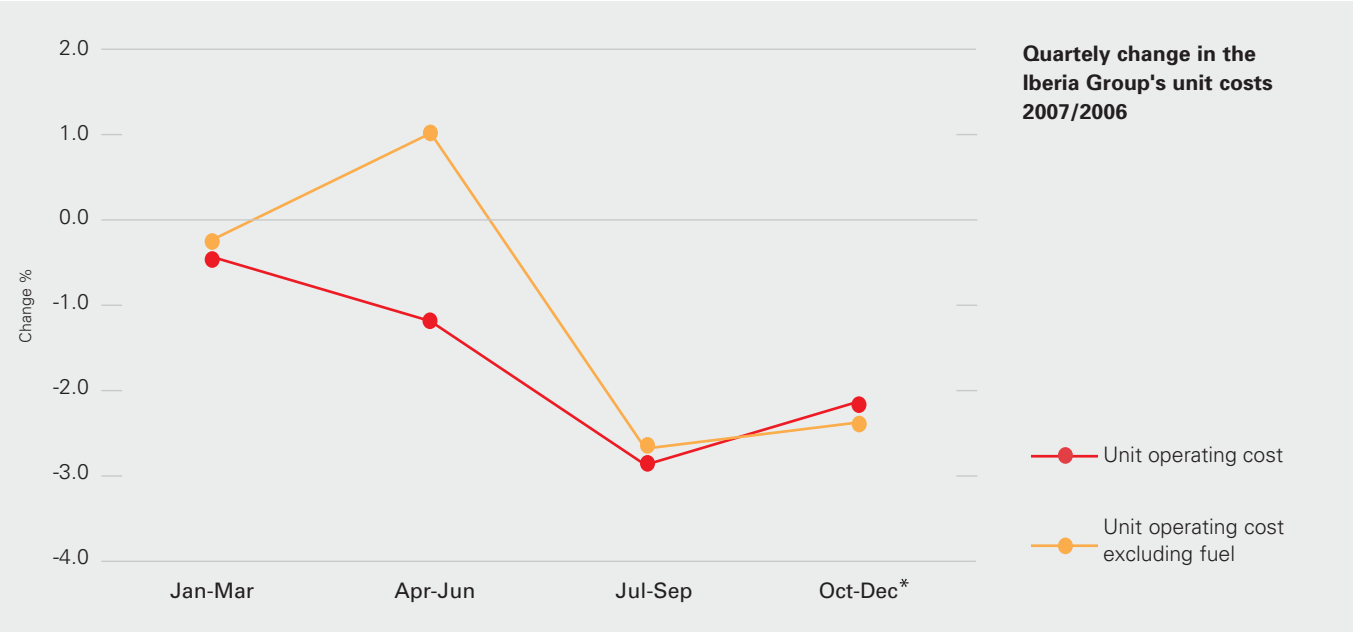
Noteworthy among the items included under this heading were: revenue from using the Amadeus booking system, which amounted to EUR 50.2 million; revenue from the Iberia Plus programme and Frequent Flyer agreements entered into with other airlines, most of them members of the oneworld alliance, the aggregate amount of which exceeded EUR 41 million; revenue from leases (mainly aircraft and engines) which amounted to EUR 24.4 million in 2007; and last, but not least, new revenue amounting to EUR 13.4 million, due to the recovery of the expenses relating to the transfer of IBERIA staff to the unincorporated joint venture performing handling services at Barcelona airport.

"Other Operating Revenue" includes "Adjustment of Traffic Revenue Not Allocable to Passenger Routes" and "Other Traffic Revenue", which are included under "Passenger Revenue" in the notes to consolidated financial statements. Also, this heading includes "Adjustment of Traffic Revenue Not Allocable to Passenger Routes" for cargo, which appears as "Cargo Revenue" in the notes to consolidated financial statements.

4.2.2. Operating expenses

The Iberia Group's recurring operating expenses amounted to EUR 5,238.2 million in 2007, down 0.5% on 2006. Most of the expense items decreased, due mainly to the implementation of the measures established in the 2006-2008 Master Plan, and considerable savings were obtained from the workforce reduction and network restructuring measures. The depreciation of the dolar against the Euro (around 9.5% with respect to the average exchange rate in 2006) also had a beneficial effect with regard to the evolution of costs.

Unit operating cost stood at 7.88 Euro cents per ASK in 2007, a decrease of 1.5% with respect to the figure recorded by the Iberia Group in 2006. During 2007, unit cost remained at levels below those of 2006 at all times. Disregarding the fuel expense for the two years, the annual decrease was 0.9%.



(*) Excluding the annual expenses of the unincorpotated joint ventures, accounted for in full in the last quarter of 2007

Personnel expenses

The Iberia Group's personnel expenses, which represented 26.4% of the total operating expenses, stood at EUR 1,380.6 million, a decrease of 1.0% with respect to 2006, as a result of the 6.4% reduction in the average number of employees at the Group, due mainly to the implementation of the initiatives addressed in the 2006/2008 Master Plan. Of this amount, EUR 1,044.3 million related to wages, salaries and other similar costs and the other EUR 336.3 million to social security costs, contributions to employee pension funds and other employee welfare expenses.

In 2007 the average number of the Group's ground employees and flight employees decreased by 7.2% and 3.9%, respectively, as compared with 2006. The savings obtained from the reduction of the workforce were partially offset by the impact of the measures addressed in the collective labour agreements and other agreements with staff: ground staff salary revision based on the CPI (which represented 2.1% of total personnel expenses), earnings-based nonconsolidable payments (2.5%) and wage drift (seniority, progression, etc.).

The staff unit cost (per ASK) fell by 2.0%, thus fulfilling one of the main objectives defined in the 2006-2008 Master Plan.

Fuel

The fuel expense amounted to EUR 1,145.2 million in 2007, a 2.7% decrease with respect to 2006 and 21.9% of the Iberia Group's operating expenses (and close to 25% of the transport business expenses). The following table shows the detail of the items that were involved in this decrease:

Millions of Euros

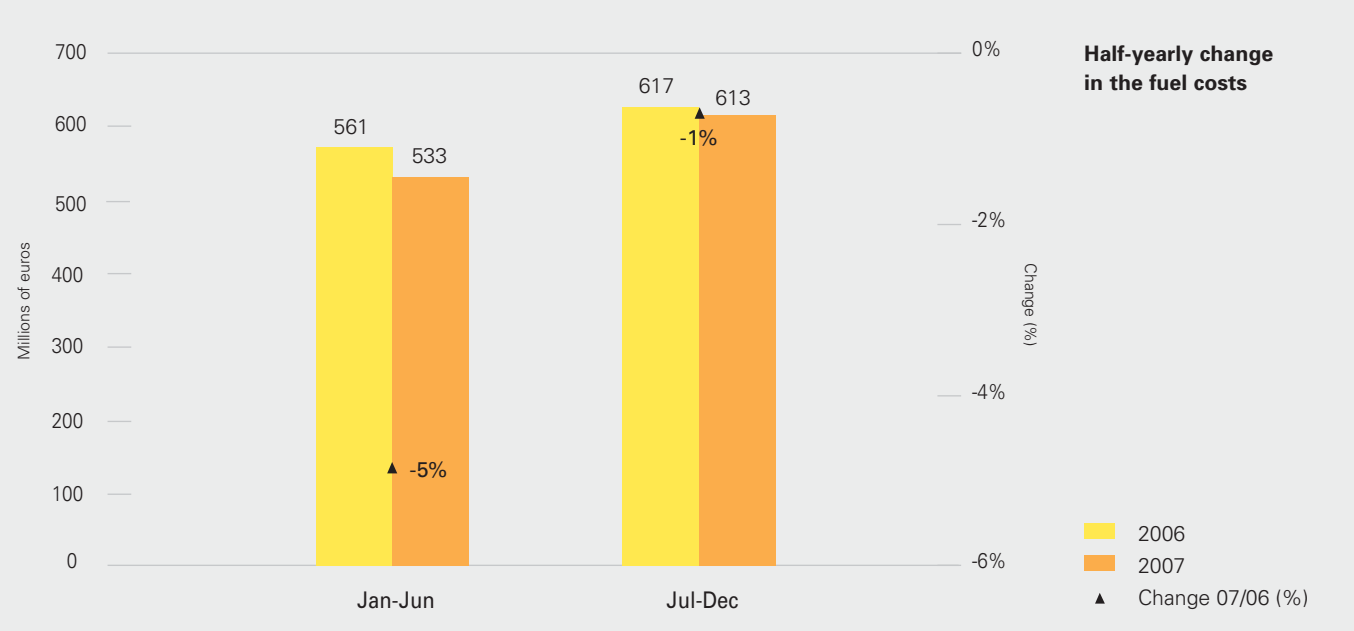
	Causes of the Change in the Fuel Expense					Total Change 2007/2006
	Price(*)	Volume	Exchange Rate(*)	Efficiency	Other	
IBERIA	68.6	9.5	(75.7)	(25.6)	(9.1)	(32.3)

(*) The changes due to price and exchange rate include the effect of hedges.

Two factors contributed to this decrease of EUR 32.3 million with respect to the expense recognised in 2006: the depreciation of the US dollar against the Euro, which lowered the expense by nearly EUR 76 million (after including the effect of the exchange rate hedges), and the lower unit consumption of the fleet, whose increased efficiency brought the cost down by EUR 25.6 million. These positive effects were partly offset by the impact of the rise in the aviation kerosene price after hedges (EUR 68.6 million) and, to a lesser extent, by the increase in activity (EUR 9.5 million).

Also, the measurement of "non-effective" fuel price hedges (applying IFRS terminology) decreased the fuel expense by EUR 5.4 million in 2007 (as compared with an increased expense of EUR 3.7 million in 2006).

The reference crude oil prices in the international markets gradually rose in the first half of 2007, although they moved at lower levels than those recorded in the same period of 2006. However, prices climbed rapidly from July, and a sharp year-on-year increase was recorded in the last quarter of the year.



IBERIA manages the cost of aviation fuel through active risk control policies, which take the form of fuel price hedges. These hedges cushioned a portion of the impact of the rise in prices on the international markets, permitting a reduction in the fuel expense of EUR 17.8 million for the twelve months of 2007 taken as a whole.

All this took the unit fuel price in 2007 to 1.72 Euro cents per ASK, down 3.7% from 2006.

Traffic services

In 2007, the traffic services cost amounted to EUR 446.9 million, slightly down on 2006 (1.1%). The aircraft dispatch expense increased by 4.5% (EUR 5 million) due, to some extent, to the provision of the service from February 2007 by other new concession-holders at the Barcelona, Lanzarote and Fuerteventura airports, whereas in 2006 over 80% of the cost of these services was included in personnel expenses, since they were performed by Iberia itself. This fact also had a partial effect on the increase in the cost of boarding bridges, apron stands and other airport services (EUR 3 million with respect to 2006). These increases were offset by the decreases in landing charges (5.7%), due to the lower volume of flights, and in other operating costs, including most notably the reduction in the expenses arising from incidents (discontinued journeys, missed connecting flights and baggage delivery) the amount of which decreased by 20.4% with respect to 2006.

The traffic services unit cost stood at 0.67 Euro cents per ASK, down 2.0% on 2006.

Aircraft lease expenses

The aircraft lease expense amounted to EUR 433.3 million, EUR 15.9 million (3.5%) lower than that recognised in 2006. The passenger aircraft lease cost was 4.2% lower than that of 2006, mainly due to a 10.3% decline in the wet lease cost, resulting from the decrease in the number of block hours operated and the restructuring of operation under this type of contracts; the decrease of 1.4% on the operation lease expense, as a result of the fall in the number of leased aircraft; and, additionally, to the reduced impact of the application of IAS 39 on this item, with an increase in the expense of EUR 12.8 million in 2007, as compared with EUR 24.6 million in 2006. These lower expenses were offset to some extent by the increase in the cargo aircraft lease cost, which rose by EUR 2.6 million (20.3%) from 2006, due to a 3.0% increase in the number of block hours leased, partly to make up for the withdrawal of an A-340 on the Canary Island routes in June, and because of the change in the type of leased cargo aircraft –operating a more fuel-efficient model.

The aircraft lease unit cost was 0.65 Euro cents per ASK, 4.5% lower than in 2006.

Aircraft maintenance

The aircraft maintenance expense amounted to EUR 409 million in 2007, increasing by EUR 71.3 million (21.1%) with respect to 2006, mainly due to the higher volume of work performed for other airlines, the billings for which rose by 24.9%. The breakdown by type of expense of this increase compared with 2006 is as follows: aircraft spare parts, EUR 15 million; outside aircraft repair and upkeep services, EUR 55.1 million, and the charge to the provision for major repairs, EUR 1.2 million.

In the management operation statement the maintenance cost includes a charge for obsolescence of aircraft spare parts amounting to EUR 4.1 million in 2007, which in IBERIA's financial statements is included under "Other Operating Expenses – Other".

The unit maintenance cost of IBERIA's own aircraft rose by 9.9% compared with 2006, largely due to the increase in jobs relating to the returns of aircraft in the first part of the year, which occurred simultaneously with the performance of a high number of aircraft and engine inspections, some in advance of schedule, which led to a sudden strong increase in external service contracts.

Navigation charges

The aggregate cost of air traffic control services decreased by EUR 11.7 million (4.1%) compared with 2006 to EUR 274.1 million in 2007. The cost of in-flight navigation assistance services dropped by EUR 7.4 million and airport approach rates fell by EUR 4.3 million, in both cases assisted by the lower number of flights operated. The Spanish airport approach unit rates increased by 3% in 2007 compared with 2006. Eurocontrol's navigation charges for the ten main countries over which IBERIA flies rose by an average 1.2% compared with 2006. The unit cost per ASK dropped by 5.0% to 0.41 Euro cents.

Commercial expenses

In 2007 commercial expenses (commissions, advertising, promotional expenses and development expenditure) amounted to EUR 242.6 million, down 1.4% from 2006, thanks to the 10.7% decrease in the commission expense, due mainly to the 0.4% reduction in the fixed commission offered to Spanish agencies from January 2007 (compared with 1% in 2006), and to the extension to most of the international markets of the zero commission model. The aggregate amount of the remaining commercial costs (expenses for advertising, promotion and performance of agreements) increased by 6.2% with respect to 2006.

The unit commercial cost decreased by 2.4% with respect to 2006, to 0.37 Euro cents per ASK in 2007. The ratio of net commercial expenses to traffic revenue was 3.4%, down 0.2 percentage points on 2006.

In-flight services

The in-flight service expense increased by EUR 6.5 million compared with 2006, a 7.4% increase, due to the growth in the number of passengers on the long-haul route (8.1%) and, especially, to the increase in the number of Business Plus class passengers (18.8%).

Amortisation and depreciation charge

The amortisation and depreciation charge decreased by 1.9% (EUR 4.2 million) with respect to 2006, due mainly to the lower number of aircraft.

Indemnity payments for passengers and baggage

The Company managed to reduce to EUR 37 million the expense relating to indemnity payments for passengers and baggage, which was EUR 14.7 million (28.4%) lower than the 2006 figure. In the first few months of 2006, the cost was affected by initial operating problems, following the opening of the T4 terminal of the Madrid-Barajas airport.

Insurance

The insurance expense, at EUR 18.4 million, was EUR 11.3 million (38.0%) lower than that of 2006, due to the decrease in the volume of risk variables, to the reduction in the number of aircraft in operation, and, to a lesser extent, to the depreciation of the US dollar. The market trend in premiums and capacity and the risk placement strategy enabled the Company to improve its aviation policy costs and coverage.

4.3. Other profits or losses

Iberia obtained profit from operations amounting to EUR 412.5 million in 2007, up EUR 277.3 million on 2006, as a result of the notable increase in both recurring and non-recurring profits, as shown in the following table:

Millions of Euros

IBERIA GROUP	2007	2006	Change 07/06	% Change
OPERATING PROFIT (Recurring)	283.5	122.0	161.6	132.5
Non-recurring revenue	218.0	77.6	140.4	180.9
Non-recurring expenses	89.0	64.4	24.6	38.2
NON-RECURRING PROFIT	129.0	13.2	115.8	n.m.
PROFIT FROM OPERATIONS	412.5	135.2	277.3	205.2
Finance income	126.2	88.0	38.2	43.4
Finance costs	59.9	60.6	(0.7)	(1.2)
Exchange differences (gains and losses)	(3.0)	(1.1)	(1.9)	(173.7)
Other income and expenses	0.2	(0.8)	0.9	118.9
FINANCIAL PROFIT	63.5	25.5	37.9	148.7
Share of results of companies accounted for using the equity method	(29.5)	4.5	(34.0)	n.m.
PROFIT BEFORE TAX	446.4	165.2	281.2	170.3
INCOME TAX	(118.8)	(108.2)	(10.6)	(9.8)
CONSOLIDATED PROFIT FOR THE YEAR	327.6	57.0	270.6	n.m.
Profit for the year attributable to minority interests	0.3	0.2	0.0	9.7
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	327.3	56.7	270.6	n.m.
CONSOLIDATED PROFIT (excluding adjustments for taxes)	327.6	116.1	211.5	182.2

n.m.: Not meaningful.

4.3.1. Non-recurring revenue and expenses

Non-recurring revenue amounted to EUR 218 million, up EUR 140.4 million on 2006. The figure for 2007 includes gains on disposal of non-current assets amounting to EUR 204 million. Close to half of this amount (EUR 94.4 million in the consolidated financial statements) related to the gain obtained on the refund of contributions to the shareholders and the sale of some of the shares held by IBERIA in Wam Acquisition S.A., as a result of the recapitalisation at this company. The remaining profit (around EUR 70 million) arose mainly from various transactions related to the fleet: gains on sale and lease back transactions; the sale of the first MD-87 aircraft (under an agreement entered into in February 2007, which envisaged the staggered sale of all of the MD aircraft over a period of 30 months); and the gains on disposal of various B-757 and B-747 aircraft engines. In addition, in November non-recurring revenue amounting to EUR 15.4 million was recognised in connection with the sale of a portion of the land owned by IBERIA in the industrial zone of La Muñoza (compulsorily purchased by AENA in 1999). Other non-recurring revenue of a material amount was the gain of EUR 5.5 million arising from the final settlement of the sale of the SAVIA trademark made two years earlier.

Non-recurring revenue in 2006 (EUR 77.6 million) included EUR 53.3 million arising from the recovery of accumulated depreciation of repairable engine spare parts, and a gain of EUR 14.7 million from the final settlement of the sale of the ownership interest in Musini (the former SEPI insurance company and Iberia investee).

Non-recurring expenses amounted to EUR 89 million in 2007, exceeding the 2006 figure by EUR 24.6 million. Of the EUR 89 million, EUR 64 million related to extraordinary provision recognised to cover the possible expenses estimated by the Company to extend and update the collective redundancy procedure. An additional EUR 10.4 million related to aircraft returns within the framework of the short- and medium-haul fleet renewal plan. The figure for 2006 included extraordinary provisions of EUR 25.8 million for the collective redundancy procedure and EUR 26.4 million for inventory obsolescence (engine repairable parts).

4.3.2. Financial profit

In 2007 net financial profit amounted to EUR 63.5 million, up EUR 37.9 million on 2006, due to the 43.4% increase in finance income to EUR 126.2 million. This increase in income was due to the rise in interest rates on short-term time deposits arising from the increase in the average drawable balance and the rise in the interest rates. Finance costs decreased by 0.7% with respect to 2006, to EUR 59.9 million in 2007.

4.3.3. Profit for the year

The Group obtained consolidated profit before tax of EUR 446.4 million in 2007, as compared with the EUR 165.2 million recognised in 2006, an increase of 170.3%.

Law 35/2006, which includes a partial modification of Spanish Corporation Tax whereby the standard income tax rate was reduced from 35% to 32.5% in 2007 and to 30% from 2008 onwards, was enacted on 28 November 2006. The Company recognised a income tax expense of EUR 118.8 million in 2007 (2006: EUR 108.2 million), which included EUR 59.1 million arising from an adjustment due to the restatement of tax assets.

Consolidated profit after tax amounted to EUR 327.6 million in 2007, up EUR 270.6 million on 2006, a year in which the Company obtained net profit of EUR 57 million.

4.4. Investments

The Iberia Group's net investments (net of divestments) in property, plant and equipment and intangible assets amounted to EUR -2.7 million in 2007.

Aircraft investment transactions related to modifications made to the interiors of the A-340/300, A-340/600, A-320, A-321 and A-319 (EUR 20 million in total), and the capitalisation of inspections and service bulletins of owned A-320 aircraft (EUR 16.2 million), and of leased A-320 and A-321 aircraft (EUR 6 million). A spare engine was also purchased for the A-321 aircraft (EUR 2.5 million) and two for the A-340-600 aircraft (EUR 21.8 million). Also, the Company sold certain MD-87 aircraft (carrying amount of EUR 3.6 million) under the sale agreement entered into, and a B-757 engine (carrying amount of EUR 1 million). The finance leases of six A-320 from 1999 were cancelled, transferring these aircraft to operating leases (carrying amount of EUR 123.4 million).

The main investments made in other assets were as follows: handling and maintenance equipment (EUR 23.0 million), buildings and fixtures (EUR 4.9 million), computer hardware and software (EUR 27.8 million) and rotatable and repairable spare parts (EUR 20.0 million).

As regards non-current financial assets, the most significant investments in terms of amount were the advances on aircraft of the models A-340 (EUR 79 million), A-320 (EUR 34.4 million) and A-319 (EUR 16.2 million). In March 2007 IBERIA disbursed EUR 8.8 million for its ownership interest in Clickair Líneas Aéreas, in accordance with the capital increases envisaged in the investee's Business Plan, in addition to the EUR 15.2 million disbursed in the launch phase of the company in 2006.

The most significant financial divestments relate to the following events: the refund of advances on A-319, A-320 and A-321 aircraft (EUR 200 million in total) and A-340/600 engines (EUR 14.5 million); the transfer to short-term of loans to Iberbus Concha, Chacel, Rosalía and Arenal (EUR 62.9 million) which mature in 2008 and finance four A-340/300s; the revaluation of the aforementioned Iberbus loans due to changes in the exchange rate; the cancellation of the loan granted by IBERIA to Wam Acquisition, S.A., having collected it (EUR 47.5 million), together with the sale of 0.5% held in this company (carrying amount of EUR 6.8 million).

4.5. Balance sheet

The following table shows the main items in the consolidated balance sheets at 31 December 2007 and 2006:

Millions of Euros

IBERIA GROUP	2007	2006	Change 07/06	% Change
Property, plant and equipment and intangible assets	1,184.0	1,399.8	(215.7)	(15.4)
Non-current financial assets	420.8	640.1	(219.4)	(34.3)
Other non-current assets	481.7	451.4	30.3	6.7
Receivables and other current assets	927.6	806.8	120.8	15.0
Current financial assets	859.8	1,489.3	(629.6)	(42.3)
Cash and cash equivalents	2,142.9	963.7	1,179.2	122.4
Total assets	**6,016.8**	**5,751.3**	**265.6**	**4.6**
Equity	2,005.9	1,738.6	267.3	15.4
Long-term provisions	1,377.0	1,359.1	17.9	1.3
Interest-bearing non-current liabilities	304.2	481.3	(177.1)	(36.8)
Other non-current payables	214.9	116.1	(98.8)	85.1
Interest-bearing current liabilities	162.9	238.3	(75.5)	(31.7)
Other current liabilities	1,952.0	1,817.9	134.1	7.4
Total equity and liabilities	**6,016.8**	**5,751.3**	**265.6**	**4.6**

The equity of the Iberia Group amounted to EUR 2,005.9 million at 31 December 2007 -an increase of EUR 267.3 million with respect to 2006- due mainly to the considerable increase in the consolidated profit for the year which in 2007 exceeded the figureachieved in 2006 by EUR 270.6 million.

Long-term provisions for contingencies and charges amounted to EUR 1,377.0 million at 2007 year-end, up 1.3% on 2006. The detail of of the balance at 31 December 2007 is as follows: EUR 64.3 million of provisions for major aircraft repairs; EUR 640.7million of provisions for obligations to employees, which included the including the allowances for reserve flight crew members; and EUR 672.0 million Euros of provisions for third-party liabilities, which include the provisions recorded for the restructuring of the workforce (collective redundancy procedure in progress and its foreseeable extension). The most significant use of provisions related to the payments made as a result of the various collective redundancy procedures, which amounted to EUR 79.3 million in 2007. In 2007 EUR 64 million were recorded for possible expenses relating to the extension of the collective redundancy procedures.

Interest-bearing current and non-current liabilities (debentures, bank borrowings and finance lease obligations) amounted to EUR 467.1 million at 2007 year-end, a decrease of EUR 252.6 million (35.1%) with respect to 2006.

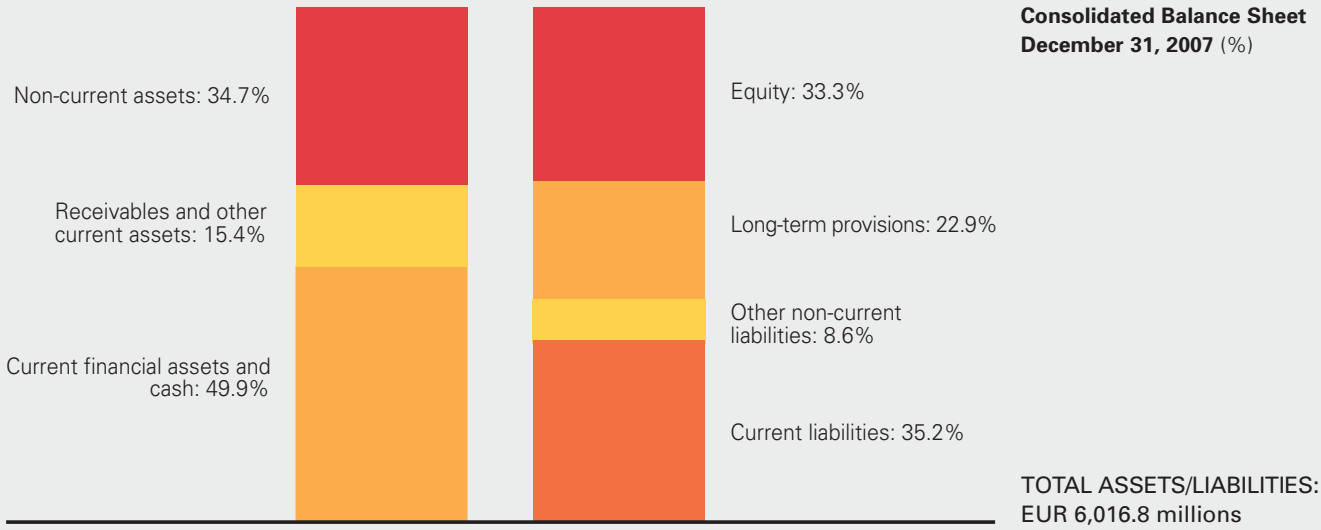
The cash balance (current financial assets plus cash and cash equivalents) amounted to EUR 3,002.7 million at 2007 year-end, anincrease of EUR 549.6 million with respect to 2006 year-end. The amount includes the valuation of hedging transactions (in application of IAS 39) which at 31 December 2007 represented an increase of EUR 35.3 million in the balance of "Non-Current Financial Assets" in the balance sheet, as compared with EUR 11.3 million recognised at 2006 year-end.

Iberia net indebtedness continued to improve and was clearly negative, i.e. the balance of the current financial asset accounts (excluding the measurement of hedges) exceeded the total balance of interest-bearing debt. Accordingly, net indebtedness stood at EUR -2,500.4 million at 31 December 2007, as compared with EUR -1,722.2 million at 2006 year-end. This significant improvement of EUR 778.2 million (45.2%) with respect to 2006 was possible due to the increase in the cash balance (excluding hedge measurement), which exceeded the balance recognised at 31 December 2006 by EUR 525.6 million. The aforementioned decrease in interest-bearing debtalso contributed to this notable increase.

Adjusted net debt, including the conversion to debt of the operating lease instalments (excluding the effect of the measurementof hedges at year-end in both years) and other balance sheet adjustments, amounted to EUR 581.7 million, down 56.8% on 2006.

The disposal of aircraft items was the principal reason for the decrease in the balance of "Property, Plant and Equipment" and "Intangible Assets" at 31 December 2007 (EUR -215.7 million lower than at 2006 year-end).

The balance of "Non-Current Financial Assets" decreased by EUR 219.4 million with respect to 2006 year-end, due mainly to the following events: the divestment corresponding to the Iberbus loans which mature in 2008 and finance four A-340/300s (in part transferred to short term); the adjustment due to the exchange rate of the balance of these loans; the cancellation of the loan granted by IBERIA to Wam Acquisition, S.A. amounting to EUR 47.5 million, and the sale of the 0.5% held in this company.



4.6. Cash flow statement

The following table reflects the main aggregates of the consolidated cash flow statements for 2007 and 2006.

Millions of Euros

IBERIA GROUP	2007	2006
Profit before tax	**446.4**	**165.2**
Depreciation and amortisation charge and asset impairment losses	215.3	219.3
Provisions (net)	156.8	107.4
Provisions used (a)	(146.7)	(129.7)
Proceeds of disposal of assets and investments (b)	(196.3)	(24.3)
Other cash flow adjustments	(25.4)	(107.4)
Payment/refund of taxes	(137.4)	101.1
Net cash flows from operating activities	**312.6**	**546.4**
Net investment in property, plant and equipment, intangible assets and investment property	182.7	(116.0)
Net investment in non-current financial assets and other assets	120.0	23.6
Net investments in investments and other current financial assets (c)	734.9	(294.1)
Dividends and interest collected	101.7	55.5
Net cash flows from investing activities	**1,139.4**	**(331.1)**
Dividends paid	(33.3)	(18.7)
Capital increase and share premium	7.8	7.9
Change in debt and interest paid	(242.2)	(76.8)
Net change in treasury shares	(5.2)	14.5
Net cash flows from financing activities	**(272.8)**	**(73.1)**
Net increase/decrease in cash and cash equivalents	**1,179.2**	**142.3**
Balance of cash and cash equivalents at the beginning of the year	963.7	821.4
Balance of cash and cash equivalents at the end of the year	2,142.9	963.7

(a) Mostly due to payments associated with the collective redundancy procedure in the two years.
(b) In 2007 related mainly to aircraft sales and the recapitalisation transaction at Wam Acquisition S.A.
(c) Related substantially in full to the change in the balance of the short-term investments with a maturity of between three months and one year (which under IFRSs are not considered to be cash).

4.7. Management of non-operating risks

To control and reduce the potential adverse effect of fluctuations in exchange rates, interest rates, and fuel prices on the Company's earnings, IBERIA has a global management programme for its Non-operating Risks.

To achieve this objective and within the framework established for the arrangement of hedges in accordance with International Accounting Standards (IAS), IBERIA uses a VaR (Value at Risk) model with the aim of evaluating on a probabilistic basis the possible impact of market variables on its earnings, and defines the maximum objectives of volatility and the Hedging Programme required to attain them.

The following three sections describe the Company's aforementioned Hedging Programme.

4.7.1. Exchange rate risk

Due to the nature of its activities, IBERIA is exposed to currency exchange rate risk, at both operating (cash flows) and balance sheet level. The detail of the main hedging transactions in dollars is as follows.

Cash flows

The Company took a short dollar-position of around USD 925 million in 2007, since US dollar revenue (22.8% of the total) was lower than expenses in US dollars (37.2% of the total).

In accordance with the Hedging Programme, this position is covered as follows:

- Up to 50% by strategic hedging of up to a five-year term, by means of swaps of aircraft lease income denominated in dollars to Euros.
- The remaining percentage is managed through tactical transactions with a time horizon of between one and three years, which can be adapted to market trends and which are also associated with the Company's actual flows of US dollar payments.

At 31 December 2007 IBERIA had hedged 70% of its US dollar cash-flow positions for 2008 and 45% of the 2009 position.

Balance sheet

The Company has assets denominated in US dollars amounting to USD 571 million, as a result of the loans granted to Iberbus, the advances paid to aircraft and engine suppliers, the equities of A-320 aircraft and guarantees. It also has a liability position in dollars amounting to USD 421 million which, together with arranged swaps, enables the Company to neutralise the effect of the translation differences.

Aircraft additions

In order to limit the volatility of currency markets and the impact thereof on the financing or acquisition of new aircraft, the Company hedges the exchange rate risk relating to aircraft financing/acquisition/additions through forward purchase transactions and option structures that make it possible to assure a certain level or range. The addition of the new aircraft foreseen for 2008 gave rise to a short position of USD 78 million at 2007 year-end, 45% of which was hedged.

4.7.2. Interest rate risk

Although IBERIA has negative net debt in its balance sheet, if the notional debt relating to operating lease payments (multiplying by eight the aircraft lease payments) is included, the adjusted total net debt amounts to EUR 608 million in its individual financial statements. At 31 December 2007 the Company maintained 55% of the adjusted gross debt at a fixed interest rate, 5% at a floating interest rate with protection and the remaining 40% at a floating interest rate.

Sensitivity to a 1% rise in Euro interest rates is positive by EUR 24.4 million, due to the Company's cash position. However, sensitivity to a 1% rise in dollar interest rates is negative by EUR 10.2 million.

Liquidity risk

At 31 December 2007, IBERIA maintained an equivalent cash position amounting to EUR 2,934.1 million (cash plus current financial assets) in its individual financial statements, which is invested in highly liquid short-term instruments, debt repos, Eurodeposits, and commercial paper transacted through leading financial institutions, in accordance with the prevailing risk policy. The portfolio matures at a maximum of seven months.

Apart from the current financial assets and the cash position, the Company has credit facilities amounting to EUR 190 million that guarantee its liquidity requirements.

4.7.3. Fuel price risk

IBERIA controls the cost of aviation fuel, which is directly linked to changes in oil prices, through active risk management policies in order to mitigate the impact of fluctuations in the price of kerosene in the international market and reduce deviations from the Company's budget in this respect.

The Company has directly hedged the price of kerosene using a combination of financial tools, such as, inter alia, swaps and caps and collars.

In 2007 the price of fuel spiralled and once again exceeded the all-time highs experienced in 2006. In the last quarter of the year, the reference price of Brent crude hovered above USD 80, ultimately exceeding USD 96 per barrel. The hedges of the price of fuel covered around 50% of the volume consumed over the year. In the year as a whole, the average final price for IBERIA, after hedges, was around USD 68 per equivalent barrel.

IBERIA consumes slightly more than two million metric tonnes per year, equivalent to over 2,500 million litres of kerosene, at current production levels. This volume, measured at the average price for 2007, entailed an expense of EUR 1,145.2 million in the Group's financial statements. The price hedges arranged enabled the Company to reduce the fuel expense by EUR 17.8 million in 2007, resulting in a cost per ASK of 1.72 Euro cents.

4.8. Outlook

4.8.1. Growth forecast

World economic growth projections for 2008 were revised downwards at the beginning of the year, due to the turbulent situation of the financial markets sparked off in mid-2007, and on the basis of various indicators which confirm a marked slowdown in the economic expansion of certain developed countries, mainly the USA. However, the major emerging economies are expected to maintain their strong dynamism. According to the latest projections of the International Monetary Fund, the growth of the world economy, in terms of gross domestic product, will fall to 4.1% in 2008 from the 4.9% estimated for 2007.

As a result of this economic deceleration, in 2008 passenger air transport will grow, but at a more restrained pace than in 2007. According to IATA's latest projections, international travel will increase on average by around 5% in 2008 (2007: 7.4%). IATA also considers that it will be difficult for the aviation industry to continue improving the passenger load factor, which was one of the factors that bolstered revenue in 2007, because the rate of deliveries of new aircraft will probably speed up over the next two years.

In the area of international air cargo transport, IATA forecasts growth of around 4%-4.5% for the whole of 2008, similar to the 4.3% recorded in 2007.

According to IATA, in 2008 the growth of aviation revenue will slow down to 4.7%. In 2006 and 2007 strong economic growth enabled the companies to increase their unit revenue and offset the impact of the fuel increase. However, it will be difficult to maintain the yield increases if demand growth slackens and the capacity offered increases at a faster rate. Thus, IATA forecasts that, for the second consecutive year, the industry will obtain profits in 2008 which, at approximately USD 5,000 million, will be below those estimated for 2007.

An important event for European and US airlines was the entry into force on 31 March 2008 of the agreement to liberalise international routes between the European Union (EU) and the United States (US). Since this "Open Skies" agreement recognises the concept of an "EU operator", any company in the 27 EU states will be able to fly to the US from any point in the EU and vice versa. Until now, Spain and certain other EU countries had restricted traffic rights on flights to the US; consequently, the agreement will foster the development of traffic between Spain and the US. In the mid-term, more competition is expected on transatlantic routes and this new regulatory framework is likely to facilitate future merger or acquisition agreements between airlines.

In the transport business, the Company will continue to strengthen the network operation at the Madrid-Barajas hub, and will complete the short- and medium-haul network restructuring process. Thus, although IBERIA expects to maintain a total supply volume (measured in ASK) in 2008 similar to that of 2007, there will be a significant increase in available capacity on flights into and out of Madrid, mainly on European connecting flights which provide traffic to the long-haul segment. This segment will experience modest growth in supply (approximately 2.6% compared with 2007).

To make good use of the potential advantage afforded by the aforementioned "Open Skies" agreement, IBERIA and American Airlines signed an agreement of intentions in July 2007, aimed at expanding their joint business and operations in the North Atlantic area. Simultaneously, the two companies and their **one**world allies Finnair, Malev and Royal Jordanian signed a multilateral cooperation framework agreement of similar scope. The two agreements were presented to the US Department of Transport to obtain anti-trust immunity so that these activities could be coordinated.

In accordance with its short- and medium-haul aircraft renewal plan, IBERIA expects to carry on incorporating new units of the Airbus A-320 family during 2008, continuing the process of replacing the oldest aircraft and permitting the retirement of the MD aircraft. The Company estimates that it will have a total of 126 operating aircraft at year-end, with a significant increase in average fleet productivity. In any case, IBERIA has various options in the agreement entered into with Airbus, which together with the aircraft contracted under wet lease, provide it with ample flexibility to adjust its capacity to changes in the market.

In the area of maintenance services to other airlines, IBERIA plans to continue increasing production and billings, exceeding the objectives established in the Master Plan.

In 2008 the Handling area will continue to execute commercial activities, optimise the use of resources and reduce expenses, to offset the impact of the sharp rise in competition since February 2007, with the concomitant reduction of margins.

4.8.2. Description of main risks and uncertainties

In view of growing uncertainty as to how the economic environment and the market will evolve, management of the Company will continue to be based on three key aspects: focus on the customer, adaptability to change, and permanent cost-cutting efforts.

Oil and oil by-product prices will continue to be a determining factor for airlines' profitability. Most specialised analysts consider that world demand for petrol will continue to escalate rapidly in 2008, assuming that the major emerging economies (especially China, India, and countries of the Middle East) maintain their vigour, while the increase in production will continue to be limited by various conditions. Consequently, fuel prices are expected to remain high and unstable over the next few months. The Company has developed a complex structure of fuel price hedges for the coming quarters, through the use of various financial instruments.

The situation of strong competition in the European aviation market and, especially, in Spain has affected the financial situation of certain rival airlines, which could eventually lead to acquisition or merger agreements in the industry.

Also of note is the current development of the high-speed rail network in Spain. In December 2007 the corridors linking Madrid with Malaga and Valladolid came into operation, and February 2008 saw the first high-speed train operating between Barcelona and Madrid. The last of these lines, especially, will have an impact on the high volume of air traffic between the two cities. IBERIA will therefore reorganise the total capacity available on this route (Puente Aéreo and pre-booked flights) maintaining a frequency structure similar to the current one, and using lower capacity aircraft on some of them. Additionally, the Company will develop a sales plan which will make the product more appealing for its customers. This plan will be supported by Group's future location in the new terminal area (T-Sur) of the El Prat airport from the first quarter of 2009.

On 31 December 2007 the Collective Labour Agreement covering IBERIA's ground staff expired. Accordingly, in 2008 Company management will have to reach agreements with the labour union representatives to renew this collective labour agreement. It will also hold negotiations with the new representatives of the technical crew group in order to reach a consensus on the terms of the new collective labour agreement. Productivity increases and salary restraint will continue to be the priorities targeted by these negotiations. The 15th Collective Labour Agreement covering passenger cabin crew members has been renewed to the end of 2008.

5. Performance of investees

5.1. Fully-consolidated companies

5.1.1. CACESA

Compañía Auxiliar al Cargo Express, S.A. (CACESA), which operates as a cargo forwarding agent and consignee, was incorporated in 1987 by IBERIA, which has an ownership interest of 75% in its share capital, and by Marítimas Reunidas S.A. (MARESA) which owns the other 25%. The company also engages in goods transport, storage and distribution activities, as well as ancillary activities at airports.

CACESA's operating revenue amounted to EUR 48.5 million in 2007, down 4.1% on 2006.

Revenue from the express courier services (the Ibexpress product) amounted to EUR 21.0 million in 2007, a decrease of 2.8% with respect to 2006, and sales in international traffic decreased by 3.8%. In the domestic sector, the cargo market to the Canary Islands was affected by the competition from the two cargo carriers -launched late 2006- one from Madrid and the other from Zaragoza, which led to a decrease of 4.2%.

Freight-forwarding product revenue (Ibertrás) amounted to EUR 24.3 million in 2007, representing a decrease of 6.2% with respect to 2006. Exports fell by 12.6%, in line with the overall performance of exports in Spain. Imports performed acceptably with growth of 3.5% with respect to 2006, attributable to the increase in fruit imports from Latin America. The sales in domestic traffic as a whole decreased by 7.1% due to the loss of a major contract in the Canary Island's product at the end of 2006, a business that had recovered by 2007 year-end.

CACESA's operating expenses stood at EUR 47.1 million in 2007, down 4.2% on 2006. Transport costs decreased 4.4% with respect to 2006, and personnel expenses by 2.4%, due to the continuance of the policy to contain the size of the workforce, which fell by 4.5% with respect to 2006 to 125 equivalent employees in 2007.

CACESA (as an individual company, not consolidated with ALAER) obtained operating profit amounting to EUR 1.34 million in 2007, down 0.8% on 2006. Profit before tax amounted to EUR 1.47 million, an increase of 3.2% with respect to 2006, due to the rise in financial profit which increased as a result of higher interest rates and exchange gains.

In February 2007 CACESA successfully passed the annual audit review for Quality Certification under ISO 9001.

5.1.2. ALAER

Auxiliar Logística Aeroportuaria, S.A. (ALAER) was incorporated by CACESA in June 2002. IBERIA has a 75% ownership interest in ALAER through CACESA, and both companies are included within the scope of the Iberia Group's fully-consolidated companies. This company provides various ancillary logistics services and operates and manages cargo terminals.

In 2007 operating revenue amounted to EUR 9.3 million, up 13.4% on 2006. This increase was due mainly to two factors: on the one hand, the extension of the contracts with IBERIA in Madrid and Barcelona and, on the other, to the increase in the business with other airlines, such as the logistics management of Savia's systems materials, which is currently performed at owned warehouses and the provision of transport services to Serpista.

Operating expenses amounted to EUR 9.1 million in 2007, up 13.2% with respect 2006. It should be mentioned that the increase in personnel expenses was due to the increase in the size of the workforce (mainly through temporary employment agencies) to cover the growth of the business. The average number of equivalent employees was 87 persons in 2007, up 65% on 2006.

Operating profit amounted to EUR 0.17 million, an increase of 26.6% with respect to 2006. Profit before tax increased by 18.7% to EUR 154 thousand (in accordance with IFRSs).

In 2007 work commenced to implement the ISO 9001:2000 Standard.

5.1.3. Binter Finance

The Dutch company Binter Finance B.V., wholly-owned by IBERIA, began operating in 1991. Through its permanent establishment in Spain, it performs its duties as IBERIA's international treasury department. The company manages and optimises the cash flows denominated in foreign currency generated by IBERIA outside Spain. It also advises on the management of and executes IBERIA's exchange and interest rate risk hedging transactions on international markets. In 2007 profit before tax amounted to EUR 21 thousand.

5.2. Companies accounted for using the equity method

5.2.1. Iberia Cards

Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. ("Iberia Cards"), is a credit finance establishment that engages in activities related to the issuance and management of credit cards and other means of payment. It issues the Visa Iberia card, whose main appeal is participation in the Iberia Plus loyalty programme. It was incorporated in April 2002 by IBERIA, which owns 43.5% of its share capital, and the banks Banco Popular, BBVA and Caja Madrid.

At 2006 year-end the company approved a strategic plan whereby a new business model was established. Accordingly, 2007 should be considered to be a year of transition from the company's original model -based on month-end charge cards and interchange rates- to the new business model.

As regards the traditional business, 2007 began with a reduction in the rate of winning Iberia Plus points using the Visa Iberia card, due to the drop in the interchange rate, which was agreed-upon by merchants and the financial services industry. This reduction decreased the appeal of the product, although efforts were made to reduce the effect on customers by launching various promotions during the year, thereby obtaining positive results and demonstrating the strength of the product and the loyalty of Iberia Cards' customer base.

The objective of the new business model is to transform both the products marketed by the company and its revenue model. In November the MasterCard Iberia MAX card was launched, specially designed to compete in the revolving credit card business, which saw excellent results as it reached the market. Also, in June an agreement was entered into with American Express which will allow the company to issue more profitable, higher value added month-end charge cards, which will enable the company to increase its market share in the coming months.

As regards external variables, the aforementioned cut in interchange rates will continue in the coming years. Also, credit delinquency in the financial sector rose sharply towards the end of the year and will be a variable to be borne in mind, particularly in relation to the growth of the revolving credit card business.

In 2007 Iberia Cards obtained profit before tax of EUR 3.2 millions, down EUR 1.5 million on 2006.

5.2.2. MASA

Multiservicios Aeroportuarios S.A. (MASA) was incorporated in April 2002 with ZENIT Servicios Integrales, S.A. holding 51% of its share capital, and IBERIA, the other 49%. This company initially engaged in providing cleaning services to aircraft and Spanish airport facilities, and currently provides all manner of ancillary services in connection with airports: handling of internal and external cleaning of aircraft and facilities, baggage handling, cargo and mail handling, runway handling operations; and on-ground administrative assistance and oversight. Through this company IBERIA has developed a major business that supplements handling. Its customers include IBERIA itself, AENA, Air Nostrum and Vueling.

In 2007 MASA continued to diversify its customer base through the addition of new activities and customers. In January it added the truckage service, which consists of the movement of aircraft from one area of an airport to another using a pushback tug. In February the company began to provide aircraft cleaning service to Groundforce Barcelona UTE (Globalia) and to the unincorporated joint venture CleceEvergreen at Málaga, Lanzarote and Fuerteventura airports. In March it also began to provide the public attention and VIP lounge assistance services at Lanzarote airport.

The company obtained profit before tax amounting to EUR 0.14 million in 2007.

5.2.3. Clickair

Clickair is a new generation airline that operates short- and medium-haul point-to-point flights. The company combines the advantages of the low cost carriers, such as low fares and high productivity, with certain value-added services of traditional airlines, such as flexibility, flights to the main European airports (e.g., London Heathrow), the use of the main booking systems (GDS), or offering its passengers the possibility of accumulating points in the Iberia Plus loyalty programme.

The company's shareholders are IBERIA and four other major Spanish companies (Nefinsa, S.A., Iberostar Hoteles y Apartamentos, S.L., Cobra Ingeniería de Montajes, S.A. and Agrolimen Inversiones S.C.R., S.A.), each with an ownership interest of 20%, and there is a no-sell agreement until 2010. At December 2007 the shareholders had made a joint investment of EUR 50 million, and an additional EUR 27 million were disbursed in January 2008.

Clickair, which has its headquarters and central base of operations at El Prat-Barcelona airport, began its first flights in October 2006 with three aircraft. Since then it has grown at a breathtaking rate. As a result, at the end of 2007 the airline had 23 aircraft, all of which were Airbus A-320s, and a headcount of 720 employees. With these resources the company operated 50 routes, connecting 42 cities in Spain, the rest of Europe and Africa. Clickair carried 4.5 million passengers in its first complete year of operations.

All Clickair's flights are operated under a codeshare arrangement with IBERIA (code series IB5000). Through this investment, IBERIA implements a differential strategy that enables it to take part in the considerable expansion of the European sector of low-cost carriers, and to defend the Group's leadership at the Barcelona airport.

5.2.4. Other investees

Other companies in which IBERIA has a significant ownership interest are:

IBECA, incorporated in March 2001 by IBERIA, which has an ownership interest of 50% through Iberia Tecnología, and Cubana de Aviación, with the other 50% of the share capital. The company provides on-line maintenance services at Cuban airports.

ELCA was created in October 2001 by Cargosur, through which IBERIA has an ownership interest of 50%, and by Aerovaradero, which owns the remaining capital. It engages in the marketing and storage of air cargo in transit in Cuba.

SERPISTA was created in Madrid in June 2004. Its shareholders are COBRA (51%), IBERIA (39%), and TEMG (a subsidiary of electro-mechanical workshops GORRIS) with 10%. The company performs the activities of maintenance and repair of equipment for ground handling at Spanish airports.

HANGESA was incorporated in October 2000 to carry out passenger and cargo handling activities at Malabo airport. IBERIA holds a 51% ownership interest in the company through Viva Air and local shareholders hold 49%.

ISM (International Supply Management) was incorporated in March 2006 by IBERIA, which owns 49% of its share capital, and by GECI Española Levante S.A., which owns the remaining 51%. ISM's main business line is the purchase and sale of chemical products, industrial machinery, spare parts and accessories mainly for the aeronautical industry.

6. Corporate Governance information

The following sections provide information on various matters relating to the governance of the Company, pursuant to Article 116 bis of the Revised Spanish Securities Market Law.

The shareholders and investors of IBERIA also have available to them the Annual Report on Corporate Governance for 2007, which provides ample information on the Company's shareholder structure, the Management structure, related-party transactions, risk control systems, the organisation of the Annual General Meeting, the degree of compliance with the recommendations on corporate governance and other relevant issues which shed light on the management of the Company.

For the purpose of improving transparency, IBERIA has been publishing its Annual Report on Corporate Governance together with its Financial Report and Corporate Responsibility Report since FY 2002.

6.1. Capital structure

At 31 December 2007, the share capital of IBERIA amounted to EUR 743.3 million, represented by 952,908,815 fully subscribed and paid shares, traded by the book-entry system, of EUR 0.78 par value each. There are no different classes of shares with varying rights attached thereto.

In 2007 two capital increases were approved by the Board of Directors in execution of the powers delegated by the shareholders at the Annual General Meeting on 6 June 2002, as a result of the exercise of executives' Share Option Plan.

6.2. Restrictions on transferability of securities

There are no bylaw-stipulated restrictions on the acquisition or transfer of shares and, therefore, the shares are freely transferable pursuant to current legislation and the bylaws, without any obligation other than notifying the Company of all the acquisitions or transfers of shares that entail the acquisition of an interest exceeding 0.5% of the share capital, with express notification of the nationality of the transferor and the acquirer, and any charges thereon, for the purposes of exercising the rights conferred thereby.

Restrictions arising from the nationality of the owners of the share capital should be taken into consideration and, therefore, in accordance with the Air Transport Law and with EU Regulation no. 2407/1992, the share capital of the Spanish airlines that hold operating licences must be majority owned by EU members.

Also, there are restrictions on the exercise of the traffic rights arising from the bilateral aviation agreements entered into by Spain, in the cases in which such agreements establish that the ownership and/or effective control of the designated carrier must be Spanish.

In this connection, Article 86 of Law 14/2000, of 29 December, on tax, administrative and social security measures, establishes that the share capital of Spanish airlines must be represented by registered shares or other equity instruments in which the nationality of the shareholder must expressly appear, and provides for the procedures that ensure compliance with the nationality requirements established by the aforementioned legislation and agreements.

6.3. Significant ownership interests in the share capital

The table below shows the significant ownership interests in the share capital of IBERIA at 2007 year-end, defined in accordance with the broad concept provided for by Royal Decree 1362/2007, of 19 October and, therefore, shown are both the ownership interests with a percentage equal to or exceeding 3%, and the ownership interests of those shareholders that, although their ownership interest is lower than the aforementioned percentage, have entered into a shareholders agreement whereby they undertake to act concertedly.

(at December 31, 2007)

Holders of Significant ownership Interests	Number of direct voting rights	Number of indirect voting rights*	% of total voting rights
Caja de Ahorros y Monte de Piedad de Madrid (CAJA MADRID)	219,097,719	800 (1)	22.99
British Airways PLC.	-	94,309,090 (2)	9.90
El Corte Inglés, S.A.	27,387,215	-	2.87
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (IBERCAJA)	3,231,693	26,000 (3)	0.34
Caja de Ahorros y Monte de Piedad de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)	991,763	-	0.10
Sociedad Estatal de Participaciones Industriales (SEPI)	49,212,526	-	5.16
State Street Bank	43,512,185	-	4.57
Total holders of significant ownership interests	437,768,991		45.94
Other (shareholders and treasury shares)	515,139,824		54.06
Total shares of IBERIA	952,908,815		100.00

*Through:

Direct holder of the significant ownership interest	Number of direct voting rights	% of total voting rights
(1) Valoración y Control, S.L.	400	0.000042
(1) Inmogestión y Patrimonios, S.A.	400	0.000042
(2) British Airways Holdings B.V.	94,309,090	9.90
(3) Ibercaja Gestión	26,000	0.002728

6.4. Restrictions on voting rights

The bylaws do not lay down any other requirement or condition to admit attendance at the Annual General Meeting or the exercise of voting rights other than that the shareholder, either individually or as part of a group, hold 400 shares and that these are registered in the corresponding Register within five days before the Annual General Meeting.

6.5. Side agreements

The Company has knowledge of only one Shareholders' Agreement, which was entered into on 15 December 1999 by the shareholders of what is known as the Stable Nucleus, and is as follows.

Shareholders' Agreement of 15 December 1999

In relation to the controlling shareholders, it should be mentioned that on 17 March 2000, through the execution in a public deed of a private share purchase and sale agreement, Caja Madrid, BBVA, El Corte Inglés, Logista, Participaciones Aeronáuticas and BA & AA Holdings Limited entered into the shareholder structure of IBERIA, and, by acquiring 40% of the share capital of the Company, are the so called "Stable Nucleus shareholders", since they acquired the following no-sell commitments to SEPI:

- Caja Madrid: a minimum period of six years,
- BBVA, a minimum period of five years,
- Logista: a minimum period of five years,
- El Corte Inglés: a minimum period of five years,
- Participaciones Aeronáuticas; a minimum period of five years, and
- BA & AA Holdings Limited: a minimum period of three years

The aforementioned shareholders undertook to each other not to assign, dispose of or transfer the acquired shares to any third party, except to companies of their respective groups, in the periods indicated.

Participaciones Aeronáuticas, S.A. sold its ownership interest in the share capital of IBERIA to the following entities, which, as a result, are bound by the undertakings assumed by Participaciones Aeronáuticas in the purchase and sale agreement and, as part of the Ahorro Corporación Group, act jointly:

- Corporación Financiera de Galicia, S.A.
- Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (IBERCAJA)
- Caja de España de Inversiones (CAMP)
- Caja Castilla - La Mancha
- Caja de Ahorros y Monte de Piedad de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)
- Caja de Ahorros de Murcia
- Caja de Ahorros y Monte de Piedad de Huelva y Sevilla

Also, BA & AA Holdings Limited sold to British Airways and American Airlines Holdings B.V. the ownership interest that it held in the share capital of IBERIA and, therefore, the acquirer is bound by the undertakings assumed by the transferor.

The controlling shareholders entered into a Shareholders' Agreement on 15 December 1999, which governs the relations thereof with each other for the purpose of creating the stable nucleus of shareholders of IBERIA -committed in company management- in order to vest the management criteria with consistency and provide the Company with stability in the medium and long term, all in defence of company interests. To this end a shareholders' syndicate was formed comprising the shares of the industrial partner (British Airways and American Airlines Holdings B.V.) and those of the institutional partners.

The syndicated shares are those that at the time of the Agreement were owned by the shareholders of the stable nucleus totalling 40% and, therefore, the agreement does not apply to the additional shares of IBERIA that the aforementioned shareholders might subsequently acquire, except those acquired through the exercise of pre-emption rights or through the pre-emption rights established in the shareholders' agreement itself.

For these purposes, the shares held by the shareholders of the Stable Nucleus addressed in the agreement were as follows:

(at December 31, 1999)

Parties involved in the side agreement	Number of shares concerted	% of share capital affected
Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid)	91,290,716	10.00
British Airways and American Airlines Holdings B.V.	91,290,716	10.00
Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)	66,642,223	7.30
Compañía de Distribución Integral, S.A. (Logista)	61,164,780	6.70
El Corte Inglés, S.A.	27,387,215	3.00
Corporación Financiera de Galicia, S.A.	18,457,254	2.02
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (IBERCAJA)	2,480,772	0.27
Caja de España de Inversiones (CAMP)	1,984,891	0.22
Caja Castilla- La Mancha	1,489,009	0.16
Caja de Ahorros y Monte de Piedad de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)	991,763	0.11
Caja de Ahorros de Murcia	991,763	0.11
Caja de Ahorros y Monte de Piedad de Huelva y Sevilla	991,763	0.11
Total shares concerted	**365,162,865**	**40.00**

The shareholders also undertook to act concertedly in the event that the acquisition of new shares might lead to a takeover bid.

The Agreement shall be immediately terminated and rendered null and void if:

(a) British Airways and American Airlines Holdings B.V. reduced its ownership interest in the share capital of IBERIA between the lower of 7% and the percentage that coincides with the arithmetic mean of the percentages of shares held by the other shareholders subject to the agreement, or

(b) all the parties to the Agreement so agree in writing.

The meetings of the syndicate discuss the matters to be dealt with at the Board of Directors meeting, by the Committee meetings thereof and at the Annual General Meeting. The syndicated shareholders undertake to vote on the competent bodies of IBERIA in the manner that has been decided in the meeting of the syndicate.

The first three years of the term of the Agreement having elapsed, should a shareholder wish to sell its shares, a pre-emption right is established for the other shareholders that belong to the syndicate and shares may only be transferred to a third party if the right of pre-emption is not exercised. The pre-emptive acquisition regime also applies to sales among syndicate members and to any other legal transaction that entails the acquisition by a third party of the voting rights of the syndicated shares.

Should an individual or entity that acquires or intends to acquire (acting directly or indirectly or concertedly with a third party) from a selling shareholder a packet of shares of, at least 3.5% (in one or several tranches within a period of 12 months) or, as the case may be, from any other shareholders that acquired all or a portion of the shares (without a minimum limit) the aforementioned individual or entity must accept all the terms and conditions of this agreement in the legal position of the selling shareholder in relation to the shares put up for sale.

The agreement among the shareholders of IBERIA's stable nucleus contains certain guarantees to avoid possible conflicts of interest. In any case, should it be determined that one or several of the shareholders have a conflict of interest, such shareholders must abstain from voting on the matter in question.

The other terms of the agreement are publicly accessible since the complete prospectus for the 2001 takeover is registered at the official registry of the CNMV and registered at the Mercantile Registry.

Situation of the Shareholders' Agreement at 2007 year-end

On 15 November 2006, British Airways acquired the ownership interest of American Airlines in British Airways and American Airlines Holdings, B.V., which became wholly owned by British Airways and changed its company name to British Airways Holdings B.V.

In 2007, Caja Castilla-La Mancha y Caja de Ahorros y Monte de Piedad de Huelva y Sevilla disposed of its shares.

Caja Madrid, availing itself of the pre-emption rights envisaged in the Shareholders' Agreement, acquired the shares owned by BBVA and Logista and, therefore, its ownership interest in IBERIA increased to 22.99%.

At 31 December 2007 the shares held by the Stable Nucleus that are subject to the Shareholders' Agreement- (concerted shares) were as follows:

Parties Involved in the Side Agreement	Number of share concerted	% of share capital affected
Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid)	219,097,719	22.99
British Airways Holdings B.V.	94,303,602	9.90
El Corte Inglés, S.A.	27,387,215	2.87
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (IBERCAJA)	2,480,772	0.26
Caja de Ahorros y Monte de Piedad de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)	991,763	0.10
Total shares concerted	**344,261,071**	**36.13**

The Company is unaware of the existence of any agreements or concerted actions other than those described.

6.6. Appointment and replacement of directors and amendment of the bylaws

The proposals regarding the appointment of directors submitted by the Board of Directors for deliberation at the Annual General Meeting and the appointment decisions taken by the Board by virtue of the **co-optation powers legally attributed** to it, must relate to persons who, in addition to fulfilling the legal and bylaw-stipulated requirements that the position requires, enjoy recognised prestige and have the professional knowledge and experience appropriate to the discharge of their duties. The Appointments and Remuneration Committee shall inform on such cases. All IBERIA's directors fulfil the established requirements and all the nominations made since the coming into force of the Regulations have been made in accordance with the aforementioned procedure.

Also, and in view of the possible re-election of the directors, the Appointments and Remuneration Committee is the body responsible for assessing the quality of the work and the dedication to the position of the directors proposed during the preceding mandate and must duly inform on the proposal of re-election of directors that the Board of Directors resolves to submit to the Annual General Meeting.

The Board Regulations address the cases in which the directors must **place their office at the disposal of the Board of Directors**, to ensure that, at all times, they meet the requirements of their condition as directors and, in addition, that they do not incur in conflicts of interest or in any other conduct that might harm the Company.

For the shareholders at IBERIA's Annual General Meeting to be able to validly amend the Company's bylaws the attendance, at first call, will be necessary of shareholders in person or represented that own at least 50% of the share capital with voting rights, and at second call the attendance of holders of 31% of the share capital will be sufficient.

Corporate resolutions are adopted by the majority, i.e. by the shareholders that represent a majority of the share capital in attendance or represented at the Annual General Meeting. As an exception -as in the Spanish Companies Law- the bylaws envisage that when shareholders attending represent less than 50% of the share capital with voting rights, the amendment of the bylaws may only be validly adopted with the affirmative vote of two thirds of the capital present or represented at the Meeting.

6.7. Directors' powers

The Board of Directors has been entrusted with the powers attributed to it by Article 3 of the Board of Director's Regulations. These powers are delegated on a permanent basis to the Chairman of the Board and to the Executive Committee, except for those powers that the Board must exercise directly by statute or the bylaws.

In particular, the members of IBERIA's Board of Directors are not empowered to issue or repurchase shares.

6.8. Significant agreements affected by changes in control of the company

Amadeus Global Travel Distribution, S.A. ("Amadeus") is an IT multinational company, which provides services to cover the marketing, sales and distribution requirements of the travel and tourism industry worldwide.

IBERIA has an agreement with Amadeus whereby the Company uses the global distribution system (GDS) managed and operated by Amadeus to market its flights. In terms of volume of bookings, the Amadues GDS is the most important of the various systems used by IBERIA.

The standard agreement entered into by IBERIA and Amadeus contains a provision that establishes the following: if the participant (IBERIA) acquires or assumes control of another entity engaged in air transport, or merges with or is acquired or ultimately controlled by another person or entity engaged in air transport other than that which owned or controlled the participant at the date of entering into the agreement, then Amadeus may opt to terminate the agreement without any obligation, except all those liabilities assumed by each party prior to the termination of the agreement.

Also, there are three ground handling agreements which include standard provisions that entitle customers to terminate their agreements early, if there is a significant change in the ownership structure or in the control of IBERIA.

Also, AENA's administrative concession framework agreements contain standard provisions that establish, in the event of a change in the legal ownership or control of the concession, the requirement to request authorisation from the public body for the latter to confirm the continuance of the concessions.

Lastly, the exchange rate and interest rate risk hedging instruments used by the Company include standard clauses -usual in international contracts of this kind- which could lead to the renegotiation of certain parameters of the financial instrument in the event of a change in the control of the Company. The Company considers that the possible impact of such renegotiation would not be material.

6.9. Guarantee clauses in favour of Executives and Executive Directors

The contracts of the Company's executives contain a guarantee clause for the case of termination. In the case of the Company's senior executives, the guarantee ranges from between nine months' and three and a half years' remuneration.

In the case of the Executive Director, on 9 January 2002 the Company's Board of Directors, at the request of the Appointments and Remuneration Committee, approved an indemnity payment for certain situations of termination of the employment relationship of up to a maximum of two and a half years' fixed remuneration. Also, the Board approved compensation for the covenant of non-competition with the Company upon termination of the senior executive relationship therewith, amounting to one and a half years' fixed remuneration. These amounts are covered by insurance policies, and the cost relating to the insurance premium appears in the income statement for each year.

7. IBERIA's share price

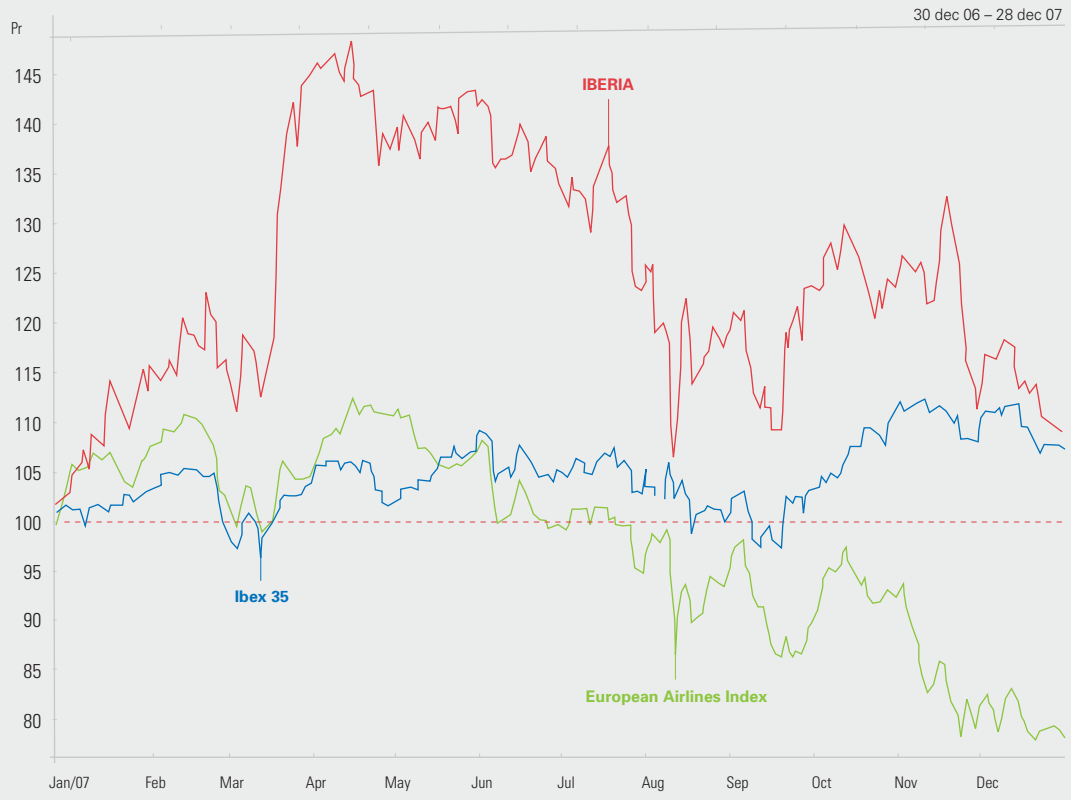
7.1. Share price performance

Share price at 30 December 2007	3.00
Share price at 30 December 2006	2.76
Annual change	8.7%
Average annual share price	3.45
High	4.11
Low	2.82
Daily average volume of trading (no. shares)	11,752,606

All the share prices are expressed in Euros.

2007 was a year marked by the volatility and constant increase in the price of oil. Furthermore, in the second half of the year there was a major credit squeeze as a result of the sub-prime crisis in the US and the first fears of an economic downturn were raised. Despite such an unfavourable backdrop, IBERIA's share price increased by 8.7%, and was the only one of among comparable European shares to end the year positively. The share's performance echoed the sound performance of the Company's business in 2007, and was also greatly influenced by the news items relating to the possibility of a takeover bid by various interested consortiums. The average daily volume of trading increased by 32.7% with respect to 2006.

IBERIA - IBEX 35 - European Airlines Index (Base 100 = 1 January 2007)

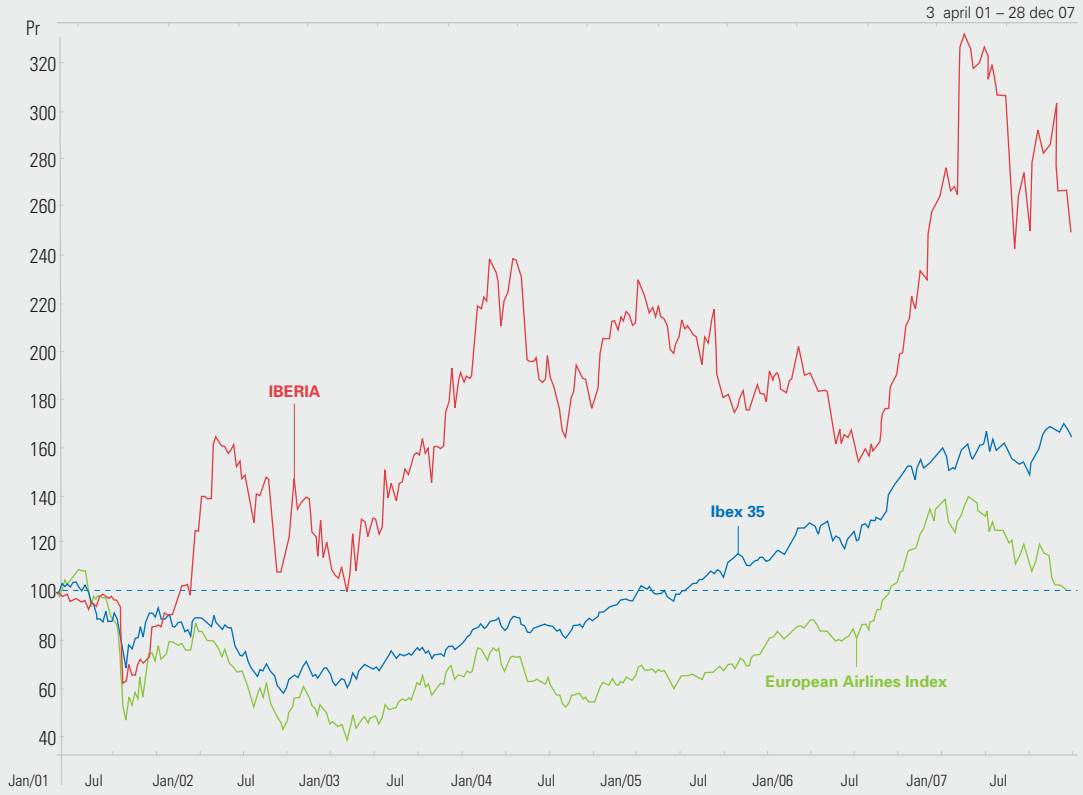


As a consequence of the share option plan for executives, 4,842,183 new shares began to be traded in 2007; therefore, at year-end the total number was 952,908,815 shares.

Also, in July 2006 the Company paid its shareholders a dividend of EUR 0.035 per share out of 2006 profit.

IBERIA's shares have risen more than those of its European peers since they were first floated in April 2001, with a cumulative increase of 152.1% 2007 year-end.

IBERIA - IBEX 35 - European Airlines Index (Base 100 = 3 April 2001)



7.2. Treasury shares

At 31 December 2007 the consolidated balance sheet of the Parent included a balance of EUR 19.1 million relating to 8,050,000 treasury shares recognised, representing 0.845% of the share capital, with an overall par value of EUR 6.3 million and an average price of acquisition of EUR 2.3728 per share.

Additionally, 5,338,628 shares were recorded at the beginning of January 2008, bringing the total number of treasury shares held by the Company to 13,388,628.