INTERIM MANAGEMENT REPORT
JANUARY-MARCH 2008

Main figures (not audited)

IBERIA GROUP	1st Quarter (Jan-Mar)		
	2008	2007	%
Financial data (€ thousand) (a)			
Operating revenues (b)	1.300.483	1.309.304	-0,7
Operating costs (b)	1.328.773	1.296.205	2,5
EBITDAR (b)	124.017	174.614	-29,0
Operating Income EBIT (b)	-28.290	13.099	n.m.
Profit/loss from operating activities (c)	-6.616	13.975	n.m.
Profit /loss before taxes	-1.054	18.688	n.m.
Profit/loss after taxes	-441	12.233	n.m.
Non-current assets (d)	2.028.907	2.086.514	-2,8
Current financial investments, cash & cash equivalents (d)	3.000.206	2.967.442	1,1
Equity (d)	1.935.975	2.005.868	-3,5
In-balance sheet net debt (d)	-2.572.386	-2.500.381	2,9
Adjusted net debt x 8 (d)	491.292	581.679	-15,5
EBITDAR margin (%) (b) (e)	9,5%	13,3%	-3,8 p.
EBIT margin (%) (b) (e)	-2,2%	1,0%	-3,2 p.
Operating revenue/ASK (€ cent) (b)	7,95	8,13	-2,2
Operating expense/ASK (€ cent) (b)	8,12	8,05	0,9
Operating expense (ex fuel)/ASK (€ cent) (b)	6,12	6,43	-4,8
Operating data			
ASK (million)	16.360	16.104	1,6
RPK (million)	12.990	12.798	1,5
Load factor (%) (e)	79,4	79,5	-0,1 p.
Yield (g)	7,06	7,40	-4,5
Passenger revenue / ASK (€ cent) (g)	5,61	5,88	-4,6
Annual average headcount	21.574	22.661	-4,8
ASK / Employee (thousand)	758	711	6,7
No. of aircraft end of period	132	144	-8,3
Average fleet utilization (block hours/aircraft/day)	9,7	9,4	3,1

n.m.: not meaningful.

(a) The 2008 financial statements include the revenue and costs associated with the Handling Joint Venture (JV) in proportion to Iberia's participation (in 2007 the whole of the annual impact was recorded in the fourth quarter).
(b) Only recurring items.
(c) Includes non-recurring items.
(d) March 2008 vs. December 2007.
(e) Year on year variation expressed in percentage points.
(f) Adjusted liquid balance: current financial investments (excluding the value of hedging instruments) plus cash and other cash equivalents.
(g) Calculated with passenger revenues generated during the period, excluding revenues from the cancellation of customer advances as well as other minor accounting regularizations.
ASK: Available Seat Kilometre; RPK: Revenue Passenger Kilometre.

Highlights

- In the first quarter of 2008 Iberia recorded a loss from operating activities of €6.6 million due mainly to higher fuel prices and the exceptional behaviour of revenues in the first quarter 2007. Fuel costs grew by €66.8 million, with a total increase of €31.4 million in operating costs.
- Consolidated loss after tax amounted to €0.4 million.
- The restructuring of the flight network and the implementation of the majority of the other measures set down in the Director Plan 2006-08 were key to offsetting the impact of the increase in fuel costs. As a result, excluding fuel costs, unit operating costs fell by 4.8%.
- Operating revenue fell slightly (down 0.7%) due mainly to the decrease in passenger revenue (down 2.3%) caused by the depreciation of the dollar, the competitive pressure on prices and the significant growth in the average stage length (9.0%).
- Iberia maintained a high load factor of 79.4%, higher than that for the other European network carriers in the first quarter of 2008.
- Staff productivity improved by 6.7%, whilst fleet utilisation (measured in block hours per aircraft) increased by 3.1%.
- Adjusted net debt fell by 15.5% compared to year-end 2007.
- Average punctuality in the quarter improved by over four points, to 84.9%.
- Revenue from maintenance services for third parties continued to improve with an increase in the portfolio of products and the number of clients.

Traffic and passenger revenues

Statistics for the air traffic industry reflect a slowdown in traffic growth worldwide since the end of 2007. Total traffic for companies belonging to the *Association of European Airlines* (AEA) increased by 3.9% in the first quarter of 2008 (compared to 5.1% in 2007 as a whole and 5.9% in the first quarter of that year), and the average load factor fell by one percentage point, despite the different Easter calendar and the extra day in February.

At Iberia, total revenue passenger kilometres (RPK) increased by 1.5% compared to the first quarter of the previous year, a similar increase to capacity, with the load factor remaining stable at 79.4%; this level is well above that of the other European network carriers. In the first quarter of 2008, the restructuring and optimisation of the flight programme set out in the Director Plan 2006-08 was practically completed, which will improve network operations. As a result, the number of available seat-kilometres (ASK) increased by 15.5% compared to the previous year for domestic and medium haul flights to and from the hub, and capacity adjustments on certain point-to-point routes were completed.

Revenue per ASK decreased by 4.6% over the network as a whole. Excluding the depreciation of the dollar and, to a lesser extent, the pound against the euro, it would have dropped by 2.0%. Other cause which significantly affected the unit revenue evolution was the increase in the average stage length (up 9%), due to the growth in the weight of long haul flights (where RPK account for 63.9% of total traffic) and longer flights in Europe (partly due to the development of routes with Eastern and Central Europe).

Available seat-kilometres increased by 5.9% for **long haul** flights and RPK grew by 4%. The load factor was 87.3%, down 1.6 points compared to the first quarter of 2007, due to the increase in capacity by competitors on routes to South America. Revenue per ASK increased by 0.9% at constant exchange rates, but fell by 3.0% if we include the negative effect of the depreciation of the dollar.

The load factor on **medium haul** international flights improved by 1.9 points compared to the first quarter of 2007, to 68.0%, with capacity and demand increasing by 2.9% and 5.8% respectively. Revenue per ASK fell by 3.7% due to the increase in the average stage length in this sector (up 4.6%), the depreciation of the dollar (which caused a 2.4 point fall) and because of pressure on prices in European routes.

In line with the Company's strategy, capacity in the **domestic** sector decreased by 13%, with a resulting load factor of 69.2%, 0.5 points down on the previous year. This was partly due to the opening of new high-speed rail lines (connecting Madrid to Malaga from the end of December and Madrid to Barcelona from 20 February). Revenue per ASK decreased by 1.7% on this network.

Consolidated Statements of Income (not audited)

IBERIA GROUP	1st Quarter (Jan-Mar)		
€ thousand	2008	2007	%
Profit/loss from operations (a) (c)	**-6.616**	**13.975**	**-147,3**
Revenues from operating activities	**1.304.542**	**1.309.539**	**-0,4**
Net sales	**1.250.038**	**1.261.859**	**-0,9**
Passenger revenue (b)	1.003.222	1.026.764	-2,3
Cargo revenue	86.365	82.322	4,9
Handling	60.021	62.932	-4,6
Technical assistance to airlines	74.812	68.474	9,3
Other revenues	25.618	21.367	19,9
Other operating revenues	**54.504**	**47.680**	**14,3**
Recurring	50.446	47.445	6,3
Non-recurring	4.059	235	n.m.
Costs from operating activities	**1.332.844**	**1.301.436**	**2,4**
Procurements	**378.723**	**315.801**	**19,9**
Aircraft fuel	327.451	260.644	25,6
Aircraft spare parts	42.205	44.610	-5,4
Catering materials	4.782	5.842	-18,1
Other purchases	4.285	4.705	-8,9
Personnel expenses	**339.644**	**344.833**	**-1,5**
of which: non recurring	-	2.000	n.a.
Depreciation and amortization	**49.287**	**54.177**	**-9,0**
Other operating costs	**565.189**	**586.624**	**-3,7**
Aircraft leases	103.020	107.338	-4,0
Other rentals	19.671	18.146	8,4
Fleet maintenance (subcontracts)	55.975	71.411	-21,6
of which: non recurring	-	3.058	n.a.
Commercial expenses	54.643	55.672	-1,8
Traffic services	105.084	113.261	-7,2
Navigation charges	66.695	70.604	-5,5
In flight services	17.093	16.858	1,4
Booking systems	42.003	45.301	-7,3
Other expenses	101.006	88.033	14,7
of which: non recurring	4.071	172	n.m.
Net gains on disposals of non-current assets	21.686	5.871	269,4
Impairment losses (c)	-	-	n.a.

n.a.: not applicable; n.m.: not meaningful
(a) Profit/loss from operations includes operating income, non recurring revenues and costs, as well as net gains on disposals of non-current assets and impairment losses. In 2008, revenues and costs also include the proportional part of Iberia's stake in the Handling JV (in 2007 the full impact was recorded in the fourth quarter).
(b) Passenger revenues include issued but unused tickets, previously accounted in current liabilities as customer advances, together with other minor adjustments.
(c) Following the criteria adopted at the close of 2007, a provision for the amount of €1,760 thousand which was recorded at 30 March 2007 as "Impairment losses", was reclassified as "Share of results of associates".

IBERIA GROUP	1st Quarter (Jan-Mar)		
€ thousand	2008	2007	%
Financial results	**13.089**	**6.043**	**116,6**
Financial revenues	32.552	22.900	42,2
Financial expenses	12.956	16.188	-20,0
Exchange gains/losses	-2.611	-379	n.m.
Other revenues and expenses	-3.896	-290	n.m.
Share of results of associates (c)	**-7.527**	**-1.330**	**n.m.**
Profit before taxes	**-1.054**	**18.688**	**n.m.**
Taxes	613	-6.455	n.m.
Profit after taxes	**-441**	**12.233**	**n.m.**
Attributable to shareholders of the parent company	-501	12.185	n.m.
Attributable to minority interests	60	48	24,9
Basic earnings per share (euros)	-0,001	0,013	n.m.
Diluted earnings per share (euros)	-0,001	0,013	n.m.

n.a.: not applicable; n.m.: not meaningful
Average weighted nº of shares 1st quarter: 935,432,616 in 2008 and 943,723,170 in 2007.

Revenues from operating activities

Revenues from operating activities in the first quarter of 2008 were €1,304.5 million, a slight fall on the same period in the previous year (down 0.4%), due mainly to the negative effect of the depreciation of the dollar against the euro (depreciation of over 10% compared to the average exchange rate for the same period in 2007), which had an impact of 2.5 percentage points.

Passenger revenues fell by €23.5 million compared to the previous year (down 2.3%) to €1,003.2 million in the first quarter of 2008, in part due to the aforementioned evolution of the exchange rate, pressure on prices from increased competition, particularly for European flights, and reduced activity in the domestic sector.

Cargo revenues increased by 4.9% compared to the previous year, due to a 3.6% increase in the revenue per RTK.

Handling revenues decreased by 4.6%, due to the drop in services for third parties and pressure on unit revenues. It should be remembered that new operators started operating in the main airports in February 2007, and the figures for the first quarter of 2008 include €5 million corresponding to the proportional integration of revenue from the joint ventures (JV) involving the Barcelona, Lanzarote and Fuerteventura airports (in 2007 the share of accumulated revenue and costs was recorded in the last quarter).

Revenues for third party **maintenance** services increased by €6.3 million (up 9.3%), resulting mainly from the greater volume and value of work on engines for other airlines; this figure was also affected by dollar depreciation.

"**Other revenues**" increased by €4.3 million (up 19.9%) compared to the first quarter of 2007, due to higher booking revenues. "**Other recurrent operating revenues**", (commissions, deferred income, revenue from supplying staff to the JV and other miscellaneous revenue) improved by €3.0 million (up 6.3%), whilst non-recurrent revenues increased by €3.8 million.

Costs from operating activities

In the first quarter of 2008, costs from operating activities increased by 2.4% compared to the same period in 2007 (2.5% if we exclude non-recurring items), due to high fuel price increases, which were partially offset by the savings arising from implementation of the measures in the Director Plan 2006-08 and by the effects of dollar depreciation against the euro.

The average market price of a barrel of Brent crude was over $100 in March, and the average price over the first quarter of 2008 was 65% higher than in the same period in the previous year, although the depreciation of the dollar offset about one third of the impact of this increase. Iberia's **fuel costs** (which represent 24.6% of total operating costs and around 30% of the costs of the transport business) were $327.5 million in the first three months of the year, $66.8 million higher than in the same period in 2007. The increase in the price of kerosene in dollars, after hedging, resulted in costs increasing by €100 million. This was partially offset by lower unit consumption- due to greater fleet efficiency- and the positive impact of the depreciation of the dollar. The unit cost of fuel (per ASK) increased by 23.7%.

Recurrent **personnel expenses** went down 0.9% compared to the first quarter of 2007, due to a decrease of 4.8% in the Group's average equivalent workforce. This decrease is 1.6% if we exclude the personnel expenses relating to the JV (adopting the same criteria as 2007, when the annual costs of the JV were recorded in full in the last quarter of the year). The ground staff headcount was brought down by 6.3% compared to the previous year, with a particularly significant decrease in Iberia Handling (8.7%). The average technical crew headcount fell 3.3%, with a slight increase in flight attendant staff (0.8%). The unit cost (per ASK) dropped 3.1% compared to the previous year (excluding the JV).

Depreciation and amortisation dropped 9.0% due to the lower number of aircraft in the balance sheet (21 fewer at the end of March 2008 than one year earlier, due to the gradual retirement of the MD-87/88 fleet). **Leasing costs** fell by 4.0% compared to the first quarter of 2007, due in part to the reduction of block hours operated under wet leases (11.6%) following the restructuring of this type of activity, which has resulted in almost the entire B-757 fleet being disposed of (at the end of March only one B-757 aircraft remained operational). In unit terms, the aggregate expense for fleet leasing and amortisation and depreciation decreased by 7.2% compared to the previous year.

Recurrent **fleet maintenance costs** (external services plus spare parts) fell by 13.1% compared to the first quarter of 2007, when a number of exceptional maintenance operations were carried out on the Iberia fleet. As a result, the unit cost per ASK for maintenance of the aircraft operating in Iberia's transport business fell by 14.3%.

Traffic services and **navigation charges** fell by 7.2% and 5.5% respectively, due mainly to the lower number of flights operated (13.3% fewer than in the first quarter of 2007) as a result of the restructuring of the flight schedule and the increasing weight of the long haul sector. Also relating to traffic services, there were particularly significant reductions in landing fees (9.1%), take-off fees (12.5%) and, above all, in the cost of incidents (interrupted journeys, missed connections and luggage delivery costs), which fell by 19.4% compared to the previous year.

The reduction in the consumption of **Catering materials** (down 18.1%) is mainly due to lower costs of products sold in-flight as a result of the outsourcing of these products in the second half of 2007. The 8.4% increase in "**Other rentals**" is mostly due to the consolidation of the JVs.

The cost of booking **systems** fell by 7.3% due to the new contract signed with Amadeus and the decrease in reservation volumes.

Other recurrent expenses were €96.9 million, an increase of €9.1 million compared to the previous year, up 10.3%, with higher expenses for several items: transport, maintenance of ground equipment, compensation, other auxiliary services and taxes, among others. More than two points of the percentage increase for this item is explained by the impact of integrating the costs of the Handling Services JVs in the first quarter of 2008 (unlike 2007, when the annual costs were recorded in full in the fourth quarter).

In the first quarter of 2008 **non-recurrent expenses totalled** €4.1 million, mainly relating to higher provisions for investments in associated companies. This compares to a total amount of €5.2 million in 2007, which included a €2.0 million provision for redundancy procedures (ERE) and €3.1 million for costs related to the reduction of the fleet.

Financial and Other Non-Operating Results

"**Net gain on disposals of non-current assets**" in the first quarter of 2008 amounted to €21.7 million, due for the most part to transactions relating to the fleet. In the same period in 2007 there was a €5.9 million net gain, which was due mostly to revenues from the final payment for the sale of the SAVIA trademark.

Financial result in the first three months of 2008 was €13.1 million, an increase of €7.0 million on the previous year. This was mostly due to a 42.2% increase in financial revenues resulting from higher interest on short-term deposits, which in turn derived from the larger average balance and higher interest rates. The valuation of hedging instruments in accordance with IAS 39 resulted in a decrease in the financial result of €3.9 million in the first quarter of 2008, compared to the €0.3 million decline in the same period in the previous year.

Financial position

In-balance sheet net debt continued to improve and remained negative, which means that the sum of current financial assets (after deducting the value of hedges) exceeds the total balance of interest-paying debt. Net debt was -€2,572.4 million as of 31 March 2008, compared to -€2,500.4 million at the close of the previous year. **Adjusted net debt**, including the conversion of operating leases into equivalent debt (excluding the effect of valuation of hedges at the end of the year), amounted to €491.3 million, a decrease of €90.4 million on the previous year.

The balance of **liquid assets** (current financial investments plus cash and other cash equivalents) increased by €32.8 million compared to year-end 2007, amounting to €3,000.2 million at the end of the first quarter of 2008. This figure does not include the value of hedges (in accordance with IAS 39), which increased the balance of current financial investments at 31 March 2008 by €43.7 million (compared to €35.3 million at year-end 2007). The balance of cash and other cash equivalents decreased by €444.1 million compared to 31 December 2007, whilst current financial investments (assets maturing in a period greater than three months but less than one year) increased by €476.9 million (excluding the value of hedges).

On 31 March 2008, **Equity** amounted to €1,936 million, a decrease of €69.9 million compared to the end of the previous year; this was mainly due to the valuation of hedging operations (€42.8 million) and an increase in treasury shares.

"**Non-current Assets**" decreased by €57.6 million compared to the end of the previous year; this was mostly due to the refund of advance payments on fleet and engines (included in non-current deposits), provisions for the depreciation of property, plant and equipment and divestment corresponding to the Iberbus loans (which were partly transferred to current) and adjustment of these loans applying current exchange rates.

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