

Main figures (not audited) (a)

IBERIA GROUP € thousand	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2007	2006	%	2007	2006	%
Operating revenues	1.357.301	1.392.880	-2,6	2.666.605	2.599.615	2,6
Operating costs	1.300.448	1.343.616	-3,2	2.596.654	2.613.864	-0,7
EBITDAR (b)	219.345	218.296	0,5	393.959	318.508	23,7
Operating Income EBIT (b)	56.852	49.264	15,4	69.951	-14.249	n.m.
Non recurring revenues and costs (net)	-5.555	781	n.m.	-10.550	-408	n.m.
Net gains on disposals of non-current assets and impairment losses	25.951	-1.182	n.m.	30.062	-1.908	n.m.
Profit/loss from operating activities	77.249	48.863	58,1	89.463	-16.566	n.m.
Profit after taxes	62.598	35.726	75,2	74.831	-9.239	n.m.
Total shareholders' equity (c)	---	---	---	1.800.577	1.738.596	3,6
In-balance sheet net debt (c)	---	---	---	-2.211.300	-1.722.181	28,4
Adjusted net debt x 8 (c)	---	---	---	859.680	1.346.628	-36,2
ASK (million)	16.458	16.809	-2,1	32.563	32.498	0,2
RPK (million)	13.307	13.420	-0,8	26.105	25.296	3,2
Load factor (%)	80,9	79,8	1,0 p.	80,2	77,8	2,3 p.
Passenger revenues	999.004	1.037.240	-3,7	1.946.088	1.921.808	1,3
Yield (€ cent)	7,51	7,73	-2,9	7,45	7,60	-1,9
Passenger Revenue / ASK (€ cent)	6,07	6,17	-1,6	5,98	5,91	1,1
Operating revenue/ASK (€ cent)	8,25	8,29	-0,5	8,19	8,00	2,4
Operating expense/ASK (€ cent)	7,90	7,99	-1,1	7,97	8,04	-0,9
Operating expense (ex fuel)/ASK (€ cent)	6,25	6,19	0,9	6,34	6,32	0,3

n.m.: not meaningful.

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

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

(c) June 2007 v December 2006 (See notes page 12 and 13).

Number of shares as at 30-Jun-2007: 952.836.247; 31-Dec-2006: 948.066.632.

Highlights

- Iberia raised its consolidated profit after taxes by 75.2% in the second quarter. These results are the best Iberia has obtained in the last five years.
- ASK dropped 2.1% year on year, as the impact of the short and medium haul network restructuring (-8.6%) coincided with a slowdown of the growth in capacity on long-haul flights (3.4%), where increases are expected to be around 7% in the next few months.
- This fact, together with the depreciation of the dollar and the new situation on the Spanish handling market, caused the decrease of operating revenues by 2.6%. Unit operating revenue was 0.5% down, pulled back by the growth in the average stage length (by 7.8%) and the tough competition on European flights. On the contrary, unit passenger revenue in the long haul continued to grow notably.
- The reduction in unit revenue was more than offset by a 1.1% decrease in the unit operating cost, with significant cuts in personnel expenses, fuel costs and leasing costs.
- Iberia posted an operating income of €70 million in the first six months of the year, up €84.2 million year on year, while EBITDAR grew by 23.7%.
- The company achieved a record load factor across the board (80.2%), 2.3 points up on last year. The Business Class performance was outstanding on the long-haul network, with a 23% increase in passengers.
- Staff productivity (in terms of operating revenue per employee) was up 9.9% year on year, with a 6.6% reduction in the annual average headcount.
- Adjusted net debt was 36.2% smaller than at year-end 2006.

Operating Statistics

IBERIA GROUP (a)	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2007	2006	%	2007	2006	%
SCHEDULED TRAFFIC						
Passengers (thousand)	6.863	7.461	-8,0	13.181	13.761	-4,2
Domestic	3.531	3.996	-11,6	6.835	7.404	-7,7
Medium Haul	2.310	2.501	-7,7	4.339	4.513	-3,9
Europe	2.160	2.355	-8,3	4.030	4.240	-5,0
Africa & Middle East	150	147	2,3	309	274	13,1
Long Haul	1.022	964	6,0	2.007	1.844	8,8
ASK (million)	16.458	16.809	-2,1	32.563	32.498	0,2
Domestic	2.879	3.416	-15,7	5.886	6.832	-13,8
Medium Haul	4.148	4.272	-2,9	8.261	8.377	-1,4
Europe	3.658	3.806	-3,9	7.262	7.486	-3,0
Africa & Middle East	490	466	5,2	999	891	12,1
Long Haul	9.431	9.121	3,4	18.415	17.289	6,5
RPK (million)	13.307	13.420	-0,8	26.105	25.296	3,2
Domestic	2.194	2.600	-15,6	4.290	4.815	-10,9
Medium Haul	3.089	3.299	-6,4	5.811	5.949	-2,3
Europe	2.740	2.961	-7,5	5.089	5.313	-4,2
Africa & Middle East	349	338	3,2	722	636	13,6
Long Haul	8.024	7.521	6,7	16.004	14.532	10,1
Load factor (%)	80,9	79,8	1,0 p.	80,2	77,8	2,3 p.
Domestic	76,2	76,1	0,1 p.	72,9	70,5	2,4 p.
Medium Haul	74,5	77,2	-2,8 p.	70,3	71,0	-0,7 p.
Europe	74,9	77,8	-2,9 p.	70,1	71,0	-0,9 p.
Africa & Middle East	71,2	72,6	-1,4 p.	72,3	71,4	0,9 p.
Long Haul	85,1	82,5	2,6 p.	86,9	84,1	2,9 p.
CARGO (b)						
Cargo Tones	63.118	59.543	6,0	125.836	117.401	7,2
ATK (million)	421	407	3,4	824	786	4,8
RTK (million)	287	259	10,7	579	509	13,7
Load factor (%)	68,2	63,7	4,5 p.	70,3	64,8	5,5 p.
PASSENGER REVENUES						
Revenues (€ thousand)	999.004	1.037.240	-3,7	1.946.088	1.921.808	1,3
Revenue / ASK (€ cent)	6,07	6,17	-1,6	5,98	5,91	1,1
Revenue / RPK (€ cent)	7,51	7,73	-2,9	7,45	7,60	-1,9

(a) Iberia L.A.E. traffic

(b) Since January 2007, cargo statistics have been grouped according to sector criteria (corresponding to the geographical grouping of individual legs), instead of by network (grouping traffic lines, consisting of one or several legs linked by the flight code). To enable comparison on homogenous terms, the 2006 data have been restated according to this new criterion.

ASK: Available Seat Kilometre; RPK: Revenue Passenger Kilometre; ATK: Available Ton Kilometre; RTK: Revenue Ton Kilometre.

Year on year variation in Load factor expressed in percentage points.

Passenger revenues include only those revenues generated during the period. Therefore, revenues from the cancellation of customer advances as well as other minor accounting regularizations are excluded

Traffic and Passenger Revenues

The network load factor in the **second quarter** of 2007 was 80.9%, an all-time high for the company in that quarter, 1.0 percentage points better than the same period of last year. This improvement outstripped by 1.3 points the average variation of carriers in the *Association of European Airlines* (AEA), whose load factor deteriorated by 0.3 points (according to provisional data). Iberia's revenue passenger kilometres (RPK) were slightly down (0.8%) on the second quarter of 2006, with a 2.1% drop in available seat kilometres (ASK). This reduction of total capacity was due to a slowdown in the growth on long-haul flights (3.4%) and the progressive adjustments made on domestic and European connections, in keeping with the network optimisation strategy defined in the Director Plan 2006/08.

When comparing these variations, it should be borne in mind that the second quarter of 2006 was a particularly strong period (with a year-on-year growth of 12.4% in RPK and a 4.5 point improvement in the load factor). Moreover, the dates of public holidays in April and May were less favourable in 2007 than in the previous year.

The average stage length increased by 7.8% year on year, due to the growing weight of the long-haul sector. RPKs of this sector represented 60.3% of the total traffic, 4.3 points more than last year. The different route mix also explains why the decline in the total number of passengers (8%) is higher than the reduction in RPK.

Passenger revenues on tickets actually flown were down 3.7% against last year, due to the drop in the number of passengers on short and medium haul flights (10.1%) and the adverse effect of the dollar depreciation against the euro (more than 8%). The unit revenue dropped 1.6%, also hampered by the growth in the average stage length. Excluding currency effects, unit revenue would have been 0.5% higher than last year.

In the **long haul** sector, the load factor improved by 2.6 points year on year to 85.1%. Traffic maintained a good performance, increasing by 6.7%, with a smaller growth in capacity (3.4%) than that recorded in 1Q 2007 (10.0%) and that forecast for the second half of the year, of around 7%.

Iberia strengthened its growth strategy in the USA, opening up two new destinations, Boston from May and Washington from June (with five weekly frequencies), which, together with more flights to Miami and the replacement of the A340/300 aircraft (260 seats) with A340/600 (352 seats) on routes to Chicago, increased capacity by 12.8% over the second quarter of 2006. RPKs increased by 13.4%, raising the load factor to almost 88%. However, the greatest growth in both capacity and traffic was recorded once again in South America (15.1% and 19.5%, respectively) where the load factor improved by 3.0 points to 84%. The number of passengers grew in all countries, especially Brazil and Uruguay, where the number of weekly flights was increased. On the Mid Atlantic routes, the load factor rose by 2.8 points to 85.3%, while RPKs fell by 1.0%. The company made certain adjustments to the programme of this sub-network, increasing the number of direct flights to Costa Rica, using smaller aircraft in Cuba and reducing the number of flights to Puerto Rico.

Passenger revenues grew by 11.6% year on year in the long-haul sector, thanks to the larger volume of traffic and the enhanced yield (4.6%), which was pulled down by the depreciation of the dollar (4% impact), but bolstered by a considerable improvement in the class mix in all American networks, especially in Central America. The number of Business Plus Class passenger increased by 18% on long-haul flights and the load factor in this cabin was 6.7 percentage points higher than last year. Unit revenue went up by 7.9% year on year, or 11.9% without the adverse effect of exchange rates.

Iberia continued restructuring its **short and medium haul** operations, with a view to strengthening its position as a network carrier, reinforcing the connections at its Madrid-Barajas hub and improving profitability, adjusting the capacity offered in some point to point routes. Consequently, the aggregate capacity of all European flights (including domestic flights) to and from Madrid grew by 5.8% year on year in the second quarter of 2007, while it dropped notably on other connections.

Capacity fell by 3.9% year on year on total **European** flights, although it grew by 12.5% in routes from Madrid to Europe. Traffic dropped by 7.5%, adversely affected by the tough competition and, particularly, by the strong expansion of low-cost carriers in Spain. The load factor was 74.9%, which was higher than that recorded by most European network carriers.

Growth continued in **Africa and the Middle East**, although it began to level off in the second quarter. Capacity increased by 5.2% and traffic by 3.2% compared with the second quarter of 2006, with particularly strong growth in Egypt and Israel.

Passenger revenues in the **medium haul** international sector were down 10.2% in April-June 2007, with a 2.9% adjustment in ASK and a 2.8 point drop in load factor. Unit revenue per ASK fell by 7.5%, also hampered partly by the growth in the average stage length in this sector (1.4%) and the depreciation of the dollar

In the **domestic** sector Iberia reached a load factor of 76.2%, slightly higher than last year. According to the strategy, capacity was reduced by 15.7% and the number of passengers dropped by 11.6%. Unit revenue rose by 1.2%.

Cargo continued to grow in the second quarter of 2007, maintaining the trend commenced in June 2006. The load factor improved by 4.5 points and the revenue tonne kilometres (RTK) increased by 10.7% to €287 million. Of this amount, 94% was carried in the bellies of passenger aircraft and 83% on Atlantic routes.

The load factor improved by 2.3 percentage points to 80.2% in the **first half** of 2007, outstripping the average improvement of 0.5 points recorded by the airlines in the AEA. Iberia's traffic grew by 3.2% year on year, with a small increase (0.2%) in the total capacity, which would have been slightly down without the effect in both years of the aircraft cabin space optimisation programmes. The strong growth of traffic on long-haul flights led to a significant increase in the average stage length (7.7%), which, together with the dollar devaluation against the euro, had an adverse effect on passenger revenue per RPK, which lost 1.9% year on year, and on the unit revenue per ASK, which rose just 1.1% throughout the network. Without the effect of exchange rates, both variations improved by 2 percentage points. Passenger revenues on tickets actually flown up to June were up 1.3% year on year

In the **long haul** sector, RPK rose 10.1% against last year, with an increase of 6.5% in capacity, raising the load factor by 2.9 points to 86.9%. It is important to highlight the performance of the Business Plus Class, with a growth of 23.7% in the number of passengers and an 8.3 point improvement in the load factor. This contributed towards the 6.5% yield improvement throughout the sector, with a 10.2% growth in unit revenue and 17.3% in passenger revenues.

On South American flights, 1H traffic increased by 26.5% over last year, with an overwhelming response to the increased capacity (22.1%), pushing the load factor up 3.1 points to 88.4%. On North Atlantic routes, capacity and traffic grew by 9.9% and 11.4%, respectively, raising the load factor by 1.1 points. The load factor also improved (2.9 points) on Mid-Atlantic flights, where traffic increased by 0.4%.

In the **medium haul** sector, ASK were down 1.4% as a result of the adjustments made to the different point-to-point routes within the EU. The effect of these adjustments was partly offset by the increased capacity on European flights to/from the Madrid hub (12.5%) and on Africa and Middle East routes (12.1%). Revenues slipped by 5.2%, due to the drop in RPK (2.3%) and yield (3.0%), which was also negatively affected by the growth in the average stage length (1.6%) and dollar depreciation. Unit revenue was down 3.9%.

The company continued its capacity adjustments in the **domestic** sector in the first six months of 2007, reducing the ASKs by 13.8% year on year. Yield lost some ground (down 0.5%), while unit revenue per ASK rose 2.9%, thanks to the 2.4 point improvement in the load factor. Revenues were 11.3% down on last year.

Consolidated Statements of Income (not audited) (a)

€ thousand	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2007	2006	%	2007	2006	%
Profit/loss from operations (b)	77.249	48.863	58,1	89.463	-16.566	n.m.
Revenues from operating activities	1.357.827	1.447.041	-6,2	2.667.366	2.653.858	0,5
Net sales	1.301.899	1.342.394	-3,0	2.563.758	2.504.859	2,4
Passenger revenue (c)	1.069.590	1.104.022	-3,1	2.096.354	2.053.862	2,1
Cargo revenue	82.386	79.189	4,0	164.708	155.125	6,2
Handling	66.020	82.722	-20,2	128.952	147.426	-12,5
Technical assistance to airlines	62.637	54.343	15,3	131.111	102.934	27,4
Other revenues	21.265	22.118	-3,9	42.633	45.513	-6,3
Other operating revenues	55.928	104.647	-46,6	103.608	148.998	-30,5
Recurring	55.401	50.487	9,7	102.846	94.755	8,5
Non-recurring	527	54.161	-99,0	761	54.243	-98,6
Costs from operating activities	1.306.529	1.396.996	-6,5	2.607.965	2.668.515	-2,3
Procurements	321.257	381.244	-15,7	637.059	693.924	-8,2
Aircraft fuel	271.941	303.039	-10,3	532.585	560.593	-5,0
Aircraft spare parts	39.746	66.718	-40,4	84.356	111.453	-24,3
De los que: No recurrentes	-	26.415	n.a.	-	26.415	n.a.
Catering materials	5.931	6.336	-6,4	11.774	11.560	1,9
Other purchases	3.639	5.151	-29,4	8.344	10.318	-19,1
Personnel expenses	344.509	377.508	-8,7	689.342	725.532	-5,0
of which: Non recurring	2.000	25.800	-92,2	4.000	25.800	-84,5
Depreciation and amortization	53.783	53.855	-0,1	107.960	106.057	1,8
Other operating costs	586.980	584.388	0,4	1.173.604	1.143.001	2,7
Aircraft leases	108.710	115.177	-5,6	216.048	226.700	-4,7
Dry lease	93.221	99.680	-6,5	183.268	195.727	-6,4
Wet lease	12.085	12.816	-5,7	25.932	24.504	5,8
Cargo lease	3.405	2.680	27,0	6.848	6.469	5,9
Other rentals	18.024	17.798	1,3	36.171	36.357	-0,5
Fleet maintenance (subcontracts)	56.293	46.537	21,0	127.704	82.699	54,4
of which: Non recurring	2.340	1.000	134,0	5.398	1.000	n.m.
Commercial expenses	62.796	64.007	-1,9	118.469	123.559	-4,1
Traffic services	119.749	117.168	2,2	233.009	226.626	2,8
Navigation charges	68.971	72.675	-5,1	139.575	143.146	-2,5
In flight services	19.638	16.632	18,1	36.496	32.061	13,8
Booking systems (d)	37.078	39.567	-6,3	82.378	84.722	-2,8
Insurance	4.637	8.070	-42,5	9.466	16.010	-40,9
Other expenses (d)	91.084	86.758	5,0	174.289	171.123	1,9
of which: Non recurring	1.741	164	n.m.	1.914	1.436	33,3
Net gains on disposals of non-current assets	33.340	-1.182	n.m.	39.211	-1.908	n.m.
Impairment losses	7.389	-	n.a.	9.149	-	n.a.

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

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

(b) Profit/loss from operations includes operating income as well as non recurring revenues and costs.

(c) Passenger revenues include issued but unused tickets, previously accounted in current liabilities as customer advances, together with other minor adjustments.

(d) The 2006 figures have been reclassified in order to include exclusively booking costs. Other services provided by CRS (MIDTs...) are accounted in "Other expenses".

€ thousand	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2007	2006	%	2007	2006	%
Financial results	11.511	2.385	n.m.	17.555	-436	n.m.
Financial revenues	27.623	17.635	56,6	50.522	30.949	63,2
Financial expenses	16.486	14.828	11,2	32.673	30.174	8,3
Exchange gains/losses	-93	420	-122,1	-472	63	n.m.
Other revenues and expenses	467	-842	155,4	177	-1.274	113,9
Results on variation of non-financial assets	-26	-	n.a.	-26	-	n.a.
Share of results of associates	564	532	5,9	994	1.823	-45,5
Profit before taxes	89.298	51.780	72,5	107.986	-15.179	n.s.
Taxes	-26.700	-16.054	-66,3	-33.155	5.940	n.m.
Profit after taxes	62.598	35.726	75,2	74.831	-9.239	n.m.
Attributable to shareholders of the parent company	62.531	35.654	75,4	74.716	-9.345	n.s.
Attributable to minority interests	67	72	-6,4	115	106	8,3
Basic earnings per share (euros)	0,066	0,038	72,5	0,079	-0,010	n.m.
Diluted earnings per share (euros)	0,066	0,038	72,5	0,079	-0,010	n.m.

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

Average weighted n° of shares 2nd quarter: 947,036,247 in 2007 and 931,340,896 in 2006; first half: 945,379,709 in 2007 and 929,258,234 in 2006.

KPI (not audited) (a)

IBERIA GROUP	2 nd Quarter (Apr – Jun)			Accumulated (Jan – Jun)		
	2007	2006	%	2007	2006	%
Unit Ratios (€ cent/ASK) (Recurring)						
OPERATING REVENUE	8,25	8,29	-0,5	8,19	8,00	2,4
OPERATING COST	7,90	7,99	-1,1	7,97	8,04	-0,9
Fuel	1,65	1,80	-8,3	1,64	1,72	-5,2
Fleet maintenance	0,57	0,51	11,5	0,63	0,51	23,7
Spare parts	0,24	0,24	0,7	0,26	0,26	-1,0
Maintenance (subcontracts)	0,33	0,27	21,0	0,38	0,25	49,4
Personnel	2,08	2,09	-0,5	2,10	2,15	-2,2
Aircraft lease	0,66	0,69	-3,6	0,66	0,70	-4,9
Commercial	0,38	0,38	0,2	0,36	0,38	-4,3
Traffic services	0,73	0,70	4,4	0,72	0,70	2,6
Navigation charges	0,42	0,43	-3,1	0,43	0,44	-2,7
In-flight services and catering materials	0,16	0,14	13,7	0,15	0,13	10,4
Rest (b)	1,25	1,26	-0,1	1,28	1,30	-1,7
Net commercial cost / traffic passenger and cargo revenue (%) (c)	3,6	3,7	-0,1 p.	3,5	3,8	-0,3 p.
Productivity						
Average fleet utilization (block hours/aircraft/	9,6	9,0	5,8	9,5	9,1	4,6
Annual average headcount (d)	22.428	24.261	-7,6	22.544	24.145	-6,6
ASK / Employee	734	693	5,9	1.444	1.346	7,3
Ground	981	924	6,1	1.929	1.795	7,5
Ground (without handling)	1.955	1.875	4,3	3.851	3.590	7,3
Block hours / Technical crew (e)	68,3	68,9	-0,9	136,1	135,3	0,6
Block hours / Flight attendant (e)	30,2	30,0	0,6	60,0	59,7	0,4
Operating revenue per employee (€ thousand) (e)	60,5	57,4	5,4	118,3	107,7	9,9

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

(b) Includes bookings system, other rentals, insurance, depreciation and other recurrent cost.

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

(d) Certain criteria used for calculating the annual average headcount were changed as from January 2007 to obtain more adjusted data. The 2006 headcounts have been recalculated according to the new criteria.

(e) Productivity data calculated according to the annual average headcounts obtained with the new criteria (see note (d)).

The 2006 figures have been recalculated to facilitate comparison.

Revenues from operating activities

Operating revenues slid 2.6% in the **second quarter**, to €1,357.3 million. Revenues from passenger and cargo fell by the same proportion, to €1,152 million in 2007, representing almost 85% of the total operating revenues. The aggregate amount of other recurrent revenues was €205.3 million, 2.1% down on 2006, due to a €16.7 million drop in handling revenues. This was partly offset by an €8.3 million increase in revenues from third party fleet maintenance.

Passenger revenues totalled €1,069.6 million, -3.1% less than last year, mainly due to the capacity adjustment (-2.1%) and dollar depreciation. Revenues on tickets actually flown during the period was down €38.2 million year on year to €999 million, while the aggregate amount of other passenger revenues (including, among others, cancellation of advance payments in issued but unused tickets, revenues from frequent flyer programmes, leasing and other agreements with third parties) rose by €3.8 million to €70.6 million.

Cargo revenues grew by 4.0% year on year, boosted by the 10.7% increase in traffic and despite the drop in yield (-5.1%), caused by the longer average stage length (4.5%) and the depreciation of the dollar against the euro.

After the effective incorporation of the new handling operators following the tenders to award new licences, **handling** revenues dropped 20.2% year on year to €66 million. After having renewed contracts with third parties, the impacts expected for the full year will be in line with the current ones. Overall, handling for third parties (measured in weighted aircraft handled) was 11.7% lower than last year, despite the growth in handling for Clickair. Unit revenue was affected by more competition, decreasing 10.7%.

Technical assistance revenues totalled €62.6 million in the second quarter of 2007, €15.3 million more than in the same period of 2006, thanks to the increase in revenues from engine overhauls, C maintenance and additional work.

The aggregate sum of **other operating revenues** ("Other revenues" and "Other non-recurrent revenues") rose 5.6% year on year to €76.7 million, boosted by the recording in "Sundry revenues" of the recovery of expenses on assignment of personnel to the Joint Venture performing handling services at Barcelona airport.

Non-recurrent revenues dropped €53.6 million from the 2H2006 figure, due to the inclusion last year of €53.3 million corresponding to recovery of the depreciation fund recorded for engine reparable. The inclusion of non-recurrent items raises revenues from operating activities to €1,357.8 million in 2H2007, 6.2% less than the same period of last year.

In the **first half** of 2007, revenues from operating activities rose 0.5%, to €2,667.4 million. Excluding non-recurrent items, operating revenues were up 2.6% to €2,666.6 million. If we exclude the currency impact caused by dollar depreciation, the increase in operating revenues would be 4.6%.

Passenger revenues recorded a year-on-year growth of 2.1%, rising €42.5 million to €2,096.4 million. Revenues from tickets flown during the period increased by €24.3 million (1.3%), thanks to the significant growth in the long haul sector (17.3%). The aggregate amount of other passenger revenues rose €18.2 million (up 13.2%), partly due to the larger amount in cancellations of advance payments on issued but unused tickets.

Cargo revenues grew by 6.2% year on year, boosted by the larger volumes of cargo and post carried (up 13.7%). This growth was partly offset by the drop in yield (-6.4%), affected by the growth in the average stage length and dollar depreciation.

Handling revenues dropped by 12.5%, due to the reduction in handling for third parties and the decrease in unit revenue. **Technical assistance** revenues rose by 27.4% to €131 million, boosted to the increase in the number and price of engine overhauls for other companies.

"**Non-recurrent revenues**" dropped 6.3% year on year, due mainly to the reduction of revenues from services at cargo terminals, as a consequence of the closing of unprofitable small and medium-sized national terminals during 2006. "**Recurrent operating revenues**" increased by 8.5% compared with the first half of last year, due mainly to the inclusion in the 2007 accounts of the revenue from assignment of personnel to the joint venture at Barcelona airport (€8.1 million).

Costs from operating activities

Costs from operating activities were reduced by 6.5% year on year in the **second quarter**. Just over half of this reduction was accounted for by **non-recurrent expenses**, which totalled €6.1 million in 2007 against €53.4 million in 2006. This year's amount includes, among other items, an extraordinary provision of €2.0 million for the redundancy plan and costs of €2.3 million relating to the return of aircraft. Last year's figure includes extraordinary provisions of €25.8 million for the redundancy plan and €26.4 million for obsolescent stock (after reclassifying engine reparable).

Operating costs were cut by 3.2% in the second quarter, mainly as a result of the adjustment of activity (-2.1% in terms of ASK), the reduction in headcount and the depreciation of the dollar against the euro. Favoured by the first and last factors, the fuel cost came down for the first time in three years. The unit operating cost was 7.90 euro cents per ASK, 1.1% lower than last year. Personnel unit cost decreased only by 0.5% due to its high component of fix cost.

The total **fuel** cost was €271.9 million over the period April-June 2007, 10.3% less than in the same period of 2006, brought down mainly by the depreciation of the dollar and the smaller volume of litres consumed, in turn due to improvement in the fleet's fuel consumption efficiency (-1.6%) and a lower level of activity. The Brent oil price fluctuated between \$65 and \$70 a barrel for most of the second quarter 2007, giving an average price similar to that recorded in the same period last year. Aviation fuel prices were hedged at \$61.5/barrel for approximately 50% of consumption. This caused fuel costs savings of €5.3 million in the second quarter 2007, while the contribution of hedging instruments in April-June 2006 amounted to €9.8 million.

Recurrent **personnel** expenses were brought down by 2.6% year on year. The Iberia Group's annual average headcount was reduced by 7.6% and operating revenues per employee increased by 5.4%. The pay rise granted to ground staff in line with the CPI, wage drifts and the provision made for the bonus for achievement of results in 2007 partly offset the cost savings achieved through the headcount reduction.

The average ground staff headcount was cut by 7.8%, increasing its productivity (measured in ASK/employee) by 6.1%. The average annual headcount was cut across the board, with a particularly severe cut in the Handling activity (864 employees), through early retirements under the redundancy plan and the subrogation of personnel at several airports following the incorporation of the new handling operators. The average headcount of flight attendants was reduced by 8.7% (the wet lease was operated with non-Iberia crew in the first six months of 2007, in contrast with the previous year, when it was operated with payroll crew up to June). The average technical crew headcount was reduced by 2.8% year on year.

Aircraft leasing costs were reduced by 5.6% year on year. The dry lease cost was lowered by €6.5 million, mainly due to less aircraft leased and the smaller impact of applying IAS 39, which increased costs by €3.4 million in 2007, compared to €4.8 million in the second quarter of 2006. A €0.7 million cost cut was achieved by reducing the number of block hours operated under wet leases, although this was offset by an increase in a similar amount in the cost of cargo aircraft leases.

Aggregate recurrent **fleet maintenance** costs (including spare parts, provisions for major repairs and subcontracted services) increased by 9.2% year on year, due to the increase in external services for fleet maintenance and repairs (€8.6 million), almost totally related to the larger volume of work done for third parties.

A 1.9% year-on-year reduction in **commercial** costs was achieved by reducing the commission costs by 11%, through the lowering of the basic commission to travel agencies in Spain to 0.4% from January 2007 and extension of the zero commission model to most international markets. The aggregate sum of other commercial costs (advertising, promotion and the pursuance of agreements) increased by 6.0%, due largely to higher media advertising costs and more costly sponsorship agreements.

The aggregate cost of **"In-flight services"** and **"Catering materials"** was 11.3% higher than in 2006, due partly to the 6.0% increase in the number of passengers on long-haul flights and especially to the increase in passengers in the Business Plus class (up 18.2%).

The **insurance** cost was brought down 42.5% from last year to €4.6 million in 2007. Thanks to the positive evolution of the variables determining the company's risk, the market trend in premiums and capacity and the company's risk placement strategy, Iberia managed to improve the costs and coverage of its aviation policies.

Within the 3.2% year-on-year growth in **"Other recurrent expenses"**, the largest increases were in security and surveillance services and technical and legal counselling. Within this item, there was a noteworthy reduction of the cost of passenger and baggage compensations, which were brought down by 19.7% to €9.6 million.

In the **first half of 2007**, costs from operating activities were down 2.3% year on year to €2,608 million. Excluding non-recurrent expenses, which totalled €11.3 million in 2007 and €54.7 million in 2006, **operating costs** amounted €2,596.7 million, 0.7% lower than last year. The unit cost fell by 0.9% to €7.97 euro cents per ASK.

Fuel costs, which accounted for 20.5% of the Group's operating costs, totalled €532.6 million in 1H2007, €28 million less than the expense recorded in the same period of 2006, mainly thanks to the positive effect of the dollar depreciation against the euro (€32.6 million, including the effect of exchange rate hedging) and the lower unit consumption achieved through greater fleet efficiency, which reduced the cost by €8.6 million. Both these effects were partly offset by the impact of the higher fuel prices (more than €21 million after hedging). Moreover, the revaluation of "non-effective" hedges (IAS 39) at 30 June reduced the expense by €4.9 million (contrasting with the increase of €2.4 million in the same period of 2006). Overall, the unit fuel cost was brought down by 5.2% year on year to €1.64 euro cents per ASK.

Fuel prices have crept up since early January, when they recorded their annual low, and the hike accelerated in July, when the Brent oil price rose to over \$78/barrel. Iberia has hedged 50% of its estimated consumption for the second half of the year at an average price of \$61.5/barrel.

Recurrent **personnel** expenses were down 2.1% to €685.3 million. The annual average headcount was 6.6% lower than last year, while productivity (measured in terms of operating revenue per employee) improved by 9.9%.

Since 1 January 2007, 601 ground staff employees and 118 flight attendants have taken early retirement under the redundancy plan, the latter group being fully replaced. The average ground staff headcount was cut by 6.8% and their productivity (measured in ASK/employee) increased by 7.5%. The average headcount was also lowered in flight crew: technical crew by 3.4% and flight attendants by 7.4%.

Over the first six months of 2007, a year-on-year reduction of 4.7% was achieved in **aircraft leasing** costs, due to the reduction in the number of aircraft and the smaller effect of applying IAS 39 (included in the "dry lease" expense), which increased the cost by €4.2 million euro in 2007 and by €10.9 million in 2006. The unit cost of aircraft leasing was 0.66 euro cents/ASK, 4.9% less than last year.

Aggregate recurrent **fleet maintenance** cost totalled €206.7 million, 23.9% more than last year, largely as a result of the increase in work done on third-party aircraft and engines. The unit maintenance cost of Iberia's fleet went up 13.2% to 0.71 euro cents/ASK as more works related to aircraft returns coincided with a large number of overhauls and engine maintenance, especially in the first quarter, making it necessary to temporarily increase the contracting of external services.

Commercial costs were 4.1% lower than the first half of 2006, with a 12.1% reduction in commission costs. The ratio of net commercial cost to traffic revenues was down 0.3 percentage points to 3.5%.

Traffic services went up 2.8% in the first half of 2007, due mainly to the increased cost of bridges & jetties and other airport services (€2.6 million) and the higher cost of aircraft dispatch (€9.0 million). The reason for this effect has been the necessary contracting of external handling services in Barcelona and another four Spanish airports as from this year (as a result of the licence tender), whereas the cost of these services was recorded within personnel expenses in 2006, being performed by Iberia's own staff. Excluding this effect, total costs would have been lower than last year. Part of this increase was offset by a significant reduction (35.8%) in the cost of incidents (interrupted journeys, missed connections and luggage delivery costs).

The aggregate cost of "**In-flight services**" and "**Catering materials**" was 10.7% higher than in 2006, due mainly to the increase in the number of passengers on long-haul flights and especially in the Business Plus class (up 23.7%).

The **insurance** cost was brought down 40.9% from last year to €9.5 million in 2007. "**Other recurrent expenses**" increased by €2.7 million, representing a year-on-year growth of 1.6%. The cost of passenger and baggage compensations was €6.1 million lower than in the first half of 2006.

Financial and Other Non-Operating Results

The "**Net gains on disposals of non-current assets**" amounted to €39.2 million in the first six months of 2007 (€33.3 million of which corresponded to the second quarter), improving by €41.1 million the loss recorded in the first half of 2006. Most of the result recorded this year was obtained on the following fleet operations, totalling net profits of €34.7 million: the gain on the sale of the first two MD-87 (under the contract signed in February, which contemplates the sale of the entire MD fleet); the gain on different sale and lease back operations in the A-320 fleet; and the gain on the disposal of several engines for the B-757 and B-747 fleets. Other significant items included in the first half 2007 results were the capital gain of €5.5 million on final settlement of the sale of the SAVIA brand and the net gains of €2.3 million on the sale of a property in Palma de Mallorca.

The "**Impairment losses**" for the first six months of this year included a provision of €9.1 million for shares in the capital of associated companies, €7.4 million of which were recorded in the second quarter.

In the second quarter 2007, the **financial result** totalled €11.5 million, €9.1 million more than the previous year. The cumulative financial result recorded in the first half of the year was a profit of €17.6 million, contrasting with the €0.4 million loss recorded in 2006. In both cases, the improvement in the result was due mainly to the considerable increase in financial revenues (63.2% in the half-year period), thanks to the larger average balance in short-term deposits and the higher interest rates.

The valuation of hedging instruments in accordance with IAS 39, recorded in "Other revenues and costs" on the Statements of Income, increased the financial result by €0.5 million in the second quarter of 2007, contrasting with a reduction of €0.8 million recorded in the previous year. In the cumulative half-year accounts, an increase of €0.2 million was recorded in 2007 and a reduction of €1.3 million in 2006.

Iberia's **share of results of associates** was €0.6 million in the second quarter of 2007, similar to the result obtained in the same period of last year. For the half-year period the result amounted to €1 million.

Operating Fleet

IBERIA GROUP (a)	June 2007	December 2006	June 2006
Long Haul	32	31	32
Owned	5	5	5
Financial lease	0	0	0
Operating lease	24	24	25
Wet lease	3	2	2
Short and Medium Haul	110	119	126
Owned	37	40	40
Financial lease	14	14	14
Operating lease	56	58	66
Wet lease	3	7	6
Total	142	150	158
Owned	42	45	45
Financial lease	14	14	14
Operating lease	80	82	91
Wet lease	6	9	8

(a) End of period, excluding inactive aircraft
Additionally, as at 30-June-2007 Iberia has two Airbus A-320 leased to other airline.

Operating Fleet and Variations

At 30 June 2007, Iberia had an operating fleet of 142 aircraft, 80 of which were held on operating leases and 6 on wet leases.

In April 2007, the company added an A-340/300 under wet lease to its **long haul fleet**. Iberia uses the same family of aircraft, the Airbus A-340, for all its long haul flights, having a total of 32 aircraft by the end of the period.

Five new Airbus were added to the **short and medium haul fleet** in the first half of 2007, under operating leases: one A-321 and four A-319 (three of them in the second quarter). During the same period, fourteen aircraft were withdrawn: four B-757 held on wet leases (two in the second quarter); seven A-320 under operating leases (one in the second quarter); and three MD-87, owned (one in April and two in May). By 30 June Iberia's short and medium haul fleet consisted of a total of 110 aircraft, 80 of which corresponded to the A-320 family.

In February 2007, Iberia signed an agreement with *Tiger & Engine Support* for the sale of its entire MD-87 and MD-88 fleet, under the short and medium haul fleet renewal plan. According to the schedule contemplated in the agreement, a total of 30 aircraft (including engines) are to be handed over gradually, at a rate of approximately one a month, between April 2007 and September 2009.

Consolidated Balance Sheet (not audited) (a)

€ thousand	June 2007	December 2006
ASSETS	6.161.593	5.751.250
Non-current assets	2.268.305	2.491.336
Intangible assets	44.183	48.853
Property, plant and equipment	1.311.264	1.350.909
Investments in associates	25.645	16.750
Non-current financial assets	439.548	623.394
<i>Iberbus loans</i>	<i>117.653</i>	<i>150.380</i>
<i>Other</i>	<i>321.895</i>	<i>473.014</i>
Deferred tax assets	445.287	445.355
Other non-current assets	2.378	6.075
Non-current assets held for sale	-	-
Current assets	3.893.288	3.259.914
Inventories	173.245	187.594
Accounts receivable	789.253	607.292
Current financial investments	2.035.536	1.489.334
Cash and cash equivalents	876.854	963.731
Other current assets	18.400	11.963
EQUITY AND LIABILITIES	6.161.593	5.751.250
Equity	1.800.577	1.738.596
Share capital	743.212	739.492
Share premium	119.411	115.405
Reserves	861.232	824.955
Translation differences and differences due to adjustment of capital to euros	839	840
Profit attributable to the parent company	74.716	56.725
Minority interests	1.167	1.179
Non-current liabilities	1.761.975	1.893.950
Bank borrowings and non-current obligations under finance leases	368.342	481.269
Long term provisions	1.330.412	1.359.057
Other liabilities	63.221	53.624
Current liabilities	2.599.041	2.118.704
Convertible debenture issue	2.635	10.362
Bank borrowings and current obligations under finance leases	302.707	227.982
Deferred income	82.913	62.468
Other liabilities	2.210.786	1.817.892

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

Adjusted Net Debt: In Balance-Sheet Net Debt + Capitalised aircraft leases – capitalised interests of Iberbus loans.

In Balance-Sheet Net Debt: (Convertible debenture issues + Bank borrowings and obligations under finance leases) – (Current financial investments + Cash and cash equivalents).

Does not include the value of financial instruments for hedging included in Current financial investments (IAS 39) which amounted to €27,406 thousand as of 30-June-2007 and €11.271 thousand as of 31-Dec-2006.

Capitalized leases: The concept aircraft leases is used to calculate capitalized leases. It includes the amount of operating leases (excluding the value of non efficient hedging) + 50% of wet leases + 50% cargo wet leases. Annual Leases expenses amounted to €392,624 thousand in 2006. To get an approximation of the annual value of aircraft rentals in 2007, leases expenses for the first half (€195,466 thousand), must be multiplied by 2, this is €390,932 thousand. The result is multiplied by 8 to get the capitalized operating leases.

Iberbus loans: Long-term loans to Iberbus companies. These loans bear 6% interest that Iberia receives and also pays as a part of aircraft rentals. The capitalised debt corresponding to this element of the aircraft rental must be deducted from the off-balance sheet debt (Aircraft rentals x 8). For June 2007: 6% of €117,653 thousand x 8 = €56,473 thousand
For December 2006: 6% of €150,380 thousand x 8 = €72,182 thousand

Consolidated Cash Flow Statements (not audited) (a)

€ thousand	Jan-Jun 2007	Jan-Jun 2006
Consolidated profit before tax	107.986	-15.179
Depreciation and amortisation charge and impairment losses	117.111	106.057
Period provisions (net) (+/-)	48.245	66.208
Provisions used (-)	-76.983	-58.422
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)	-39.210	-24.956
Gains/Losses on disposal of investments (+/-)	-	-
Results of associates accounted for using the equity method (+/-)	-994	-1.823
Gains/Losses on hedging transactions (+/-)	-879	14.391
Effect of exchange rate changes not giving rise to cash flows	783	-803
Other adjustments of the cash-flow (+/-)	-76	27.087
Net change in assets/liabilities not giving rise to cash flows	173.336	175.890
Taxes paid	-27.952	-12.545
Cash flow from operating activities	301.367	275.905
Net investment in subsidiaries, jointly controlled entities and associates	-8.832	-2.435
Net investment in property, plant and equipment, intangible assets and investment property	22.557	-95.080
Net investment in non-current investments	47.527	-
Net investment in current investments and other current financial assets (b)	-490.433	-316.472
Net investment in other assets	40.045	31.486
Dividends and interest received	44.623	26.962
Cash flow from investing activities	-344.513	-355.539
Dividends paid (-)	-	-18.619
Changes in bank borrowings and other financial liabilities (+/-)	-35.136	47.968
Interest paid on debt (-)	-18.209	-10.752
Other debt	186	146
Capital increase	7.726	7.666
Net investment in treasury shares (+/-) (c)	1.702	-6.809
Cash flow from financing activities	-43.731	19.600
Net cash flow	-86.877	-60.034
Cash and cash equivalents at beginning of year	963.731	821.439
Cash and cash equivalents at end of year	876.854	761.405
VARIATION OF TOTAL LIQUID ASSETS (d)	403.556	256.438

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

(b) The net divestment is due to the placement at more than three months and less than one year of part of the company's cash, which is not considered cash under the IFRSs. Current financial investments amount to €2,036 million, €546 million more than in December 2006, as shown in the Balance Sheet.

(c) The classification criteria for "Net variation in treasury stocks" were changed at the end of 2006, including them in financing activities (formerly included in investing activities). The amount corresponding to the first quarter of 2006 has been restated according to the new criteria.

(d) Net cash flow - Net investment in investments and other current financial assets

Net Debt to Equity / Cash Flow

The in-balance sheet **net debt** continues improving, totalling -€2,211.3 million at 30 June 2007, a 28.4% improvement on year-end 2006, thanks mainly to the strong growth of current financial investments, which exceeded the balance recorded at 31 December 2006 by €546.2 million. The adjusted net debt, including the conversion of operating leases to equivalent debt (excluding the effect of valuation of hedging instruments at the end of both years), was €859.7 million, representing a 36.2% improvement on last year.

The **balance of liquid assets** (current financial investments plus cash and other cash equivalent) was up €443.2 million on year-end 2006, to €2,885 million at the end of first half 2007. This figure does not include the valuation of hedging instruments (in accordance with IAS 39), which increases the balance of current financial investments by €27.4 million at 30 June 2007, compared to €11.3 million at year-end 2006.

At 30 June 2007, the equity was €1,800.6 million, €62 million more than at December 2006, mainly due to the improved profits and an increase of more than €36 million in reserves since year-end 2006, €17 million of which correspond to the improvement in the valuation of effective derivatives, pursuant to IAS 39.

Iberia increased its sharecapital by €3.7 million in March, issuing 4.8 million ordinary shares, coinciding with the fifth date of exercise of the stock option plan approved at the AGM 2002. In June 2007, therefore, Iberia has a total of 952.8 million shares.

On 30 May 2007, the AGM approved the distribution of a dividend of 3.5 euro cents per share against the 2006 results. This dividend was paid on 2 July.

The balance of “**Non-current financial assets**” dropped by €183.8 million from year-end 2006, due to the refund of advance payments on fleet and engines (included in long-term deposits), the divestments corresponding to the Iberbus loans and the cancellation of the loan of €47.5 million granted by Iberia to Wam Acquisition S.A. In March 2007, Iberia made a disbursement of €8.8 million on its stake in Clickair Líneas Aéreas, in accordance with the Business Plan approved for the launching of this company.

During the first six months of 2007, Iberia generated a positive **cash flow from operating activities** of €301.4 million from operating activities, €25.5 million more than the net cash flow generated in the same period of last year.

Progress of the Director Plan 2006/2008

At half-way point of the Director Plan 2006/2008, Iberia has efficiently implemented the initiatives designed for the period, surpassing the principal targets set in the four strategic pillars on which the Plan is based.

With regard to the first pillar, restructuring of the network, the company has selectively modified its capacity on the short and medium haul market as planned, with a view to improving profitability on these routes and backing the development of the Madrid hub. Between the first half of 2005 and 2007, short and medium haul (Europe and domestic) capacity was reduced by almost 8%, with a growth of almost 13% in Madrid. Moreover, the use of flexibility tools has allowed to accelerate the long haul growth (more than six points ahead of the forecast), thus taking advantage of Iberia's excellent positioning on the American markets.

The second group of initiatives corresponds to programmes for improving quality and revenues, especially through actions aimed at high-value customers. The long haul business class was very well accepted and has been valued extremely positively. The target load factor for this class set for December 2008 had already been reached by June of this year, with a load factor of paying passengers of over 62% in the first six months of 2007, 18 points up on 2005, and a growth of more than 45% in the number of these passengers. Similarly, maintenance for third parties surpassed the targets set in the Plan in June 2007.

The Collective Agreement for Flight Attendants for the period 2005/2007 signed in early 2007 and the recent agreement reached on the Collective Agreement for Ground Staff for 2007 have permitted solid progress in the development of the other two pillars of the Director Plan: improvement of the productivity of resources and reduction of unit costs. In the first one, owing to the accelerated implementation of the ground staff productivity measures and the implementation as from the second part of 2007 of the initiatives designed to increase the productivity of flight attendants, the company has already met more than 60% of the targets in this section, having reduced the ground staff headcount by more than 90% of the amount undertaken over the three-year period of the Plan. As regards fleet utilisation, the company came close in the first half of 2007 to meeting the target set for the whole year, thereby overcoming the bad patch suffered in 2006.

The measures included in the two collective agreements regarding personnel expenses comply with the criteria established in the Director Plan and the development of programmes of other costs optimization (commercial, aircraft leasing, cargo aircraft, efficient purchasing tools, etc.) enable the company to keep within the cost-cutting objectives established in the Plan.

Principal effects of applying the IFRS

Iberia uses different derivatives for its risk hedging policy. In the hedging tools used for fleet operating leases, the derivatives cover currency (dollar) and interest rate risks. The company also hedges the price and exchange rate of fuel purchases. Under the International Financial Reporting Standards (IFRSs), particularly IAS 39, the current value of these financial instruments should be recorded. Most of the derivatives used by the company are effective from the point of view of the IFRS and the differences in value over time do not affect results, being recorded within reserves on the balance sheet. The derivatives that are considered “non-effective” affect the items on the income statement.

In the **second quarter** of 2007, the variation in the valuation of derivatives had a small but negative effect on reserves (€0.5 million) and a positive effect on the income statement (€1.5 million). In the second quarter of 2006, in contrast, the variation in the value of derivatives led to a €10.1 million reduction in the profit before tax.

In **June 2007**, the new measurement of derivatives increased the balance of reserves by €17 million over year-end 2006. The effect on the income statement was insignificant in first half of 2007, increasing profit after tax by €0.9 million, compared to a negative impact of €14.5 million in the same period of 2006.

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