INTERIM MANAGEMENT REPORT
JANUARY-JUNE 2008

1. Main figures (not audited)

IBERIA GROUP	2nd Quarter (Apr-Jun)			Accumulated (Jan-Jun)		
	2008	2007	%	2008	2007	%
Financial data (€ thousand) (a)						
Operating revenues (b)	1.369.900	1.357.301	0,9	2.670.383	2.666.605	0,1
Operating costs (b)	1.373.886	1.300.448	5,6	2.702.659	2.596.654	4,1
EBITDAR (b)	135.375	219.345	-38,3	259.393	393.959	-34,2
Operating Income EBIT (b)	-3.986	56.852	-107,0	-32.276	69.951	-146,1
Profit/loss from operating activities (c)	12.885	84.612	-84,8	6.269	98.586	-93,6
Profit /loss before taxes	29.187	89.298	-67,3	28.133	107.986	-73,9
Profit/loss after taxes	21.183	62.598	-66,2	20.742	74.831	-72,3
Non-current assets (d)	---	---	---	2.132.235	2.086.514	+2,2
Current financial investments, cash & cash equivalents (d) (f)	---	---	---	2.767.060	2.967.442	-6,8
Equity (d)	---	---	---	1.808.036	2.005.868	-9,9
In-balance sheet net debt (d)	---	---	---	-2.365.851	-2.500.381	-5,4
Adjusted net debt x 8 (d)	---	---	---	503.760	581.679	-13,4
Cash flow from operating activities	---	---	---	108.482	301.367	-64,0
EBITDAR margin (%) (b) (e)	9,9%	16,2%	-6,3 p.	9,7%	14,8%	-5,1 p.
EBIT margin (%) (b) (e)	-0,3%	4,2%	-4,5 p.	-1,2%	2,6%	-3,8 p.
Operating revenue/ASK (€ cent) (b)	8,17	8,25	-1,0	8,06	8,19	-1,6
Operating expense/ASK (€ cent) (b)	8,19	7,90	3,7	8,16	7,97	2,3
Operating expense (ex fuel)/ASK (€ cent) (b)	5,78	6,25	-7,5	5,95	6,34	-6,2
Operating data						
ASK (million)	16.771	16.458	1,9	33.130	32.563	1,7
RPK (million)	13.372	13.307	0,5	26.362	26.105	1,0
Load factor (%) (e)	79,7	80,9	-1,1 p.	79,6	80,2	-0,6 p.
Yield (g)	7,32	7,51	-2,5	7,19	7,45	-3,5
Passenger revenue / ASK (€ cent) (g)	5,84	6,07	-3,8	5,72	5,98	-4,2
Annual average headcount	21.793	22.428	-2,8	21.684	22.544	-3,8
ASK / Employee (thousand)	770	734	4,9	1.528	1.444	5,8
No. of aircraft end of period	128	142	-9,9	128	142	-9,9
Average fleet utilization (block hours/aircraft/day)	10,0	9,6	4,3	9,9	9,5	3,7

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) June 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.

2. Highlights

- In the first six months of 2008 the Iberia Group generated consolidated profit after taxes of €20.7 million and profit from operating activities of €6.3 million.

- Fuel costs rose by €199.5 million in 1H08 while other operating expenses fell by €93.5 million.

- The in-depth restructuring of the flight network and delivery of most of the other initiatives contemplated in the 2006-2008 Director Plan were key to mitigating the impact of rising kerosene costs. Stripping out aircraft fuel, unit operating expenses narrowed 6.2% in 1H08 and by 7.5% in 2Q08 alone.

- First half revenues from operating activities rose slightly year-on-year, despite the impact of the sharp depreciation of the dollar. At constant exchange rates, revenue growth was 3.4%. Revenues grew by 0.9% year-on-year in 2Q (strengthening from a year-on-year drop of 0.7% in 1Q), lifted by a stronger performance across all business segments.

- Revenue from technical assistance to other airlines continued to improve significantly thanks to an expanding product and client portfolio.

- Adjusted net debt fell by 13.4% on the year-end 2007 balance.

- Staff productivity (measured as ASK per employee) climbed 5.8% while fleet utilisation (measured in block hours per aircraft) rose 3.7% to 9.9 hours daily per aircraft.

- Average punctuality for the first half improved by over four points on 1H07 to 84.7%.

3. Businesses' evolution

3.1. Transport

OPERATING STATISTICS (a)	2nd Quarter (Apr-Jun)			Accumulated (Jan-Jun)		
	2008	2007	%	2008	2007	%
PASSENGER						
ASK (million)	**16.771**	**16.458**	**1,9**	**33.130**	**32.563**	**1,7**
Domestic	2.382	2.879	-17,3	5.000	5.886	-15,1
Medium Haul	4.403	4.148	6,2	8.635	8.261	4,5
Europe	3.895	3.658	6,5	7.646	7.262	5,3
Africa & Middle East (b)	509	490	3,8	989	999	-1,0
Long Haul	9.985	9.431	5,9	19.496	18.415	5,9
RPK (million)	**13.372**	**13.307**	**0,5**	**26.362**	**26.105**	**1,0**
Domestic	1.750	2.194	-20,2	3.562	4.290	-17,0
Medium Haul	3.299	3.089	6,8	6.177	5.811	6,3
Europe	2.919	2.740	6,5	5.438	5.089	6,9
Africa & Middle East (b)	379	349	8,7	739	722	2,3
Long Haul	8.323	8.024	3,7	16.623	16.004	3,9
Load factor (%)	**79,7**	**80,9**	**-1,1 p.**	**79,6**	**80,2**	**-0,6 p.**
Domestic	73,5	76,2	-2,7 p.	71,2	72,9	-1,6 p.
Medium Haul	74,9	74,5	0,4 p.	71,5	70,3	1,2 p.
Europe	75,0	74,9	0,1 p.	71,1	70,1	1,1 p.
Africa & Middle East (b)	74,6	71,2	3,3 p.	74,7	72,3	2,4 p.
Long Haul	83,4	85,1	-1,7 p.	85,3	86,9	-1,6 p.
CARGO						
Cargo Tones	62.769	63.118	-0,6	122.922	125.836	-2,3
ATK (million)	437	421	3,8	855	824	3,8
RTK (million)	293	287	2,0	579	579	-0,1
Load Factor (%)	67,0	68,2	-1,2 p.	67,7	70,3	-2,7 p.
PASSENGER REVENUES (c)						
Revenues (€ thousand)	978.835	999.004	-2,0	1.896.494	1.946.088	-2,5
Revenue / ASK (€ cent)	5,84	6,07	-3,8	5,72	5,98	-4,2
Revenue / ASK (€ cent) (at constant rates)	6,10	6,07	0,4	5,93	5,98	-0,8
Revenue / RPK (€ cent)	7,32	7,51	-2,5	7,19	7,45	-3,5

(a) Iberia L.A.E. traffic
(b) Except South Africa, that is included in Long Haul
(c) 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.
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

Since the end of 2007 air traffic growth has been slowing. Revenue passenger kilometres (RPK) on regular flights at the airlines belonging to the Association of European Airlines (AEA) rose 3.1% in 1H08 (compared to 5.1% in all of 2007) while the average load factor fell 1.3 percentage points (compared to a 0.7 point improvement the year before). In Spain the number of passengers handled at the airports managed by AENA rose 3.1% through to June, compared to growth of 9.1% in 2007 as a whole.

In the first half of 2008, Iberia's review and optimisation of the flight programme provided for in the 2006-08 Director Plan was practically completed, strengthening network operations. Accordingly, available seat kilometres (AKO) rose 22.3% year-on-year for aggregate international medium haul flights taking off or arriving at its hub. At the same time the Company continued to selectively streamline its capacity on point-to-point routes, with the greatest impact on domestic routes. The impact of these measures, together with sustained growth in capacity on transatlantic flights and network expansion in Central and Eastern Europe led to an 11.1% jump in the average stage length to 2,199 kilometres.

Overall, capacity at Iberia was 1.7% higher compared to the first six months of 2007 with PKT rising 1.0% while the load factor was 79.6%, just below the previous year's figure (80.2%). Traffic grew by 0.5% in the second quarter, somewhat lagging growth in traffic in the first three months of the year (1.5%), in part due to the way the Easter holidays fell (in April in 2007 and in March this year) and also due to the rapid slowdown in certain European economies, including Spain, and in the US.

Revenue per ASK decreased by 4.2% for the network as a whole in 1H08, affected significantly by the increase in the average stage length and the dollar's gradual slide against the euro. In constant currency terms, the drop in revenue narrows to 0.8%, while revenue per RPK was flat year-on-year. The improved performance in unit revenues over the first half is noteworthy. At constant exchange rates the yield rose 1.8% year-on-year in 2Q08 compared to a drop of 2.0% in 1Q08.

Long haul RPK, which accounted for 63.1% of total traffic (up 1.8 percentage points on 1H07), increased by 3.9%, compared to growth of 5.9% in capacity, to leave the load factor at 85.3%, 1.6 points below the record level reached in 1H07. Capacity was increased most on North American routes, up 18.9% year-on-year, due mainly to the addition of new destinations in 2Q07 (Boston in May and Washington in June), to put the load factor at 82.6%. On Central American routes, capacity and demand rose by 6.6% and 6.1%, respectively, to put the load factor at 86.7%. The South American routes were affected by the sharp increase in capacity by its main competitors prompting a widespread drop in load factors. Iberia's RPK fell 2.1% on 1H07 and the load factor stood at 85.4%, higher than the average for the long haul network although 3 points below that of the previous year.

In 1H08 revenue per ASK on long haul flights rose 3.1% at constant exchange rates, although dropping 2.2% when factoring in currency depreciation, with a more significant impact (detracting 6.8 points) in the second quarter. Despite the slowdown in business class travel across the entire industry, the number of paying passengers on Iberia's *Business Plus* service rose 4.1% year-on-year, resulting in a slightly better class mix.

The load factor on the international **medium haul** segment rose to 1.2 points on 1H07 to 71.5%. Revenue Passenger Kilometres climbed 6.3%, underpinned by a 4.5% increase in capacity, in part due to the inauguration of new routes (Dubrovnik since the beginning of June 2008, Bucharest in March 2007, Prague and Warsaw in October 2007) and higher frequencies on Central and Eastern European routes. At constant exchange rates, revenue per ASK dropped 1.3% on 1H07, triggered by the increase in the average stage length in this sector (6%) and intense price competition. Factoring in the depreciation of the dollar, and to a lesser extent the pound sterling, revenue per ASK would have fallen 4.2% year-on-year.

As planned, capacity in the **domestic sector** declined 15.1% on 1H07, although this figure masks a 3% increase in flights in and out of the hub. The capacity cuts were more marked in the second quarter (17.3%) than in the first (13.0%), reflecting adjustments made on the Madrid-Barcelona route. Following the inauguration of the high speed train between Barcelona and Madrid on 20 February, Iberia cut capacity on this route (the shuttle or *Puente Aéreo* plus regular reservation flights), without modifying flight frequency, by 20.3% between March and June, transferring this capacity over to other flights in and out of the hub. The load factor was 71.2% for domestic flights, down 1.6 points on 1H07, affected by surplus capacity in the Spanish market and, in part, the inauguration of new high speed rail connections (connecting Madrid with Malaga and Barcelona).

Revenue per ASK in this segment rose 0.6% on 1H07 (1.4% stripping out the impact of the weaker dollar), driven primarily by yields, up 2.9% in the first six months and by 6.9% in the second quarter.

Total cargo RTK was similar in both periods (579 million), while the load factor declined 2.7 points to 67.7%. 93.3% of RTK were transported in the bellies of passenger planes (compared to 94.3% last year), with 84% accounted for by transatlantic flights.

To improve management at Barcelona's cargo terminal from a financial standpoint, Iberia and Globalia Handling set up a 50/50 joint venture that began to operate on 1 May 2008. This company controls and handles cargo on behalf of Iberia, Air Europa and other third parties.

3.2. Maintenance

Iberia Maintenance undertook 85 major checks (C, D, E and IL) in the first six months of 2008, including those performed for Iberia's fleet. The number of checks undertaken for third party airlines rose 39% to account for 58% of the total (contributing 16 percentage points more than in 1H07).

Growth remained noteworthy in the engine overhauls segment. Total production in 1H08, measured in equivalent engines, amounted to 130.7 units, year-on-year growth of 51%. 64% of these inspections were performed on other airlines' engines, up 29% on 1H07.

The average equivalent headcount at the maintenance and engineering division was 3,718 in 1H08, 2.8% lower than the previous year.

The maintenance business continues to expand, in line with the strategy designed in the 2006-2008 Director Plan. New agreements were reached in the first half, noteworthy among which were:

- A contract with DHL for overhaul and maintenance of over 80 Rolls Royce engines, model RB211-535C37, over the next ten years.
- Five-year maintenance contracts for up to 20 engines and Airbus parts for Italian airlines Meridiana and Eurofly.
- Maintenance of the engines installed on Air Europa's 33- Boeing 737-800 fleet under a 5-year contract.
- An agreement with Airbus for the provision of Technical Maintenance Training, making Iberia the first European airline added to Airbus' Maintenance Training Network.

In addition, on 27 June Iberia and Singapore Technologies Aerospace Ltd. incorporated Madrid Aerospace Services, S.L., a company tasked with the maintenance of Airbus aircraft landing gear. Iberia owns 50% of this joint venture with total share capital of €2.6 million.

3.3. Handling

Since March 2007, on finalisation of the public tender process for the addition of new ramp handling operators, Iberia has performed ramp handling services at 36 airports (in addition to the Ceuta heliport). In addition, it joined the joint ventures ("JVs") winning the licenses in Barcelona, Lanzarote and Fuerteventura (airports at which the Company was not the successful bidder). Iberia owns a 32% stake in the El Prat JV (Barcelona) and 30% stake in the JVs for the two Canary Island airports.

Against this new competitive backdrop, the total weighted average number of aircraft handled by Iberia (not including those handled by the JVs) amounted to 187,401 in 1H08, a 6.8% drop on 1H07. Handling services were provided to 84,517 Iberia aircraft, down 13%, while third party handling, which accounted for 54.9% of the total in terms of the weighted average number of aircraft handled, dropped 1.1% on 1H07. Iberia handled a total of 39.4 million passengers in the first six months, a year-on-year drop of 3.4% (again, these figures exclude passengers handled by the JVs).

The average headcount at the Airports Division was 7,844 equivalent employees in 1H08 (including 597 transferred to the Barcelona JV), 6.9% less than the previous year. Employee productivity, measured in total man hours per weighted average aircraft handled, rose 2.0% on 1H07 (excluding the employees transferred to the JVs since in productivity ratios of aircraft handled by the JVs are similarly excluded from the denominator).

4. Financial Evolution

4.1. Consolidated Statements of Income (not audited)

IBERIA GROUP	2nd Quarter (Apr-Jun)			Accumulated (Jan-Jun)		
€ Thousand	2008	2007	%	2008	2007	%
Profit/loss from operations (a) (c)	**12.885**	**84.612**	**-84,8**	**6.269**	**98.586**	**-93,6**
Revenues from operating activities	**1.385.668**	**1.357.827**	**2,1**	**2.690.210**	**2.667.366**	**0,9**
Net sales	**1.317.587**	**1.301.899**	**1,2**	**2.567.625**	**2.563.758**	**0,2**
Passenger revenue (b)	1.061.516	1.069.590	-0,8	2.064.738	2.096.354	-1,5
Cargo revenue	84.805	82.386	2,9	171.170	164.708	3,9
Handling	71.870	66.020	8,9	131.891	128.952	2,3
Technical assistance to airlines	78.622	62.637	25,5	153.434	131.111	17,0
Other revenues	20.775	21.265	-2,3	46.393	42.633	8,8
Other operating revenues	**68.080**	**55.928**	**21,7**	**122.585**	**103.608**	**18,3**
Recurring	52.312	55.401	-5,6	102.758	102.846	-0,1
Non-recurring	15.768	527	n.m.	19.827	761	n.m.
Costs from operating activities	**1.371.243**	**1.306.529**	**5,0**	**2.704.087**	**2.607.965**	**3,7**
Procurements	**455.945**	**321.257**	**41,9**	**834.667**	**637.059**	**31,0**
Aircraft fuel	404.602	271.941	48,8	732.053	532.585	37,5
Aircraft spare parts	42.655	39.746	7,3	84.860	84.356	0,6
Catering materials	4.689	5.931	-20,9	9.472	11.774	-19,6
Other purchases	3.999	3.639	9,9	8.283	8.344	-0,7
Personnel expenses	**335.971**	**344.509**	**-2,5**	**675.616**	**689.342**	**-2,0**
of which: non recurring	-	2.000	n.a.	-	4.000	n.a.
Depreciation and amortization	**47.973**	**53.783**	**-10,8**	**97.261**	**107.960**	**-9,9**
Other operating costs	**531.354**	**586.980**	**-9,5**	**1.096.543**	**1.173.604**	**-6,6**
Aircraft leases	91.388	108.710	-15,9	194.408	216.048	-10,0
Other rentals	18.334	18.024	1,7	38.005	36.171	5,1
Fleet maintenance (subcontracts)	59.288	56.293	5,3	115.263	127.704	-9,7
of which: non recurring	-	2.340	n.a.	-	5.398	n.a.
Commercial expenses	56.247	62.796	-10,4	110.889	118.469	-6,4
Traffic services	100.379	119.749	-16,2	205.463	233.009	-11,8
Navigation charges	64.024	68.971	-7,2	130.719	139.575	-6,3
In flight services	17.600	19.638	-10,4	34.693	36.496	-4,9
Booking systems	35.481	37.078	-4,3	77.484	82.378	-5,9
Other expenses	88.613	95.722	-7,4	189.619	183.755	3,2
of which: non recurring	-2.643	1.741	-251,8	1.428	1.914	-25,4
Net gains on disposals of non-current assets	**1.172**	**33.340**	**-96,5**	**22.858**	**39.211**	**-41,7**
Impairment losses (c)	**2.712**	**26**	**n.m.**	**2.712**	**26**	**n.m.**

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 €9,149 thousand which was recorded at 30 June 2007 as "Impairment losses", was reclassified as "Share of results of associates". Additionally, an item for the amount of €26 thousand which was recorded at 30 June 2007 as "Results from variation of non financial assets" was reclassified as "Impairment losses".

IBERIA GROUP	2nd Quarter (Apr-Jun)			Accumulated (Jan-Jun)		
€ Thousand	2008	2007	%	2008	2007	%
Financial results	**20.266**	**11.511**	**76,1**	**33.355**	**17.555**	**90,0**
Financial revenues	32.560	27.623	17,9	65.112	50.522	28,9
Financial expenses	11.369	16.486	-31,0	24.326	32.673	-25,5
Exchange gains/losses	-573	-93	n.m.	-3.132	-472	n.m.
Other revenues and expenses	-350	467	-175,0	-4.299	177	n.m.
Share of results of associates (c)	**-3.964**	**-6.825**	**41,9**	**-11.491**	**-8.155**	**-40,9**
Profit before taxes	**29.187**	**89.298**	**-67,3**	**28.133**	**107.986**	**-73,9**
Taxes	-8.004	-26.700	70,0	-7.391	-33.155	77,7
Profit after taxes	**21.183**	**62.598**	**-66,2**	**20.742**	**74.831**	**-72,3**
Attributable to shareholders of the parent company	21.112	62.531	-66,2	20.611	74.716	-72,4
Attributable to minority interests	72	67	6,4	131	115	14,1
Basic earnings per share (euros)	0,023	0,066	-65,7	0,022	0,079	-72,1
Diluted earnings per share (euros)	0,023	0,066	-65,6	0,022	0,079	-72,0

n.m.: not meaningful
Average weighted nº of shares 2nd quarter 2008: 931,550,211 January-June 2008: 933.491.413

4.2. Revenues from operating activities

Revenues from operating activities were €2,690.2 million in the first six months of the year, a year-on-year increase of 0.9%, despite the depreciation of the dollar (the average exchange rate weakened over 12% on 1H07). The drop in passenger revenue (€31.6 million) was more than offset by the growth in the other items of recurring revenue from operating activities (€35.4 million in total), with a noteworthy jump in revenue from the maintenance business (€22.3 million). Non-recurring revenues in 1H08 amounted to €19.8 million (1H07: €0.8 million), mostly in connection with the settlement of an insurance claim for an A-340 aircraft.

Total **passenger revenue** narrowed 1.5% on 1H07 to €2,064.7 million. Of this amount, €1,896.5 million corresponded to revenue from flight tickets effectively used, a drop of 2.5% mainly due to the slide in the dollar, the slowdown in the domestic sector and, to a lesser extent, price pressure on European routes. At constant exchange rates passenger revenue from flight tickets would have risen 0.9% on 1H07.

Quarter-on-quarter the performance in passenger revenues improved, narrowing 0.8% in the second quarter (1Q08: down 2.3%) driven mainly by higher revenue per ASK in long haul (up 0.7% compared to a 1.3% drop in 1Q08) and domestic flights (+6.9% vs. -1.0%).

Cargo revenues increased by 3.9% year-on-year, due to a 2.5% increase in revenue per RTK.

Handling revenues rose 2.3% due in part to the recognition in 1H08 of €11.4 million in connection with revenues accrued at the JVs at the Barcelona, Lanzarote and Fuerteventura airports using the proportionate consolidation method (whereas accumulated 2007 revenues and expenses at this business were all recognised in 4Q07). Although revenue from aircraft dispatch handling services (per weighted average aircraft handled) fell somewhat on 1H07, squeezed by stronger competition, revenue from other runway handling services increased.

Although hurt by dollar weakness (c.8%), revenue from **technical assistance to airlines** jumped 17.0% on 1H07 mainly driven by the increased number and value of workshop technical assistance services provided to third party airlines, including engine and part inspections, D checks and additional works.

"**Other revenue**" climbed 8.8% to €3.8 million thanks to growth in reservation related revenues. "**Other operating revenues - recurring**" (commissions, deferred income, revenues from the provision of staff to the JVs and other sundry revenue items) came in flat year-on-year.

4.3. Costs from operating activities

In **1H08 costs from operating activities** climbed 3.7% to €2,704.1 million, due mainly to the sharp rise in fuel costs, the impact of which was partially mitigated by the beneficial impact on costs of dollar depreciation and reduced expenses in relation to execution of initiatives under the 2006-2008 Director Plan. Recurring costs from operating activities amounted to €2,702.7 million, year-on-year growth of 4.1%. Excluding fuel, the other headings making up costs from operating activities declined by 4.5% on aggregate on 1H07.

The market price for a barrel of Brent crude oil reached €139 at the end of June 2008, rising 45% above the price at year-end 2007 and soaring 89% over the last twelve months. As a result of this historic price jump, the Iberia Group's **fuel** costs reached €732.1 million in 1H08 (some 27.1% of its recurring operating costs and 30.4% of total costs at the transport business), 37.5% more than in 1H07. The increase in the price of kerosene in dollars, after hedging, drove costs 55% higher. This was partially offset by the positive impact of the depreciation of the dollar and more efficient fuel consumption across the fleet. The cost of fuel per ASK increased by 35.1%.

The table below details the **headcount** at the Iberia Group in terms of equivalent employees for 1H08 and 1H07:

IBERIA GROUP	Accumulated (Jan-Jun)		
Equivalent headcount (a)	**2008**	**2007**	**%**
Ground	16.045	16.878	-4,9
Flight	5.639	5.667	-0,5
Total	**21.684**	**22.544**	**-3,8**

(a) Sum of the average headcounts at Iberia, L.A.E. (including employees transferred to the JVs) and its subsidiaries: CACESA, ALAER and Binter Finance

The average total workforce diminished 3.8% on 1H08, while **productivity**, measured as ASK per employee, rose 5.8%. Under the umbrella of the productivity measures included in the 2006-2008 Director Plan, the workforce was reduced by 1,461 in FY07, almost of half of whom left the Company in the second half, with most taking advantage of early retirement schemes within the framework of the firm's redundancy programmes (EREs for their initials in Spanish). In 1H08, 124 ground staff left the Company: 116 opted for initiatives under the umbrella of the redundancy schemes (90 under ERE 72/01 and 26 under ERE 35/05), while a further 8 availed themselves of the National Employment Agreement. The average ground staff headcount dropped 4.9%, with reductions in all divisions, including a noteworthy decrease at Iberia's airports division (a 6.9% year-on-year reduction, or 578 equivalent employees).

In 1H08 recurring **personnel expenses** narrowed 1.4%, thanks to the aforementioned redundancies. Excluding personnel expenses at the ramp handling JVs to enable a like-for-like comparison (as all expenses accrued in 2007 at the JVs were booked in 4Q07), the drop in personnel expenses rises to 2.0%. The personnel unit cost per ASK dropped 3.7% on 1H07 (excluding the JVs).

The table below breaks down the performance of Iberia's **operating fleet**:

OPERATING FLEET (a)	Jun - 2008	Dec - 2007	Jun – 2007
Long Haul	**33**	**31**	**32**
Owned	5	5	5
Financial lease	0	0	0
Operating lease	25	23	24
Wet lease	3	3	3
Short and Medium Haul	**95**	**105**	**110**
Owned	17	30	37
Financial lease	10	9	14
Operating lease	67	64	56
Wet lease	1	2	3
Total	**128**	**136**	**142**
Owned	22	35	42
Financial lease	10	9	14
Operating lease	92	87	80
Wet lease	4	5	6

(a) End of period, excluding inactive aircraft or in the process of redesign for its sale.
Additionally, as at 30-June-2008 Iberia, L.A.E. has a Boeing B-757 leased to other airline.

At 30 June 2008, Iberia's operating fleet was made up of 128 aircraft, 92 held under operating leases and four under wet leases. In March and June 2008 Iberia added two A-340/300 aircraft to its long haul fleet under wet lease; this brought the long haul fleet to 33 aircraft by the end of the period. Three new Airbus A-319 were added to the short and medium haul operating fleet (in January, February and April) and a further two A-320 aircraft (previously leased to another company) began to fly in April, one under finance lease and the other under an operating lease. A total of 15 aircraft were taken out of operation in 1H08: nine MD-87s and four MD-88s which were owned outright, and another two B-757s operated under wet lease.

Depreciation and amortisation fell 9.9% in 1H08 due mainly to fewer on-balance sheet aircraft due to the gradual retirement from service of the MD-87/88 fleet. **Aircraft lease** expense fell 10.0% on 1H07 to €194.4 million. Passenger aircraft operating lease expense narrowed €14.6 million thanks mainly to better prices negotiated and the depreciation of the dollar. Wet lease expenses also dropped €8.6 million due to restructuring of this arrangement resulting in a smaller number of aircraft in service and, accordingly, a reduced number of block hours operated (down 11.9% on 1H07). The reduction in passenger fleet operating expense was partially offset by an increase in cargo aircraft lease expense (€1.5 million) due to a 24.5% increase in the number of block hours leased. Fleet lease expense per ASK fell 11.6% on 1H07 to €0.59.

The 5.1% increase in "**Other rentals**" primarily reflects the different accrual treatment of the handling JVs in 2008 and 2007. This heading also includes the cost of renting simulators.

Aggregate recurring **fleet maintenance** expenses amounted to €200.1 million, down 3.2% on 1H07, in part due to the dollar depreciation effect. Other factors underpinning this reduction include a 7.8% drop in external repair services contracted. Also, in 1H07 the increase in work performed in connection with aircraft returns and a higher than usual number of aircraft and engine inspections led to a sharp increase in external services. Unit fleet maintenance expense for owned aircraft declined 8.8% to €0.65 per ASK.

Commercial expenses fell 6.4% on 1H07, driven by a 7.0% drop in advertising expense and a 6.3% reduction in commissions, promotional and development expenses on aggregate. The ratio of net commercial expenses to traffic revenue narrowed 0.5 percentage points to 3.0% in 1H08.

In 1H08 **traffic services** expense dropped 11.8% year-on-year, thanks to a reduction in almost all captions included under this heading, in large part due to fewer take-offs (down 13.9% on 1H07), as a result of the restructuring initiatives and the growing weight of long-haul flights. Expenses incurred in connection with landing fees, the use of jet bridges and other airport services dropped 7.4% while incident-related costs (discontinued flights, connection losses and baggage deliveries) fell 24.5% thanks to higher quality operations management. Costs incurred in connected with the other headings (aircraft dispatch, levies, aircraft cleaning and crew layover expense, among others) were 14.4% lower.

Navigation charges declined 6.3% on 1H07, again benefiting from the lower number of flights, with a 6.2% drop in in-flight navigation assistance services and a 7.1% decrease in approach rates. Unit costs per ASK for traffic services and navigation charges combined fell 11.3% year-on-year.

The outsourcing of the management of in-flight product sales in 2H07 is the main reason underpinning the 19.6% reduction in expense for **catering materials**, although this heading also benefited from the restructuring of the flight programme. Flight network restructuring also contributed to the 4.9% drop in **in-flight services** expense in 1H08.

Costs incurred in connection with **booking systems** fell by 5.9% due mainly to the new contract signed with Amadeus and also a decrease in booking volumes.

"**Other expenses - recurring**" rose 3.5% in 1H08 to €188.2 million. Almost one percentage point of this rise is accounted for by the consolidation of the handling JVs in 1H08, in contrast to 2007 when the entire expense for the year was recognised in 4Q07. However, expenses dropped by 2.9% in the second quarter.

Non-recurring expenses, at €1.4 million in 1H08, derived from sundry provisions, fines and sanctions. In 1H07 the Group recognised one-off expenses in the amount of €11.3 million, a figure that included a €4.0 million provision for updated redundancy schemes and an extraordinary €5.4 million charge related to aircraft returns.

4.4. Other Results

"**Net gains on disposals of non-current assets"** amounted to €22.9 million in 1H08 (€16.4 million less than in 1H07) reflecting in large part gains on the sale of two Airbus A-320s and five of the MD-87 fleet. In 1H07 this heading totalled €39.2 million (of which €33.3 million were recognised in 2Q07) also mostly related to aircraft disposals (capital gains on the sale of out of service aircraft and engines and sale & leaseback transactions on A-320 aircraft) together with property disposals and the final settlement on the sale of the SAVIA trademark.

Net financial revenue in the first six months of 2008 was €33.4 million, compared to €15.8 million in 1H07. Financial revenue jumped a significant 28.9% due to higher interest income on short-term deposits, which in turn derived from the larger average balance and higher interest rates. In addition, financial expense declined significantly (25.5%), largely due to lower current and non-current borrowings.

The valuation of financial hedging instruments at fair value under IAS 39, with changes recognised under **"Other revenues and expenses"** in the income statement, resulted in a €4.3 million reduction net financial revenue in 1H08 (following the €0.2 million increase seen in 1H07).

The Group's **share of results of associates** amounted to a loss of €11.5 million in 1H08 compared to a loss of €8.2 million a year earlier. In order to maintain the criteria adopted at the end of 2007 and maintained in 1Q08, in the income statement presented in this Interim Management Report, the €9,149 million provision recognised in connection with the Group's investment in Clickair, which was recognised under "Impairment losses" at 30 June 2007, was reclassified under "Share in results of associates".

5. Financial position

In balance-sheet net debt remained negative, i.e. the balance of the current financial assets (excluding the measurement of hedges) exceeded the total balance of interest-bearing debt. Net debt was -€2,365.9 million at 30 June 2008, compared to -€2,500.4 million at year-end 2007. **Adjusted net debt**, including the conversion of operating lease instalments to equivalent debt (excluding hedge measurement and adjusting for interest on the loans to the Iberbus companies), amounted to €503.8 million, a decrease of €77.9 million on the year-end 2007 balance.

The Iberia Group's **equity** stood at €1,808 million at 30 June 2008, €197.9 million less than at year end 2007, due mainly to the allocation of 2007 profit (gross dividend of €0.17 per share with the rest to reserves) and a €42.7 million increase in treasury shares.

At 30 June 2008, €61.8 million had been deducted from equity on account of the 26,053,032 shares held as treasury stock (equivalent to 2.73% of share capital) acquired at an average price of €2.37 per share.

6. Relevant events after June 30, 2008

- On 7 July 2008 the Boards of Directors of Vueling and Clickair, approved a framework agreement for a merger of equals between the companies, preserving the merged entity's independence. The newco's shareholders, in addition to Iberia as strategic partner, will include Hemisferio, S.L. and Nefinsa, S.A. Under the terms of the deal, which is subject to anti-trust approval and compliance with other legal requirements, Clickair will be merged into Vueling.

- On 8 July, the European Parliament ratified the proposal to include aviation emissions in the EU's Emission Trading Scheme as part of its Directive on CO_2 emissions. Airlines operating flights taking off and landing in EU airports will have to cut their emissions by 3% per annum in 2012 and by 5% from 2013, using 2004-2006 as the baseline for comparison. Airlines exceeding these limits will be forced to buy additional carbon rights in the cap-and-trade scheme. Environmental management is a cornerstone of corporate policy at the Iberia Group and one of the key initiatives is the fleet renewal programme which envisages the withdrawal from service of the least fuel efficient aircraft, facilitating the Group's compliance with this EU Directive.

- On 24 July 2008 a new ground Collective Bargaining Agreement was signed to be in force from January 1, 2008 until December 31, 2008.This agreement covers around 16,500 employees, representing almost 70% of the total workforce. The economic remuneration consists in a 3.5% increase with a salary check of real CPI for 2008. The new agreement also includes productivity and flexibility measures that will facilitate management in all areas.

- On the 29 July 2008 the Board of Directors of Iberia resolved to enter talks with British Airways about the potential for an all-share merger between the two companies. During May and June 2008 Iberia acquired a strategic investment in British Airways intended to create symmetry with British Airways' interests in Iberia's share capital and to reflect Iberia's belief in the benefits of further collaboration between the two groups. The investment represents 2.99% of British Airways' issued share capital, and long positions referenced to British Airways' share price in the form of financial derivatives in respect of 6.99% of British Airways' issued share capital.

7. Main risks and uncertainties

The outlook for profitability across the aviation industry in the second half of 2008 has deteriorated following the escalation in oil prices which are moving in record territory in dollar terms. The industry's prospects are further hampered by the rapid slowdown in global economic growth. There is growing uncertainty as to where the prices of oil and its by-products (including aviation kerosene) will head in the coming months. If prices do not turn around, they will have a material adverse impact on airlines' earnings. In addition, the forecasts for growth in the US, Japan and certain European nations, including Spain, have been cut. Meanwhile, the prospects for less developed economies (Asia, Middle East and Latin America) remain bright. The latest forecasts put out by the International Air Transport Association (IATA) in June point to significant losses for the industry as a whole in 2008, in the range of $2,300 - $6,100 million, depending on the trend in fuel prices.

Airlines are increasing prices to mitigate the impact of rising fuel costs. The increase in fuel surcharges and the widespread economic slowdown are likely to negatively affect demand.

Against this challenging operating backdrop, the Iberia Group has developed a series of initiatives designed to mitigate the fallout from these adverse trends. These measures include the early retirement of the MD-88 fleet, the least fuel efficient, bringing the date forward to October 2008. Nine MD-87s were taken out of service in the first months of the year, so that for the upcoming 2008/09 winter season the Company will operate all short and medium haul flights with same-family Airbus aircraft, while the long haul fleet consists exclusively of Airbus A-340s. At the end of 2008 the average age of the Iberia operating fleet will be less than seven years.

Iberia plans to streamline its flight programme in the second half of 2008, a measure that will reduce total capacity in terms of ASK by 1.6% year-on-year. Capacity will not be reduced in the long haul segment and will be increased by 3.7% in medium haul and cut by 15.5% on domestic flights. Nevertheless, the Company is continually reviewing the situation, and is prepared to modify capacity as a function of market and economic trends, leveraging the strategic flexibility it has built up. In addition, the Iberia Group's financial strength equips it with the wherewithal to leverage potential capacity cutbacks by competitors and even possible sector restructuring if the macroeconomic environment deteriorates further.

The Company undertakes multiple risk control and management initiatives, establishing systems that enable it to identify, evaluate, manage and mitigate the main risks affecting its various businesses. Specifically, Iberia operates a global financial risk management programme designed to control and diminish the potential impact of swings in fuel prices, exchange rates and interest rates on its income statement. It has already locked in the vast majority of its forecast fuel requirements for the second half of the year with the aim of mitigating the prevailing sharp volatility in oil prices.

After the signature of the Collective Labour Agreement covering Iberia's ground staff and the extension of the agreement with flight attendants negotiations are also ongoing with representatives of technical crew workers to set the terms of the new agreement. The overriding objectives of these talks remain productivity increases and wage restraint. The 15th Collective Labour Agreement covering passenger cabin crew members has been renewed to the end of 2008.

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Iberia Group

Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2008

IBERIA GROUP

CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2008 AND 31 DECEMBER 2007

(Thousands of euros)

ASSETS	Notes	30/06/2008	31/12/2007
NON-CURRENT ASSETS:			
Intangible assets		**44.801**	**50.347**
Property, plant and equipment	**4**	**1.076.784**	**1.133.666**
Aircraft fleet		753.501	792.269
Other property, plant and equipment		323.283	341.397
Investments in associates		**17.818**	**15.693**
Other financial assets	**5**	**500.642**	**405.092**
Deferred tax assets		**492.190**	**481.307**
Other assets		**-**	**409**
Total non-current assets		**2.132.235**	**2.086.514**
CURRENT ASSETS:			
Inventories		**235.182**	**197.230**
Trade and other receivables		**880.512**	**720.123**
Financial assets	**5**	**1.425.137**	**859.769**
Other assets		**17.335**	**10.266**
Cash and cash equivalents		**1.578.205**	**2.142.931**
Total current assets		**4.136.371**	**3.930.319**
TOTAL ASSETS		**6.268.606**	**6.016.833**

EQUITY AND LIABILITIES	Notes	30/06/2008	31/12/2007
EQUITY:			
Share capital		**743.420**	**743.269**
Share premium		**119.635**	**119.472**
Reserves of the parent-		**920.276**	**817.293**
Legal reserve		148.654	147.898
Other reserves		1.404	1.404
Reserves generated due to IFRSs		127.448	129.114
Treasury shares		(61.793)	(19.101)
Voluntary reserves		811.596	646.976
Valuation adjustments		(107.033)	(88.998)
Reserves at fully consolidated companies		**(5.149)**	**(12.153)**
Reserves at consolidated accounted for using the equity method		**8.523**	**9.850**
Translation differences		**(615)**	**(533)**
Profit attributable to equity holders of the parent		**20.611**	**327.340**
Consolidated profit for the period		20.742	327.608
Profit attributable to minority interests		(131)	(268)
Equity attributable to equity holders of the parent		**1.806.701**	**2.004.538**
Minority interests		**1.335**	**1.330**
Total equity	**7**	**1.808.036**	**2.005.868**
NON-CURRENT LIABILITIES:			
Bank borrowings and other financial liabilities	**6**	**72.822**	**77.206**
Obligations under finance leases	**6**	**197.385**	**227.004**
Provisions	**8**	**1.348.946**	**1.376.997**
Deferred tax liabilities		**1.176**	**1.176**
Deferred income		**112.867**	**97.101**
Other liabilities	**6**	**181.188**	**116.592**
Total non-current liabilities		**1.914.384**	**1.896.076**
CURRENT LIABILITIES:			
Convertible debenture issue	**6**	**-**	**315**
Bank borrowings and other financial liabilities	**6**	**83.291**	**121.030**
Obligations under finance leases	**6**	**47.703**	**41.506**
Customer advances		**651.846**	**455.366**
Trade and other payables		**1.763.346**	**1.496.672**
Tax payables		267.033	161.302
Other liabilities		1.496.313	1.335.370
Total current liabilities		**2.546.186**	**2.114.889**
TOTAL EQUITY AND LIABILITIES		**6.268.606**	**6.016.833**

The accompanying explanatory notes 1 to 11 are an integral part of the interim condensed consolidated balance sheet at 30 June 2008.

IBERIA GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR

THE SIX MONTHS ENDED 30 JUNE 2008 AND 2007

(Thousands of euros)

	Share capital	Share premium	Adj. of share capital to euros	Reserves of the parent: Legal reserve	Reserves of the parent: Treasury shares	Reserves of the parent: Voluntary reserves	Reserves of the parent: Reserves generated due to IFRSs	Reserves of the parent: Other reserves	Reserves of the parent: Valuation adjustments	Reserves at consolidated companies: Fully consolidated	Reserves at consolidated companies: Equity method	Translation differences	Interim dividend	Profit	Total	Minority interests	Total equity
Balance at 31 December 2006	**739.492**	**115.405**	**1.201**	**147.133**	**(13.922)**	**595.684**	**164.913**	**203**	**(58.567)**	**(16.749)**	**6.260**	**(361)**	**-**	**56.725**	**1.737.417**	**1.179**	**1.738.596**
Distribution of profit:															-	-	-
To reserves	-	-	-	765	-	51.292	(36.664)	-	-	4.596	3.590	-	-	(23.579)	-	-	-
To dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	(33.146)	(33.146)	-	(33.146)
Capital increase	3.720	4.006	-	-	-	-	-	-	-	-	-	-	-	-	7.726		7.726
Translation differences	-	-	-	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Change in treasury shares	-	-	-	-	1.702	-	-	-	-	-	-	-	-	-	1.702	-	1.702
Net effect of hedging transactions	-	-	-	-	-	-	-	-	10.131	-	-	-	-	-	10.131	-	10.131
Net profit for the six months ended 30 June 2007	-	-	-	-	-	-	-	-	-	-	-	-	-	74.716	74.716	115	74.831
Change in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(127)	(127)
Other changes	-	-	-	-	-	-	865	-	-	-	-	-	-		865	-	865
Balance at 30 June 2007	**743.212**	**119.411**	**1.201**	**147.898**	**(12.220)**	**646.976**	**129.114**	**203**	**(48.436)**	**(12.153)**	**9.850**	**(362)**	**-**	**74.716**	**1.799.410**	**1.167**	**1.800.577**
Balance at 31 December 2007	**743.269**	**119.472**	**1.201**	**147.898**	**(19.101)**	**646.976**	**129.114**	**203**	**(88.998)**	**(12.153)**	**9.850**	**(533)**	**-**	**327.340**	**2.004.538**	**1.330**	**2.005.868**
Distribution of profit:																	
To reserves	-	-	-	756	-	164.620	(1.311)	-	-	7.004	(1.327)	-	-	(169.742)	-	-	-
To dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	(157.598)	(157.598)	-	(157.598)
Capital increase	151	163	-	-	-	-	-	-	-	-	-	-	-	-	314		314
Translation differences	-	-	-	-	-	-	-	-	-	-	-	(82)	-	-	(82)	-	(82)
Change in treasury shares	-	-	-	-	(42.692)	-	-	-	-	-	-	-	-	-	(42.692)	-	(42.692)
Net effect of hedging transactions	-	-	-	-	-	-	-	-	(18.035)	-	-	-	-	-	(18.035)	-	(18.035)
Net profit for the six months ended 30 June 2008	-	-	-	-	-	-	-	-	-	-	-	-	-	20.611	20.611	131	20.742
Change in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(126)	(126)
Other changes	-	-	-	-	-	-	(355)	-	-	-	-	-	-	-	(355)	-	(355)
Balance at 30 June 2008	**743.420**	**119.635**	**1.201**	**148.654**	**(61.793)**	**811.596**	**127.448**	**203**	**(107.033)**	**(5.149)**	**8.523**	**(615)**	**-**	**20.611**	**1.806.701**	**1.335**	**1.808.036**

The accompanying explanatory notes 1 to 11 are an integral part of the interim condensed consolidated statement of changes in equity for the six months ended 30 June 2008.

IBERIA GROUP

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND 2007

(Thousands of euros)

		(Debit) Credit	
	Notes	30/06/2008	30/06/2007
Revenue	11	**2.567.625**	**2.563.758**
Other operating income-		**122.585**	**103.608**
Recurring		102.758	102.846
Non-recurring		19.827	762
Procurements-		**(834.667)**	**(637.059)**
Recurring		(834.667)	(637.059)
Employee benefits expense-		**(675.616)**	**(689.342)**
Recurring		(675.616)	(685.342)
Non-recurring		-	(4.000)
Depreciation and amortisation expense		**(97.261)**	**(107.960)**
Other operating expenses-		**(1.096.543)**	**(1.173.604)**
Recurring		(1.095.115)	(1.166.293)
Non-recurring		(1.428)	(7.311)
Net gains (losses) on disposal of non-current assets	4	**22.858**	**39.211**
Impairment losses		**(2.712)**	**(9.149)**
RECURRING ORDINARY PROFIT		**(32.276)**	**69.950**
PROFIT FROM OPERATIONS		**6.269**	**89.463**
Finance income		65.112	50.522
Finance costs		(24.326)	(32.673)
Exchange gains (losses)		(3.132)	(472)
Share of profit (loss) of associates		(11.491)	994
Other income and expenses		(4.299)	152
PROFIT BEFORE TAX		**28.133**	**107.986**
Income tax expense		(7.391)	(33.155)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**20.742**	**74.831**
Attributable to:			
Equity holders of the parent		20.611	74.716
Minority interests		131	115
BASIC EARNINGS PER SHARE (euros)		**0,022**	**0,079**
DILUTED EARNINGS PER SHARE (euros)		**0,022**	**0,079**

The accompanying explanatory notes 1 to 11 are an integral part of the interim condensed consolidated income statement for the six months ended 30 June 2008.

IBERIA GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND 2007

(Thousands of euros)

	(Debit) / Credit	
	30/06/2008	30/06/2007
CONSOLIDATED PROFIT FOR THE PERIOD	20.742	74.831
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		
Revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets	-	-
From measurement of financial instruments:		
Available-for-sale financial assets	(5.279)	-
Other income/(expenses)	-	-
From cash flow hedges	(53.170)	(5.244)
Translation differences	-	-
From actuarial gains and losses and other adjustments	-	-
Companies accounted for using the equity method	-	-
Other income and expenses recognised directly in equity	-	-
Tax effect	17.535	1.704
	(40.914)	(3.540)
TRANSFERS TO THE INCOME STATEMENT		
From measurement of financial instruments:		
Available-for-sale financial assets	-	-
Other income/(expenses)	-	-
From cash flow hedges	32.450	20.251
Translation differences	82	1
Companies accounted for using the equity method	-	-
Other income and expenses recognised directly in equity	-	-
Tax effect	(9.735)	(6.581)
	22.797	13.671
TOTAL RECOGNISED INCOME/(EXPENSES)	(18.117)	10.131
a) Attributable to equity holders of the parent	(18.117)	10.131
b) Attributable to minority interests	-	-

The accompanying explanatory notes 1 to 11 are an integral part of the interim condensed consolidated statement of recognised income and expense for the six months ended 30 June 2008.

IBERIA GROUP

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND 2007

(Thousands of euros)

	30/06/2008	30/06/2007
1. OPERATING ACTIVITIES:		
Consolidated profit before tax	28.133	107.986
Adjustments for-		
Depreciation and amortisation expense and impairment losses	99.973	117.111
Provisions (net) (+/-)	40.302	48.245
Provisions used (-)	(67.684)	(76.983)
Gains/(losses) on disposal of property, plant and equipment and intangible assets (+/-)	(22.137)	(39.210)
Gains/(losses) on disposal of investments (+/-)	-	-
Share of profit (loss) of associates (+/-)	11.491	(994)
Gains/(losses) on hedging transactions (+/-)	4.264	(879)
Effect of foreign exchange rate changes that do not generate cash flow	952	783
Other cash flow adjustments (+/-)	(2.274)	(76)
Adjusted profit	**93.020**	**155.983**
Net change in assets/(liabilities) that do not generate cash flow	**23.713**	**173.336**
Taxes paid	**(8.251)**	**(27.952)**
Total net cash flows from operating activities (I)	**108.482**	**301.367**
2. INVESTING ACTIVITIES:		
Net investment-		
Net investment in Group companies, jointly controlled entities and associates	(33.706)	(8.832)
Net investment in property, plant and equipment, intangible assets and investment property	714	22.557
Net investment in non-current financial assets	(100.184)	47.527
Net investment in investments and other current financial assets	(380.274)	(490.433)
Net investment in other assets	7.704	40.045
	(505.746)	**(389.136)**
Dividends and interest received (+)	**83.677**	**44.623**
Total net cash used in investing activities (II)	**(422.069)**	**(344.513)**
3. FINANCING ACTIVITIES:		
Dividends paid (-)	**(137.441)**	**-**
Change in bank borrowings (+/-)	**(49.180)**	**(35.136)**
Payment of interest on borrowings (-)	**(9.933)**	**(18.209)**
Other payables	**(13.339)**	**186**
Capital increase	**1.397**	**7.726**
Net change in treasury shares (+/-)	**(42.643)**	**1.702**
	(251.139)	**(43.731)**
Total net cash used in financing activities (III)	**(251.139)**	**(43.731)**
5. NET DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	**(564.726)**	**(86.877)**
Cash and cash equivalents at the beginning of the period	**2.142.931**	**963.731**
Cash and cash equivalents at the end of the period	**1.578.205**	**876.854**

The accompanying explanatory notes 1 to 11 are an integral part of the interim condensed consolidated cash flow statement for the six months ended 30 June 2008.

Explanatory notes to the interim condensed consolidated financial statements for the six months ended 30 June 2008

1. Corporation information, basis of presentation of the interim condensed consolidated financial statements and other information

a) *Corporate information*

Iberia, Líneas Aéreas de España, S.A. engages mainly in the air transport of passengers and freight. It also performs other complementary 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 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 been listed on the stock market.

The Group's consolidated annual financial statements for 2007 were approved by shareholders at the Annual General Meeting held 29 May 2008.

b) *Basis of presentation of the interim condensed consolidated financial statements*

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002, all companies governed by the law of an EU Member State whose securities are listed on a regulated market of any Member State, must present their consolidated financial statements for the years beginning on or after 1 January 2006 in conformity with the International Financial Reporting Standards (IFRSs) adopted previously by the European Union.

The consolidated financial statements for 2007 were prepared by the Company's directors in accordance with IFRSs as adopted by the European Union, taking into account the consolidation principles, accounting policies and measurement bases described in Note 5 of the notes to those consolidated financial statements, 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 its consolidated equity and its consolidated cash flows in the year then ended.

The accompanying interim condensed consolidated financial statements are presented in accordance with IAS 34 *Interim Financial Reporting* and have been prepared by the Group's directors on 29 July 2008 in accordance with Article 12 of Royal Decree 1362/2007.

In accordance with IAS 34, the interim financial report is designed to provide an explanation of changes in the content of the latest set of consolidated annual financial statements, mainly new businesses, events or circumstances appearing in the interim period, and not a repeat of annual disclosures. Therefore, for a better understanding of the information included in these interim financial statements, they should be read in conjunction with the Group's annual financial statements as at 31 December 2007.

The accounting policies and methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption in the first half of 2008 of the new Standards and Interpretations noted below:

New effective accounting standards

In the first half of 2008, IFRIC 11 IFRS 2: Group and Treasury Share Transactions became effective, but was not applied in the accompanying interim condensed consolidated financial statements.

In addition, another two interpretations of IFRSs became effective (IFRIC 12 Service Concession Arrangements and IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) but were not applied by the Group as not only do they not affect the Group, but they had not been adopted by the

European Union as at the date of presentation of the accompanying interim condensed consolidated financial statements.

All accounting principles and measurement bases with a significant effect on the preparation of the interim condensed consolidated financial statements were applied.

c) Use of estimates

The consolidated results and determination of consolidated equity depend on the accounting principles and policies, measurement bases and estimates made by the directors of the parent company in the preparation of the interim condensed consolidated financial statements. The accounting policies and measurement bases are indicated in Note 5 of the notes the consolidated annual financial statements for 2007.

In the interim condensed consolidated financial statements, estimates were occasionally made by the senior managers of the parent company and of the consolidated companies in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, based on the best information available, relate basically to the following:

1. Income tax expense which, in accordance with IAS 34, should be recognised based on the best estimate of the weighted average annual income tax rate the Group expects for the full financial year.

2. The assessment of potential impairment losses on certain assets.

3. The assumptions used in the actuarial calculation of the liabilities for obligations to employees.

4. The useful life of property, plant and equipment and intangible assets.

5. The methods used to measure certain assets.

6. The amount of tickets and traffic documents sold that will not finally be used.

7. The calculation of the accrued liability at the reporting date in relation to the value of the unused points granted to holders of “Iberia Plus” loyalty cards.

8. The calculation of provisions.

Although these estimates were made on the basis of the best information available at 30 June 2008 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) at year-end 2008 or subsequent years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statement.

In the six-month period ended 30 June 2008, there were no significant changes to the estimates made as at 31 December 2007.

d) Provisions and contingent liabilities

Note 14 in the notes to the Group’s consolidated financial statements for the year ended 31 December 2007 provides information on provisions and contingent liabilities at that date. In the first six months of 2008, there were no significant changes other than those disclosed in these notes (see Note 8).

e) Comparative information

The information contained in the accompanying interim condensed consolidated financial statements for the six months ended 30 June 2007 are presented exclusively for comparison with the six-month period ended 30 June 2008.

f) Seasonality of Group operations

Given the businesses of the companies comprising the Group, its transactions are seasonal in nature. This seasonality is decreasing due to the growth of the parent company as a global carrier, with leisure travel accounting for an increasingly smaller and business and other travel an increasingly larger percentage of the total.

g) Relative significance

To determine the disclosures in the notes of the various income statement items or other issues, the Group, in accordance with IAS 34, has considered the significance in relation to the interim condensed consolidated financial statements for the six-month period.

h) Events after the balance sheet date

Between 30 June 2008 and the date of preparation of the interim consolidated financial statements, the only relevant event was the signing of the memorandum of understanding to begin the merger process between Clickair, S.A. and Vueling Airlines, S.A.

i) Condensed consolidated cash flow statement

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 companies and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents.

4. Financing activities: activities that alter the equity capital and borrowing structure of the Company and that are not operating activities.

2. Changes in Group structure

Note 2 in the notes to the Group's consolidated financial statements for the year ended 31 December 2007 provides information on the Group companies that were consolidated at that date and on companies consolidated using the equity method.

In the first six months of 2008, there were no changes in the scope of consolidation.

3. Dividends paid by the parent company

a) Dividends paid by the parent company

The following dividends were paid by the parent company in the first six months of 2008 and 2007:

	First half of 2008			First half of 2007 (*)		
	% of par value	Euros per share	Amount (thousands of euros)	% of par value	Euros per share	Amount (thousands of euros)
Ordinary shares	97.3%	0.17	157,598	-	-	-
Treasury shares	2.7%	-	-	-	-	-
Total dividends paid	-	-	**157,598**	-	-	-
Dividends taken to profit	-	-	157,598	-	-	-
Dividends taken to reserves or share premium	-	-	-	-	-	-
Dividends in kind	-	-	-	-	-	-

(*) approved dividend payments out of 2006 profit were made in July 2007.

b) *Earnings per share*

Basic earnings per share

Basic earnings per share is calculated by dividing net profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding, excluding the average number of treasury shares held, during the period.

Accordingly, the basic earnings per share for the six months ended 30 June 2008 and 2007 are as follows:

	30-06-2008	30-06-2007
Profit attributable to equity holders of the parent (thousands of euros)	20,611	74,716
Weighted average number of shares outstanding (thousands of shares)	933,491	943,790
Basic earnings per share (euros)	**0.022**	**0.079**

Diluted earnings per share

Diluted earnings per share are calculated by dividing net profit attributable to equity holders of 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 the end of the year had been converted into ordinary shares of the parent.

Accordingly, diluted earnings per share was determined as follows:

	30-06-2008	30-06-2007
Profit attributable to equity holders of the parent (thousands of euros)	20,611	74,716
Average number of shares outstanding (thousands of shares)	933,491	943,790
Dilutive effect of:		
Adjusted profit for the calculation of diluted earnings per share (thousands of euros)	20,611	74,696
Adjusted average number of shares for the calculation of diluted earnings per share (thousands of shares)	933,589	947,006
Diluted earnings per share (euros)	**0.022**	**0.079**

4. Property, plant and equipment

a) *Acquisitions and disposals - Aircraft*

In the first six months of 2008, the parent company sold two A-320 aircraft that had been purchased previously in the same year and that it had never brought into service. These aircraft were sold to banks, with the EUR 20 million of gains recognised under “Net gains (losses) on disposal of non-current assets”.

An engine was also acquired, at a cost of EUR 4 million.

Five MD-87 aircraft were disposed of during the period. As a result of these disposals, the Group recognised a gain of approximately EUR 3 million under “Net gains (losses) on disposal of non-current assets” in the consolidated income statement.ç

b) *Impairment losses*

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 main allowances recorded are as follows:

Aircraft	Thousands of euros	
	Balance at 30-06-08	Balance at 31-12-07
B-747	62,652	62,652
MD	60,300	71,903
Other	4,335	4,335
	127,287	138,890

The net carrying amount of B-747 aircraft is zero, while MD aircraft is measured at their estimated realisable value since they are earmarked for disposal in 2008.

c) *Obligations and other guarantees on aircraft*

The parent company uses two aircraft under finance leases and four under operating leases. The lease payments, together with the aircraft, guarantee repayment of a bond issue launched by the lessor in the European market in 2000. At 30 June 2008, EUR 92 million of the bonds had not yet been repaid.

In addition, the parent guarantees the use of 20 aircraft under operating or finance leases for periods of between 9 and 14 years vis-à-vis the subscribers of a bond issue, with outstanding amounts at 30 June December 2007 of USD 108 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 aircraft. The aircraft not yet delivered at 30 June 2008 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	2	-	-	-	2
A-320	-	2	9	1	12
A-330	-	-	1	-	1
A-340-600	-	3	2	-	5
	2	**5**	**12**	**1**	**20**

Based on the basic prices established in the agreements, the total cost of the aircraft subject to firm purchase commitments not yet delivered at 30 June 2008 amounted to approximately EUR 1,353 million.

In addition, the parent has options on six A-340-600 aircraft and 29 A-320 type aircraft (including contingent options).

Commitments acquired by the parent company to add these aircraft entailed EUR 162 million of prepayments recognised under “Other non-current financial assets” in the consolidated balance sheet (see Note 5).

d) Aircraft in service

Following is a summary of the Group's aircraft in service at 30 June 2008:

Type of aircraft	Owned	Under finance lease	Under operating lease	Under wet lease (a)	Total
B-757 (b)	-	-	-	-	-
A-319	-	-	22	-	22
A-320	10	6	31	-	47
A-321	-	4	14	1	19
A-340-300	5	-	13	3	21
A-340-600	-	-	12	-	12
MD-87(c)	-	-	-	-	-
MD-88	7(d)	-	-	-	7
	22	**10**	**92**	**4**	**128**

(a) Lease type which includes the aircraft, maintenance and insurance.
(b) Excluding one aircraft subleased to Privilege Style, S.A. and an aircraft grounded in the process of being returned.
(c) Excluding seven aircraft being reconfigured prior to their disposal.
(d) Excluding four aircraft being reconfigured prior to their disposal.

e) Aircraft operated under operating lease and wet lease contracts

In the first six months of 2008, three A-319, one A-320 (previously subleased to Compañía Mexicana de Aviación) and two A-340-300 (previously operated under a wet lease contract) aircraft were added under operating lease. In addition, the wet lease contracts for two B-757 aircraft were cancelled, while the operating lease under which an A-321 aircraft was operated in 2007 was converted into a wet lease.

An A-340-600 aircraft, which was grounded at 31 December 2007, was returned to the lessor. The settlement received by the insurance company gave rise to income of EUR 13 million, recognised under “Other operating income – Non-recurring” in the consolidated income statement.

The following table presents a summary of the expiry dates of the aircraft operating leases:

Aircraft	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Number of Aircraft
A-319	-	-	-	-	6	10	3	-	-	-	-	3	22
A-320	-	3	1	1	2	6	2	2	5	-	-	9	31
A-321	-	-	-	-	-	1	-	1	3	2	1	6	14
A-340-300	1	2	3	1	3	-	2	1	-	-	-	-	13
A-340-600	-	-	-	-	-	-	-	3	2	3	4	-	12
Total	**1**	**5**	**4**	**2**	**11**	**17**	**7**	**7**	**10**	**5**	**5**	**18**	**92**

The preceding table includes six A-320, four A-319 and two A-340 aircraft leased from International Lease Finance Corporation. As a result of the execution of this contract, the parent has deposited made deposits of EUR 7 million to guarantee the transaction, recognised under “Other financial assets (non-current)” in the consolidated balance sheet at 30 June 2008.

The estimated total amount of the future payments on the operating leases of these aircraft is EUR 2,080 million.

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.

f) Assets held under finance lease

At 30 June 2008, there were items of property, plant and equipment acquired under finance lease, basically aircraft, for a total cost of EUR 385 million and accumulated depreciation of EUR 97 million (cost of EUR 384 million and accumulated depreciation of EUR 88 million at 31 December 2007).

g) 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 fully covered by the related depreciation and the impairment losses and provisions recognised.

5. Financial assets

a) Detail

The detail of the Group's financial assets at 30 June 2008 and 31 December 2007, by nature and classification for measurement purposes, is as follows:

	Thousands of euros					
	30-06-2008					
Financial assets: Nature / Classification	Financial assets held for trading	Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging instruments
Equity instruments	-	-	112,714	-	20,846	-
Debt securities	-	-	-	-	244	-
Derivatives	-	-	-	-	3,493	59,571
Other financial assets-						
Loans and receivables	-	-	-	126,545	-	-
Deposits and guarantees	-	-	-	-	177,229	-
Long-term / non-current	-	-	**112,714**	**126,545**	**201,812**	**59,571**
Equity instruments	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Derivatives	-	-	-	-	-	21,170
Other financial assets	-	-	-	-	1,403,967	-
Short-term / current	-	-	-	-	**1,403,967**	**21,170**
Total	-	-	**112,714**	**126,545**	**1,605,779**	**80,741**

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Financial assets: Nature / Classification	Thousands of euros					
	31-12-2007					
	Financial assets held for trading	Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging instruments
Equity instruments	-	-	17,891	-	24,930	-
Debt securities	-	-	-	-	244	-
Derivatives	-	-	-	-	2,857	25,615
Other financial assets-						
Loans and receivables	-	-	-	116,418	-	-
Deposits and guarantees	-	-	-	-	217,137	-
Long-term / non-current	-	-	**17,891**	**116,418**	**245,168**	**25,615**
Equity instruments	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Derivatives	-	-	-	-	-	35,258
Other financial assets	-	-	-	-	824,511	-
Short-term / current	-	-	-	-	**824,511**	**35,258**
Total	-	-	**17,891**	**116,418**	**1,069,679**	**60,873**

In the first six months of 2008, the Company subscribed to two capital increases by Clickair, S.A., one in February and the other in May. The payment made by Iberia, Líneas Aéreas de España, S.A. in the period was EUR 36 million, of which approximately EUR 15 million entailed impairment losses. No other material impairment losses were recognised in the first half of 2008.

In addition, the parent acquired shares of British Airways amounting to EUR 95 million and long positions referenced to British Airways share price in the form of financial derivatives of EUR 215 with a view to M&A initiatives. The financial instruments that support the second ones are recorded in the Assets as “Current financial investments” and in the Liabilities as “Other liabilities”. The variations in the value of the aforementioned operations are recorded as “Valuation adjustments”.

6. Financial liabilities

a) Detail

The detail of the Group’s financial liabilities at 30 June 2008 and 31 December 2007, by nature and classification for measurement purposes, is as follows:

Financial liabilities: Nature / Classification	Thousands of euros			
	30-06-2008			
	Financial liabilities held for trading	Other financial liabilities at fair value through profit or loss	Loans and payables	Hedging instruments
Bank borrowings	-	-	270,206	-
Bonds and other marketable debt securities	-	-	-	-
Derivatives	-	-	-	179,608
Other financial liabilities	-	-	1,580	-
Long-term debt / Non-current financial liabilities	-	-	**271,786**	**179,608**
Bank borrowings	-	-	130,485	-
Bonds and other marketable debt securities	-	-	-	-
Derivatives	-	-	-	56,709
Other financial liabilities	-	-	215,122	-
Short-term debt / Current financial liabilities	-	-	**345,607**	**56,709**
Total	-	-	**617,393**	**236,317**

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Financial liabilities: Nature / Classification	Thousands of euros			
	31-12-2007			
	Financial liabilities held for trading	Other financial liabilities at fair value through profit or loss	Loans and payables	Hedging instruments
Bank borrowings	-	-	304,210	-
Bonds and other marketable debt securities	-	-	-	-
Derivatives	-	-	-	114,006
Other financial liabilities	-	-	2,586	-
Long-term debt / Non-current financial liabilities	**-**	**-**	**306,796**	**114,006**
Bank borrowings	-	-	162,536	-
Bonds and other marketable debt securities	-	-	315	-
Derivatives	-	-	-	82,848
Other financial liabilities	-	-	11,725	-
Short-term debt / Current financial liabilities	**-**	**-**	**174,576**	**82,848**
Total	**-**	**-**	**481,372**	**196,854**

7. Equity

The changes in the parent company's share capital in the first six months of 2008 are as follows:

	Number of shares	Par value (euros)
Number of shares and par value of share capital at 1 January 2008	952,908,815	0.78
Capital increase	194,193	0.78
Number of shares and par value of share capital at 30 June 2008	953,103,008	0.78

In the first half of 2008, the parent company increased capital by EUR 151,471 through the issuance of 194,193 ordinary shares of EUR 0.78 par value each, with a share premium of EUR 0.84 per share. The capital increase was held to carry out the conversion into shares of the same number of convertible bonds issued to cover the share option plan approved by the shareholders at the Annual General Meeting in 2002 for certain executive directors, senior managers and other employees.

At 30 June 2008, the shareholders of the parent company were as follows:

	30-06-08	
	Number of shares	Percentage of ownership
Caja de Ahorros y Monte de Piedad de Madrid	219,098,519	22.99
British Airways Holdings B.V.	125,321,425	13.15
Sociedad Estatal de Participaciones Industriales	49,212,526	5.16
El Corte Inglés, S.A.	32,151,759	3.37
B. Metzler seel. Sohn & Co	28,558,193	3.00
Other	498,760,586	52.33
	953,103,008	100.00

The changes in “Treasury shares” in the first six months of 2008 are as follows:

	30-06-08	
	Number of shares	Thousands of euros
At 1 January 2008	8,050,000	19,101
Additions	18,410,677	43,740
Disposals	(407,645)	(1,048)
At 30 June 2008	**26,053,032**	**61,793**

The treasury shares held by Iberia, Líneas Aéreas de España, S.A. at 30 June 2008 represent 2.73% of the share capital, with an aggregate par value of EUR 20 million. The average acquisition price of the shares of the parent held by the Group at 30 June 2008 was EUR 2.3718 per share. The average selling price of the shares of the parent in the first six months of 2008 was EUR 2.69 per share.

At 30 June 2008, the treasury shares of the parent held by the Group were intended for trading on the market.

The sale of shares of the parent, the only item included under “Disposals” in the preceding table, gave rise to gains of EUR 49,218, recognised as an increase in “Equity – Reserves generated due to IFRSs”.

8. Provisions and contingent liabilities

a) *Detail*

The detail of “Non-current provisions” is as follows:

	Thousands of euros	
	30-06-2008	31-12-2007
Provisions for contingencies and expenses		
Restructuring plans	*472,267*	*524,476*
Litigation and other	*138,691*	*147,324*
Provisions for obligations to employees	663,945	640,712
Provisions for major repairs	74,043	64,485
Provisions	**1,348,946**	**1,376,997**

b) *Restructuring plans*

The balance of this heading relates to the present value of the liabilities arising from the Collective Redundancy Procedure 72/01 (55 employees participating in the workforce rejuvenation plan launched in 2000 and 4,056 employees participating in the voluntary collective redundancy procedure). 90 employees signed up for the voluntary collective redundancy procedure in the first half of 2008.

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

c) Litigation

In the first half of 2008, there were no significant changes in litigation nor have any new lawsuits considered significant been brought against the Group.

The total amount of payments derived from litigation made the Group in the first six months of 2008 and 2007 does not have a material impact on the accompanying interim condensed consolidated financial statements.

9. Related parties

The Group considers as related parties its subsidiaries, associates and joint ventures, as well as the Company's key management personnel (members of its Board of Directors and Management Board and close members of their families), and entities over which its key management personnel has the ability to control or exercise significant influence.

The table below presents the related-party transactions carried out by the Group in the first six months of 2008 and 2007, distinguishing between significant shareholders, member of the Company's Board of Directors and Management Board and other related parties. Transactions with related parties are carried out on an arm's length basis and include the related compensation in kind.

	Thousands of euros				
	30-06-2008				
Expense and revenue	Significant shareholders	Directors and managers	People, companies or Group companies	Other related parties	Total
Expenses:					
Finance costs	2,739	-	-	-	**2,739**
Management or collaboration contracts	-	-	-	-	-
Transfers of R&D and licensing arrangements	-	-	-	-	-
Leases	-	-	-	-	-
Receipt of services	22,311	-	19,991	-	**42,302**
Purchase of goods (finished or in progress)	985	-	-	-	**985**
Valuation adjustments for uncollectible receivables or bad debts	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
	26,035	-	**19,991**	-	**46,026**
Revenue:					
Finance income	4	-	-	-	**4**
Management or collaboration contracts	-	-	-	-	-
Transfers of R&D and licensing arrangements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Services rendered	19,549	-	60,210	-	**79,759**
Sale of goods (finished or in progress)	-	-	-	-	-
Gains on derecognition or disposal of assets	-	-	-	-	-
Other revenue	-	-	-	-	-
	19,553	-	**60,210**	-	**79,763**

Other transactions	Thousands of euros 30-06-2008 Significant shareholders	Directors and managers	People, companies or Group companies	Other related parties	Total
Purchases of items of property, plant and equipment, intangible assets or other assets	2,165	-	-	-	**2,165**
Financing arrangements: loans and capital contributions (lender)	-	-	-	-	-
Finance leases (lessor)	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessor)	-	-	-	-	-
Sales of items of property, plant and equipment, intangible assets or other assets	-	-	-	-	-
Financing arrangements: loans and capital contributions (loanee)	80,729	-	-	-	**80,729**
Finance leases (lessee)	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessee)	-	-	-	-	-
Deposits and guarantees given	-	-	-	-	-
Deposits and guarantees received	46,403	-	-	-	**46,403**
Commitments assumed	-	-	-	-	-
Commitments/guarantees cancelled	-	-	-	-	-
Dividends and other earnings distributed	-	-	-	-	-
Other transactions	-	4,000	-	-	**4,000**

Expense and revenue	Thousands of euros 30-06-2007 Significant shareholders	Directors and managers	People, companies or Group companies	Other related parties	Total
Expenses:					
Finance costs	11,092	-	-	-	**11,092**
Management or collaboration contracts	-	-	-	-	-
Transfers of R&D and licensing arrangements	-	-	-	-	-
Leases	-	-	-	-	-
Receipt of services	18,481	-	22,245	-	**40,726**
Purchase of goods (finished or in progress)	1,291		-	-	**1,291**
Valuation adjustments for uncollectible receivables or bad debts	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	-	-	-	-	-
	30,864	**-**	**22,245**	**-**	**53,109**
Revenue:					
Finance income	230	-	-	-	**230**
Management or collaboration contracts	-	-	-	-	-
Transfers of R&D and licensing arrangements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Services rendered	10,449	-	31,729	-	**42,178**
Sale of goods (finished or in progress)	-	-	-	-	-
Gains on derecognition or disposal of assets	-	-	-	-	-
Other revenue	-	-	-	-	-
	10,679	-	**31,729**	**-**	**42,408**

Other transactions	Thousands of euros				
	30-06-2007				
	Significant shareholders	Directors and managers	People, companies or Group companies	Other related parties	Total
Purchases of items of property, plant and equipment, intangible assets or other assets	1,797	-	-	-	**1,797**
Financing arrangements: loans and capital contributions (lender)	-	-	-	-	-
Finance leases (lessor)	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessor)	-	-	-	-	-
Sales of items of property, plant and equipment, intangible assets or other assets	-	-	-	-	-
Financing arrangements: loans and capital contributions (loanee)	183,845	-	-	-	**183,845**
Finance leases (lessee)	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessee)	-	-	-	-	-
Deposits and guarantees given	-	-	-	-	-
Deposits and guarantees received	80,034	-	-	-	**80,034**
Commitments assumed	-	-	-	-	-
Commitments/guarantees cancelled	-	-	-	-	-
Dividends and other earnings distributed	-	-	-	-	-
Other transactions	-	6,303	-	-	**6,303**

10. Parent company directors' remuneration and other benefits

Note 23 in the notes to the Group's consolidated financial statements for the year ended 31 December 2007 details the existing agreements regarding remuneration and other benefits paid to members of the Company's Board of Directors and senior managers.

The highlights of this remuneration and benefits corresponding to the six-month period ended 30 June 2008 and 2007 are as follows:

	Thousands of euros	
	30-06-2008	30-06-2007
Members of the Board of Directors:		
Item-		
Fixed remuneration	390	307
Variable remuneration	-	
Attendance fees	434	343
By-law stipulated emoluments	-	
Transactions involving shares and/other financial instruments	-	
Other	31	53
	855	**703**
Other benefits-		
Advances	-	-
Loans granted	-	-
Pension plans and funds: contributions	-	-
Pension plans and funds: obligations assumed	-	-
Life insurance premiums	-	-
Guarantees given in respect of directors	-	-
Senior managers:		
Total remuneration paid to senior managers	2,190	2,843
	2,190	**2,843**

In addition, some directors hold executive positions in the parent, for which they received the following remuneration:

Executive directors	Thousands of euros	
	30-06-2008	30-06-2007
Fixed remuneration	346	315
Variable remuneration (a)	603	448
Compensation in kind	6	4
Options (b)	-	310
	955	**1,077**

(a) Relates to payments for achieving objectives for the year prior to that indicated in the column.
(b) Relates to payments made under the share option plan approved in 2003.

11. Segment information

Note 21 in the notes to the Group's consolidated financial statements for the year ended 31 December 2007 details the criteria followed by the Company in determining its operating segments. There have been no changes in its segmentation criteria.

Revenue and other operating income by geographic segment in the six months ended 30 June 2008 and 2007 are as follows:

Revenue and other operating income by Geographic segment	Millions of euros	
	30/06/2008	30/06/2007
Domestic	1,036,940	1,153,776
Medium-haul	758,464	744,546
Long-haul	874,979	768,282
	2,670,383	**2,666,604**

Con formato: Izquierda
Con formato: Izquierda
Con formato: Izquierda
Con formato: Izquierda

A reconciliation between segment and consolidated ordinary revenue in the six months ended 30 June 2008 and 2007 is as follows:

Ordinary revenue	Thousands of euros					
	30/06/2008			30/06/2007		
	External	Inter-segment	Total revenue	External	Inter-segment	Total revenue
Segments						
Transport	2,355,776	2,560	2,358,336	2,380,434	17,606	2,398,040
Airports	139,172	101,479	240,651	137,096	140,795	277,891
Maintenance	158,840	194,540	353,380	138,978	200,711	339,689
Corporate Unit and other businesses	16,595	186,433	203,028	10,096	158,849	168,945
(-) Adjustments and eliminations of inter-segment revenue	-	(485,012)	(485,012)	-	(517,961)	(517,961)
Total	**2,670,383**	-	**2,670,383**	**2,666,604**	-	**2,666,604**

A reconciliation between segment results and consolidated profit before tax for the six months ended 30 June 2008 and 2007 is as follows:

Operating profit	Thousands of euros	
	30/06/2008	30/06/2007
Segments		
Transport	(46,368)	65,764
Airports	(16,205)	(16,051)
Maintenance	21,965	17,344
Corporate Unit and other businesses	8,332	2,893
Total result of segments disclosed	**(32,276)**	**69,950**
(+/-) Unallocated results	71,900	37,042
(+/-) Share of profit (loss) of companies accounted for using the equity method	(11,491)	994
(+/-) Income tax	(7,391)	(33,155)
PROFIT BEFORE TAX	**20,742**	**74,831**