

Main figures (not audited) (a)

IBERIA GROUP € thousand	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2007	2006	%	2007	2006	%
Operating revenues	1.458.828	1.422.807	2,5	4.125.433	4.022.421	2,6
Operating costs	1.319.560	1.335.073	-1,2	3.916.214	3.948.936	-0,8
EBITDAR (b)	305.968	257.383	18,9	699.927	575.892	21,5
Operating Income EBIT (b)	139.268	87.734	58,7	209.219	73.486	184,7
Non recurring revenues and costs (net)	-63.701	11.158	n.m.	-74.251	10.750	n.m.
Net gains on disposals of non-current assets and impairment losses	35.437	-112	n.m.	65.473	-2.021	n.m.
Profit/loss from operating activities	111.003	98.780	12,4	200.441	82.215	143,8
Profit after taxes	148.175	75.557	96,1	223.006	66.318	236,3
Total shareholders' equity (c)	---	---	---	1.915.290	1.738.596	10,2
In-balance sheet net debt (c)	---	---	---	-2.286.736	-1.722.181	32,8
Adjusted net debt x 8 (c)	---	---	---	820.476	1.346.628	-39,1
ASK (million)	17.119	16.846	1,6	49.682	49.344	0,7
RPK (million)	14.653	14.065	4,2	40.758	39.361	3,5
Load factor (%)	85,6	83,5	2,1 p.	82,0	79,8	2,3 p.
Passenger revenues	1.082.527	1.052.305	2,9	3.028.615	2.974.113	1,8
Yield (€ cent)	7,39	7,48	-1,3	7,43	7,56	-1,7
Passenger Revenue / ASK (€ cent)	6,32	6,25	1,2	6,10	6,03	1,1
Operating revenue/ASK (€ cent)	8,52	8,45	0,9	8,30	8,15	1,9
Operating expense/ASK (€ cent)	7,71	7,93	-2,7	7,88	8,00	-1,5
Operating expense (ex fuel)/ASK (€ cent)	5,99	6,15	-2,6	6,22	6,26	-0,7

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) September 2007 v December 2006 (See notes page 13).

Number of shares as at 30-Sep-2007: 952,836,247; 31-Dec-2006: 948, 066,632.

Highlights

- IBERIA posted a profit after taxes of €148.2 million in the third quarter, almost doubling the profit obtained last year. The consolidated profit for the first nine months multiplied by more than three the one achieved in 2006.
- The operating margin grew by 3.4 percentage points to 9.5% in the third quarter of 2007, while the EBITDAR margin was up 2.9 points to 21%.
- ASK rose by 1.6% in the third quarter as a result of the increased capacity on long haul routes (7.5%) and the progress made in restructuring the short and medium haul network. The load factor continued improving (2.1 percentage points higher than in the third quarter of 2006) and reached 85.6%. Business Plus passengers grew a remarkable 16.9%.
- The unit operating cost was reduced by 2.7% year on year, improving the reductions recorded in the previous two quarters. It is important to highlight the good performance of personnel, ownership and traffic services.
- Average fleet utilisation increased by 5.1% in the third quarter and staff productivity improved by 10.1% with a 6.9% cut in the average headcount.
- Adjusted net debt was 39.1% lower than at year-end 2006.

Operating Statistics

IBERIA GROUP (a)	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2007	2006	%	2007	2006	%
SCHEDULED TRAFFIC						
Passengers (thousand)	7.216	7.354	-1,9	20.397	21.115	-3,4
Domestic	3.595	3.729	-3,6	10.430	11.132	-6,3
Medium Haul	2.490	2.593	-4,0	6.829	7.106	-3,9
Europe	2.318	2.436	-4,8	6.348	6.676	-4,9
Africa & Middle East	172	156	9,8	481	430	11,9
Long Haul	1.131	1.032	9,6	3.138	2.877	9,1
ASK (million)	17.119	16.846	1,6	49.682	49.344	0,7
Domestic	2.895	3.320	-12,8	8.781	10.152	-13,5
Medium Haul	4.249	4.246	0,1	12.511	12.624	-0,9
Europe	3.761	3.774	-0,3	11.023	11.260	-2,1
Africa & Middle East (b)	488	473	3,3	1.487	1.364	9,1
Long Haul	9.975	9.279	7,5	28.390	26.568	6,9
RPK (million)	14.653	14.065	4,2	40.758	39.361	3,5
Domestic	2.338	2.519	-7,2	6.628	7.334	-9,6
Medium Haul	3.435	3.421	0,4	9.246	9.369	-1,3
Europe	3.037	3.065	-0,9	8.126	8.378	-3,0
Africa & Middle East (b)	398	355	12,1	1.121	991	13,0
Long Haul	8.880	8.125	9,3	24.884	22.658	9,8
Load factor (%)	85,6	83,5	2,1 p.	82,0	79,8	2,3 p.
Domestic	80,7	75,9	4,9 p.	75,5	72,2	3,2 p.
Medium Haul	80,8	80,6	0,3 p.	73,9	74,2	-0,3 p.
Europe	80,7	81,2	-0,5 p.	73,7	74,4	-0,7 p.
Africa & Middle East (b)	81,6	75,2	6,4 p.	75,3	72,7	2,7 p.
Long Haul	89,0	87,6	1,5 p.	87,7	85,3	2,4 p.
CARGO (c)						
Cargo Tones	62.399	60.212	3,6	188.236	177.612	6,0
ATK (million)	441	432	2,2	1.265	1.218	3,9
RTK (million)	293	269	8,7	872	779	12,0
Load factor (%)	66,3	62,3	4,0 p.	68,9	63,9	5,0 p.
PASSENGER REVENUES						
Revenues (€ thousand)	1.082.527	1.052.305	2,9	3.028.615	2.974.113	1,8
Revenue / ASK (€ cent)	6,32	6,25	1,2	6,10	6,03	1,1
Revenue / RPK (€ cent)	7,39	7,48	-1,3	7,43	7,56	-1,7

(a) Iberia L.A.E. traffic

(b) Except South Africa, that is included in Long Haul

(c) 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

July – September

Total traffic of European network carriers grew slightly more than their capacity in the third quarter of 2007, the growth in both parameters being moderate in comparison with last year, although improving on the second quarter of this year.

Iberia also improved its passenger transport figures. According to the Director Plan 2006/08, the airline made further progress in the development of a strategy of network reinforcement and profitability improvement. This strategy is based on capacity growth on intercontinental flights and restructuring of short and medium haul operations, boosting connections at Madrid hub and adjusting the capacity of certain point-to-point routes from other airports. The **overall network** load factor thus improved by 2.1 percentage points year on year, to 85.6%, clearly higher than the levels obtained by most of the leading European network carriers and marking a new quarterly record within Iberia. The total revenue passenger kilometres (RPK) went up 4.2%, against a 1.6% increase in available seat kilometres (ASK). The growing weight of long haul traffic, which accounted for 60.6% of the total RPK in the period July-September 2007 (compared to 57.8% last year), caused a significant increase in the average stage length (6.2%).

Within the third quarter, the largest year-on-year growth in activity was recorded in July, partly due to the industrial action in July 2006 (the strike by the Spanish Airline Pilot Union and the illegal action of the handling staff at Barcelona airport), which forced Iberia to cancel more than 1,300 flights.

Passenger revenues on tickets actually flown grew by 2.9% year on year. The average revenue per ASK increased by 1.2%, boosted by the improved load factor, while the yield dropped by 1.3%. Both these indicators were adversely affected by the dollar devaluation against the euro and the afore-mentioned growth of the average stage length. Eliminating the exchange rate effect would give a year-on-year growth of 3.2% in the revenue per ASK and 0.7% in yield.

In the **long haul** sector, the load factor improved by 1.5 points year on year to 89.0%, as RPK went up 9.3% while capacity increased 7.5%. The total number of passengers increased by 9.6%, 16.9% in the case of Business Plus passengers producing a 4.6 point improvement in the load factor.

The largest growth in capacity in the third quarter was on North American routes, up 25.9% year on year, where new destinations were included (Boston since May and Washington since June) and the type of aircraft was changed on some of the weekly flights: replacement of the A340/300 aircraft (260 seats) with the A340/600 (which has 352 seats) on flights to Chicago. RPK increased by 26.7% while load factor improved by 0.5 points to 87.7%. In Central America, traffic grew by 6.1%, with a load factor of 88.5%, 2.6 points higher than last year. In South America, capacity and traffic grew by 8.6% and 8.0% respectively, thanks to the increased frequencies to Brazil and the use of larger capacity aircraft on flights to Argentina, maintaining the load factor above 90%.

Passenger revenues on the long haul network were up 14.4% year on year, boosted by the larger volume of traffic and the increase in yield (4.7%), pushed up by the sustained improvement in the class mix, although pulled down by the devaluation of the dollar. Unit revenues per ASK improved by 6.4% year on year, 9.7% without the adverse effect of exchange rates.

The load factor in the **medium haul** international sector was 80.8%, 0.3 percentage points higher than the level achieved in the third quarter of 2006. RPK increased by 0.4%, with a similar capacity to last year, as the company continued making major adjustments in the short and medium haul network.

ASK in **geographical Europe** fell by 0.3% as a result of the adjustments made on certain point-to-point connections. Capacity increased by 21.4% on flights to and from Madrid. Traffic dropped by 0.9% on all European flights and the corresponding load factor was down 0.5 points to 80.7%. By countries, capacity increased considerably in Turkey and Russia, in the latter case following the launching of the new route to Saint Petersburg and the increased frequency of flights to and from Moscow. In **Africa and the Middle East**, capacity and traffic increased by 3.3% and 12.1%, respectively, while the load factor improved by 6.4 points to 81.6%.

All in all, unit revenues per ASK fell by 4.0% year on year on medium haul flights, adversely affected by the growth of the average stage length in this sector (4.6%), the devaluation of the dollar (with an adverse effect of 1.4 points) and the strong competition on EU markets, especially due to the expansion of low cost carriers in Spain.

In the **domestic** sector Iberia has pursued its strategy of focusing on improving profitability through a selective reduction of capacity. Overall capacity was cut by 12.8% year on year, while increasing ASK by 2.7% on flights to and from Madrid-Barajas. Unit revenues per ASK rose 7.1% year on year, with a 4.9 point improvement in the load factor to 80.7%.

Cargo maintained a good performance in the third quarter 2007. The load factor improved by 4.0 percentage points, while the revenue tonne kilometres (RTK) was up 8.7% on last year to €293 million. Of this amount, 93.2% was carried in the bellies of passenger aircraft and 83.8% on Atlantic routes.

January – September

Total load factor improved 2.3 percentage points to 82% in the **first nine months** of 2007, 1.7 points above the average improvement of 0.6 points recorded by the airlines in the *Association of European Airlines* (AEA). Iberia's RPK increased by 3.5% year on year, against a 0.7% growth in capacity. The largest growth in activity was in the long haul sector and this fact led to a 7.2% growth in the average stage length. The passenger revenues on tickets actually flown up to September 2007 went up by 1.8% year on year, mainly due to the considerable growth in long haul traffic. The greater average stage length and the devaluation of the dollar against the euro produced an adverse effect on the yield, which dropped 1.7%, and on the unit revenue per ASK, which increased by just 1.1%. With constant exchange rates, the yield would have increased by 0.3% and revenue/ASK 3.2%.

In the **long haul** sector, RPK rose 9.8% over 9M2006, with a 6.9% growth in capacity, raising the load factor by 2.4 points to 87.7%. The class mix improved in all the long haul sub-sectors, especially Central America. This contributed towards the 5.8% yield improvement throughout the sector, with a 16.2% growth in passenger revenues and 8.8% in unit revenue per ASK (12.3% without the exchange rate effect).

In North America, demand increased 17.4% year on year while capacity went up 16.1% and consequently load factor raised by one percentage point to 86.1%. The load factor also improved on Central American flights (2.8 points) and in South America (1.8 points), in the latter case rising to 89%, with remarkable growth in both capacity (17.4%) and traffic (19.9%).

On **medium haul** international flights, the load factor was 73.9%, slightly down on 9M2006., produced by a 1.3% slide in traffic and 0.9% in capacity. The network restructuring continued and the number of ASK on European flights to and from the Madrid hub increased by 15.6%. The average revenue per ASK dropped 3.9% as a result of the high competition on EU destinations, together with the dollar devaluation and the growth of the average stage length in this sector (2.7%).

The company made several capacity adjustments in the **domestic** sector over the first nine months of 2007, reducing the ASK by 13.5% year on year. Unit revenue per ASK rose 4.3%, with a 3.2 point improvement in the load factor, to 75.5%.

Consolidated Statements of Income (not audited) (a)

€ thousand	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2007	2006	%	2007	2006	%
Profit/loss from operations (b)	111.003	98.780	12,4	200.441	82.215	143,8
Revenues from operating activities	1.459.615	1.438.712	1,5	4.126.981	4.092.570	0,8
Net sales	1.399.034	1.369.411	2,2	3.962.792	3.874.271	2,3
Passenger revenue (c)	1.153.625	1.115.907	3,4	3.249.979	3.169.768	2,5
Cargo revenue	82.142	79.449	3,4	246.849	234.574	5,2
Handling	77.959	105.088	-25,8	206.912	252.514	-18,1
Technical assistance to airlines	64.958	52.050	24,8	196.070	154.984	26,5
Other revenues	20.350	16.918	20,3	62.983	62.431	0,9
Other operating revenues	60.581	69.301	-12,6	164.189	218.299	-24,8
Recurring	59.794	53.395	12,0	162.640	148.150	9,8
Non-recurring	787	15.906	-95,1	1.548	70.149	-97,8
Costs from operating activities	1.384.048	1.339.820	3,3	3.992.013	4.008.335	-0,4
Procurements	350.376	345.988	1,3	987.434	1.039.912	-5,0
Aircraft fuel	294.674	299.127	-1,5	827.259	859.719	-3,8
Aircraft spare parts	46.139	35.651	29,4	130.495	147.104	-11,3
De los que: No recurrentes	-	-	n.a.	-	26.415	n.a.
Catering materials	5.619	6.255	-10,2	17.393	17.815	-2,4
Other purchases	3.943	4.956	-20,4	12.287	15.274	-19,6
Personnel expenses	397.372	351.602	13,0	1.086.714	1.077.135	0,9
of which: Non recurring	57.000	-	n.a.	61.000	25.800	136,4
Depreciation and amortization	54.420	55.300	-1,6	162.381	161.357	0,6
Other operating costs	581.881	586.930	-0,9	1.755.485	1.729.931	1,5
Aircraft leases	112.280	114.350	-1,8	328.327	341.049	-3,7
Dry lease	96.881	99.046	-2,2	280.149	294.772	-5,0
Wet lease	11.323	12.501	-9,4	37.255	37.004	0,7
Cargo lease	4.075	2.804	45,3	10.923	9.273	17,8
Other rentals	19.437	18.878	3,0	55.607	55.235	0,7
Fleet maintenance (subcontracts)	56.616	46.458	21,9	184.320	129.157	42,7
of which: Non recurring	3.000	-	n.a.	8.398	1.000	n.m.
Commercial expenses	60.829	62.797	-3,1	179.298	186.356	-3,8
Traffic services	113.802	119.460	-4,7	346.811	346.086	0,2
Navigation charges	69.456	72.614	-4,3	209.031	215.760	-3,1
In flight services	20.166	18.329	10,0	56.662	50.390	12,4
Booking systems	32.608	33.098	-1,5	114.986	117.819	-2,4
Insurance	4.620	7.322	-36,9	14.085	23.331	-39,6
Other expenses	92.068	93.625	-1,7	266.356	264.747	0,6
of which: Non recurring	4.488	4.748	-5,5	6.402	6.184	3,5
Net gains on disposals of non-current assets	35.437	-112	n.m.	74.648	-2.021	n.m.
Impairment losses (d)	-	-	n.a.	9.175	-	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) An item of 26,000€ recorded in the 2H2007 report in "Income from variation of non-financial assets" has been reclassified in the third quarter, now included in "Impairment losses".

€ thousand	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2007	2006	%	2007	2006	%
Financial results	106.254	6.195	n.m.	123.808	5.759	n.m.
Financial revenues	123.572	22.607	n.m.	174.094	53.556	225,1
Financial expenses	15.830	14.797	7,0	48.503	44.971	7,9
Exchange gains/losses	-1.532	-1.805	15,1	-2.003	-1.742	-15,0
Other revenues and expenses	43	190	-77,2	220	-1.084	120,3
Share of results of associates	1.097	1.803	-39,1	2.091	3.626	-42,3
Profit before taxes	218.355	106.778	104,5	326.341	91.600	256,3
Taxes	-70.179	-31.221	-124,8	-103.335	-25.282	n.m.
Profit after taxes	148.175	75.557	96,1	223.006	66.318	236,3
Attributable to shareholders of the parent company	148.134	75.524	96,1	222.849	66.180	236,7
Attributable to minority interests	42	32	29,7	157	138	13,2
Basic earnings per share (euros)	0,157	0,081	93,0	0,236	0,071	231,1
Diluted earnings per share (euros)	0,157	0,081	93,0	0,235	0,071	233,0

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

Average weighted n° of shares 3rd quarter: 946,250,196 in 2007 and 931,015,130 in 2006; nine months: 945,669,871 in 2007 and 929,843,866 in 2006.

KPI (not audited) (a)

IBERIA GROUP	3 rd Quarter (Jul – Sep)			Accumulated (Jan – Sep)		
	2007	2006	%	2007	2006	%
Unit Ratios (€ cent/ASK) (Recurring)						
OPERATING REVENUE	8,52	8,45	0,9	8,30	8,15	1,9
OPERATING COST	7,71	7,93	-2,7	7,88	8,00	-1,5
Fuel	1,72	1,78	-3,1	1,67	1,74	-4,4
Fleet maintenance	0,58	0,49	19,5	0,62	0,50	22,3
Spare parts	0,27	0,21	27,4	0,26	0,24	7,4
Maintenance (subcontracts)	0,31	0,28	13,6	0,35	0,26	36,3
Personnel	1,99	2,09	-4,7	2,06	2,13	-3,1
Aircraft lease	0,66	0,68	-3,4	0,66	0,69	-4,4
Commercial	0,36	0,37	-4,7	0,36	0,38	-4,4
Traffic services	0,66	0,71	-6,3	0,70	0,70	-0,5
Navigation charges	0,41	0,43	-5,9	0,42	0,44	-3,8
In-flight services and catering materials	0,15	0,15	3,2	0,15	0,14	7,8
Rest (b)	1,18	1,24	-4,3	1,25	1,28	-2,6
Iberia fleet maintenance (c)	0,69	0,65	5,8	0,70	0,63	10,6
Net commercial cost / traffic passenger and cargo revenue (%) (d)	3,2	3,5	-0,3 p.	3,4	3,7	-0,3 p.
Productivity						
Average fleet utilization (block hours/aircraft/	9,6	9,0	5,7	9,5	9,1	5,1
Annual average headcount (e)	22.803	24.484	-6,9	22.631	24.258	-6,7
ASK / Employee	751	688	9,1	2.195	2.034	7,9
Ground	992	897	10,5	2.921	2.693	8,5
Ground (without handling)	2.056	1.925	6,8	5.906	5.512	7,1
Block hours / Technical crew (f)	70,7	70,0	1,0	206,4	205,2	0,6
Block hours / Flight attendant (f)	31,0	30,3	2,3	90,8	90,0	0,9
Operating revenue per employee (€ thousand) (f)	64,0	58,1	10,1	182,3	165,8	9,9
Ebitdar margin (%)	21,0	18,1	2,9p	17,0	14,3	2,7p

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

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

(c) Unit fleet maintenance cost of Iberia (excluding costs for third party services) (€ cents per ASK) includes labour, spare parts, subcontracts, etc.

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

(e) 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.

(f) Productivity data calculated according to the annual average headcounts obtained with the new criteria (see note (e)). The 2006 figures have been recalculated to facilitate comparison.

Revenues from operating activities

July - September

Third quarter **operating revenues** were up 2.5% year on year to €1,458.8 million. Almost 85% of that figure (€1,235.8 million) corresponded to passenger and cargo revenues, both items recording the same year-on-year growth of 3.4%. The aggregate amount of other revenues (€223.1 million) was down 1.9% on 2006 due to a €27.1 million drop in handling revenues, although this was largely offset by the increases in maintenance revenues (€12.9 million more than last year) and other operating revenues (up €9.8 million overall).

Passenger revenues totalled €1,153.6 million, up €37.7 million on 3Q2006. Passenger revenues on tickets actually flown during the period totalled €1,082.5 million, €30.2 million more than in the same period of 2006, 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 €7.5 million to €71.1 million.

Cargo revenues grew by €2.7 million year on year, boosted by the significant increase in traffic (8.7%), the effect of which was partly counteracted by the drop in average revenue/RTK (-4.5%), caused by the growth in the average stage length (4.9%) and the devaluation of the dollar against the euro.

The award of a larger number of handling licences at Spanish airports and the effective incorporation of the new operators as from February has given rise to a sharp increase in competition on the Spanish handling market. Against this backdrop, Iberia's **handling** revenues dropped 25.8% year on year to €78 million, due largely to the smaller volume of activity for third parties, partly accompanied by a reduction in unit revenue.

Technical assistance revenues totalled €65 million in the third quarter of 2007, up 24.8% year on year, largely due to the considerable increase in revenues from engine overhauls, especially on RB211 and CFM56.

Other revenues increased by 20.3%, with particularly strong growth in revenues from services at cargo terminals and revenues from use of booking systems.

Other recurrent operating revenues went up 12%, mainly due to the recording in "Other revenues" of the recovery of expenses corresponding to the assignment of employees to the Joint Venture providing the handling services at Barcelona airport.

Non-recurrent revenues were €15.1 million down on 3Q2006, owing to the inclusion last year of the €14.7 million capital gain obtained on the sale of Iberia's stake in Musini (former SEPI insurance company). Revenues from operating activities, both recurrent and non-recurrent, increased by 1.5% year on year.

January - September

In the first nine months of 2007, revenues from operating activities totalled €4,127 million, up 0.8% on the same period of last year. Excluding non-recurrent items, operating revenues recorded a year-on-year growth of 2.6%, to €4,125.4 million.

Total **passenger** revenues increased 2.5% (€80.2 million) year on year, to €3,250 million. Revenues on tickets actually flown during the period grew by €54.5 million (1.8%), while the aggregate amount of other passenger revenues increased by €25.7 million (13.1%), partly due to the growth of revenues from cancellation of advance payments in issued but unused tickets.

Cargo revenues were up 5.2%, boosted by the larger volumes of cargo and post carried (up 12%), the effect of which was partly dampened by the drop in average revenue/RTK (-5.7%), affected by the 5.7% growth in the average stage length and devaluation of the dollar.

Handling revenues fell by 18.1%, due to the reduction of handling services for third parties and the lower unit revenue. **Technical assistance** revenues increased by 26.5% to €196.1 million, boosted by the increased workload at the engine shop and, to a lesser extent, aircraft overhauls and work on components for third parties.

Other recurrent operating revenues increased 9.8%, due mainly to the recording since March 2007 of revenues from the assignment of staff to the joint venture at Barcelona airport (€13.7 million). **Non-recurrent** revenues dropped by €68.6 million, owing to the inclusion last year, among other items, of the recovery of the depreciation provision for engine reparable (€53.3 million).

Costs from operating activities

July - September

In the third quarter, **costs from operating activities** increased by 3.3% year on year, due to the growth of **non-recurrent** expenses, which amounted to €64.5 million in 2007, against €4.7 million in 2006. This year's sum includes an extraordinary provision of €57 million to cover the possible extension of its redundancy plan to 2008 and 2009 and €3 million in costs linked to aircraft returns made under the short and medium haul fleet renewal plan.

Excluding non-recurrent items, **operating costs** were down 1.2% year on year in the third quarter. Most recurrent expenses were cut, mainly through implementation of the measures established in the Director Plan, especially as a result of the reduction in headcount. The unit operating cost was down 2.7% to 7.71 euro cents/ASK.

The **fuel** cost totalled €294.8 million in the third quarter of 2007, 1.5% less than in the same quarter of last year. This modest reduction was largely due to the smaller consumption achieved by improving the fleet's fuel consumption efficiency, bringing a 3% saving, which was partly offset by the increase in activity (1.6% in terms of ASK). The rise in kerosene prices in dollars after hedging caused a 4.9% increase in fuel costs, which was offset by the positive effect of the dollar devaluation. As a result, the unit fuel cost (per ASK) was brought down by 3.1% to 1.72 euro cents per ASK. In the third quarter of 2007, the Brent oil price was over 70\$/barrel on the markets, similar to the average price recorded in the same period of last year. The fuel cost was curbed by €8.8 million in July-September 2007 through hedging.

Recurrent **personnel expenses**, which accounted for 25.8% of the company's total operating costs in the third quarter, were brought down by 3.2% year on year as a result of a 6.9% cut in headcount. The unit personnel expense per ASK was 1.99 euro cents, down 4.7%. Economic productivity continued to improve, increasing the operating costs per employee by 10.1%.

The average ground staff headcount was cut by 8.0% in the third quarter, while its productivity (measured in ASK/employee) increased by 10.5%. All areas reduced headcount with a particularly severe cut in the Airport Division (1,084 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 headcounts of flight crew were also cut: technical crew by 3.2% and flight attendants by 3.0%.

Depreciation provisions were reduced by 1.6% year on year. The total **aircraft leasing** costs were also brought down by 1.8% to €112.3 million. In both cases, the main reason was the lower number of aircraft. The dry lease was lowered by around €2.2 million, also due to the smaller impact of applying IAS 39, which increased costs by €4.4 million in 3Q2007, compared to €9.8 million in the same period of 2006. The wet lease cost was also reduced €1.2 million year on year through less number of block hours operated and the restructuring of operations under these contracts. These savings were partly offset by a €1.3 million increase in cargo aircraft leases, as a result of increasing the number of block hours by 31% and changing the type of cargo aircraft leased (the aircraft leased this year has a more efficient fuel consumption, but a higher price/block hour). The unit cost of aircraft leasing plus depreciation was 0.97 €/ASK, 3.3% down on last year.

Aggregate recurrent **fleet maintenance** costs increased by €17.6 million (21.5%) year on year, due mainly to the larger volume of work done for third parties. The breakdown of this increase in costs is as follows: spare parts were up €10.5 million year on year; subcontracted repair and maintenance services were up €6.1 million; and the provisions for major repairs were increased by around €1 million. In unit terms (per ASK), the total maintenance costs increased by 19.5% year on year, while the maintenance cost of Iberia's own fleet grew by 5.8%.

Commercial costs were brought down by 3.1% to €60.8 million, mainly by cutting advertising costs. The aggregate sum of the different commissions remained more or less on a par with last year, down just 0.4%, while the costs of pursuance of commercial and promotion agreements increased overall by €2.7 million.

Traffic service costs came down 4.7% in the third quarter of 2007 to €113.8 million. The aggregate cost of landing fees, use of bridges & jetties and other airport services was reduced by 9.5%, with 6.9% fewer take-offs than last year. A major cut by almost 25% (€1.7 million) was achieved in the cost of incidents (interrupted journeys, missed connections and luggage delivery costs) and other operating costs were also reduced through renegotiation of contracts with suppliers. These smaller costs were partly offset by a 25.8% (€7.2 million) increase in aircraft dispatch costs, due to the forced outsourcing of ramp handling services at Barcelona airport and total handling services at Lanzarote and Fuerteventura within the new licensing framework, whereas in 2006 these services were performed in-house so the costs were mainly included in personnel expenses.

The cost of **navigation charges** was 4.3% lower than last year, with reductions in the costs of navigation aids and, in a greater proportion, airport approach charges, partly due to the smaller number of flights operated. The unit cost of all traffic services and navigation charges was down 6.1% to 1.07 €/ASK.

The aggregate cost of **"In-flight services"** and **"Catering materials"** was 4.9% higher than in 2006, due to the 9.6% increase in the number of passengers on long-haul flights and especially to more passengers in the Business Plus class (up 16.9%).

The **insurance** cost was brought down 36.9% (€2.7 million) from the third quarter of last year to €4.6 million, thanks to the positive evolution of the variables determining the company's risk, the smaller number of aircraft in operation and, to a lesser extent, the devaluation of the dollar.

Other recurrent expenses were reduced by 1.5% year on year, the most spectacular cuts being achieved in "non-quality" costs (passenger and baggage compensations), which were reduced by 35.6% to €11.9 million. Noteworthy reductions were also recorded in security and surveillance services, mechanisation costs related to commercial management products, and banking and similar services.

January - September

In the first nine months of 2007, costs from operating activities were reduced by 0.4% to €3,992 million. **Operating costs** (excluding non-recurrent items) were down 0.8% to €3,916.2 million, giving a unit cost of 7.88 euro cents per ASK, 1.5% lower than in 2006. This reduction was achieved largely as a result of the headcount reductions and the restructuring of the network.

Fuel costs, accounting for 21.1% of the Group's operating costs, totalled €827.3 million in the first nine months of 2007, 3.8% less than last year. This reduction (€32.5 million) is owed to two factors: the devaluation of the dollar against the euro, which reduced the cost by €47.4 million (including the effect of exchange rate hedges); and the smaller unit consumption achieved through greater fleet consumption efficiency, which reduced the cost by €17.7 million. These positive effects were partly counteracted by the effect of higher fuel prices after hedging (€35.7 million) and, to a smaller extent, by the increase in activity (€4.4 million). All in all, the unit fuel cost was 4.4% lower than last year, at 1.67 euro cents per ASK.

Fuel prices have gradually increased since early January, when they recorded their annual low, and the hike accelerated as from July, reaching an all-time high in October, when the Brent oil price rose to over \$87/barrel. Iberia has hedged 50% of its estimated consumption for the fourth quarter of the year at an average price of \$61.5/barrel, with certain high and low levels partially unprotected.

Recurrent **personnel** expenses were down 2.4% to €1,025.7 million. The Group's average annual headcount was 6.7% down on last year, achieved largely through implementation of the initiatives contemplated in the Director Plan. The productivity (measured in operating revenues/employee) improved by 9.9%.

During the first nine months of 2007, under the redundancy plan 731 members of the ground staff and 182 flight attendants left the Company, mainly through early retirement. The average ground staff headcount was cut by 7.2% and their productivity (measured in ASK/employee) increased by 8.5%. The average handling staff headcount was down 8.3% on last year, or 13.7% excluding the employees assigned to the joint venture in Barcelona, with a 12.8% reduction in the number of aircraft handled by Iberia. Consequently, productivity improved slightly in this business area. The average headcount of technical crew was reduced by 3.3%, with a small improvement in productivity (0.6% measured in block hours per manpower equivalent). The average headcount of flight attendants was cut by 6.0%, with a 0.9% improvement in productivity, despite the greater weight of long haul flights in total operations, requiring larger crews than short and medium haul flights.

Aircraft leasing costs were 3.7% lower than last year, mainly as a result of the 5% reduction in dry lease costs, achieved by reducing the number of aircraft leased, and the smaller effect of applying IAS 39, which increased the cost by €8.6 million in 2007 and by €20.6 million in 2006. This reduction was partly counteracted by the increased cost of cargo aircraft leases, which rose by €1.7 million. The unit cost of aircraft leasing was 0.66 euro cents/ASK, 4.4% lower than last year.

Recurrent **fleet maintenance** costs totalled €306.4 million, 23.1% more than last year, largely as a result of the increase in work done on third-party aircraft. The unit maintenance cost of Iberia's fleet increased by 10.6% to 0.70 euro cents/ASK as an increase in work deriving from aircraft returns coincided with a (partially anticipated) large number of overhauls and engine maintenance, especially early on in the year, requiring a large increase in the temporary contracting of external services.

Commercial costs were 3.8% down on the first nine months of 2006, with an 8.3% reduction in commissions, achieved largely by lowering the basic commission to travel agencies in Spain to 0.4% from January 2007. Advertising costs were also reduced by 17.0%. The ratio of net commercial cost to traffic revenues was down 0.3 percentage points to 3.4%.

Traffic service costs in the first nine months of 2007 remained practically at the same level as the same period of 2006. Aircraft dispatch costs rose 19.4% (€16.2 million) as a result of the services provided by third parties at Barcelona, Lanzarote and Fuerteventura airports from February this year. This increase was offset by the reductions in landing fees and other operating costs, especially in the cost of incidents (interrupted journeys, missed connections and luggage delivery costs) with an overall reduction of 31.8% year on year.

The aggregate cost of **"In-flight services"** and **"Catering materials"** was 8.6% higher than in 2006, due mainly to the increase in the number of passengers on long-haul flights (9.1%) and especially to the increase in Business Plus passengers (up 21.2%). The **insurance** cost was brought down 39.6% from last year, while **"Other recurrent expenses"** increased by €1.4 million, representing a slight year-on-year growth of 0.5%. Within this last item, the cost of passenger and baggage compensations was reduced by €12.7 million, having been particularly large in the early months of 2006 due to teething troubles at the new Terminal T4 of Madrid-Barajas airport.

Financial and Other Non-Operating Results

The **"Net gains on disposals of non-current assets"** amounted to €74.6 million in the first nine months of 2007, €35.4 million of which corresponded to the third quarter. Much of the income recorded this year was obtained on several fleet operations, with total net gains of around €68 million up to September, especially: the sale of the first two MD-87 (under the contract signed in February, which contemplates the staggered sale of the entire MD fleet over 30 months); sale and lease back operations for six A-320; and the proceeds on the disposal of several engines for the B-757 and B-747 fleets. Over the first three quarters of 2006, Iberia accumulated a net loss of €2 million on disposals of non-current assets.

The **Impairment losses** for the first nine months of 2007 recorded a balance of €9.2 million, which mainly included a provision for shares in the capital of associated companies.

In the third quarter 2007, **financial results** totalled €106.3 million, compared to €6.2 million in the same period of 2006. This difference was due to the increase in financial revenues, up €101 million on those obtained in 3Q2006 owing to the gain recorded on recapitalisation and sale of part of Iberia's stake in *Wam Acquisition S.A.*, recorded at €94.4 million in the consolidated accounts. The financial results for the first nine months was €123.8 million, compared to €5.8 million last year, with a year-on-year increase of €120.5 million in financial revenues due to the above-mentioned gain and the increase in interest on short-term deposits, in turn deriving from the larger average balance and the higher interest rates.

The valuation of hedging instruments in accordance with IAS 39, recorded in **Other revenues and expenses** on the Income Statement, increased financial results by €0.2 million in the first nine months of 2007, contrasting with the reduction of €1.1 million recorded in the previous year.

Iberia's **share of results of associated companies** recorded a positive net balance of €1.1 million in the third quarter of 2007, compared to €1.8 million in the same period of last year. The balance for the nine-month period up to September was a profit of €2.1 million, down €1.5 million year on year, due to the smaller profits posted by some of the invested companies and particularly to the losses of *International Supply Management, S.L.*, a new associated company which started up at the end of 2006.

Operating Fleet

IBERIA GROUP (a)	September 2007	December 2006	September 2006
Long Haul	32	31	31
Owned	5	5	5
Financial lease	0	0	0
Operating lease	24	24	24
Wet lease	3	2	2
Short and Medium Haul	107	119	119
Owned	33	40	40
Financial lease	15	14	14
Operating lease	57	58	60
Wet lease	2	7	5
Total	139	150	150
Owned	38	45	45
Financial lease	15	14	14
Operating lease	81	82	84
Wet lease	5	9	7

(a) End of period, excluding inactive aircraft

Additionally, as at 30-September-2007 Iberia has two Airbus A-320 and one Boeing B-757 leased to other airline.

Operating Fleet and Variations

At 30 September 2007, Iberia had an operating fleet of 139 aircraft, 38 of which were owned and 15 were operating under financial leases.

An A-340/300 was added under a wet lease in April 2007, bringing the **long haul fleet** to a total of 32 aircraft, all Airbus A-340.

The **short and medium haul fleet** consisted of 107 aircraft at 30 September, 82 of which were Airbus A-320. The company added seven new Airbus under operating leases in the first nine months of 2007, under the Fleet Renewal Plan: one A-321 and six A-319 (two of them in July). Also in July, it added an A-320 under a financial lease, which had previously been let out to another airline. During the same period, twenty aircraft were withdrawn: five B-757 under wet leases (one of them in September); eight A-320 under operating leases (one in August); six MD-87 owned by Iberia (three of them in the third quarter); and one MD-88 owned by Iberia (in September).

Consolidated Balance Sheet (not audited) (a)

€ thousand	September 2007	December 2006
ASSETS	6.040.351	5.751.250
Non-current assets	2.220.710	2.491.336
Intangible assets	43.552	48.853
Property, plant and equipment	1.289.304	1.350.909
Investments in associates	26.609	16.750
Non-current financial assets	415.710	623.394
<i>Iberbus loans</i>	<i>96.823</i>	<i>150.380</i>
<i>Other</i>	<i>318.887</i>	<i>473.014</i>
Deferred tax assets	445.236	445.355
Other non-current assets	299	6.075
Non-current assets held for sale	-	-
Current assets	3.819.641	3.259.914
Inventories	204.175	187.594
Accounts receivable	751.522	607.292
Current financial investments	1.542.403	1.489.334
Cash and cash equivalents	1.304.159	963.731
Other current assets	17.382	11.963
EQUITY AND LIABILITIES	6.040.351	5.751.250
Equity	1.915.290	1.738.596
Share capital	743.212	739.492
Share premium	119.411	115.405
Reserves	827.847	824.955
Translation differences and differences due to adjustment of capital to euros	762	840
Profit attributable to the parent company	222.849	56.725
Minority interests	1.209	1.179
Non-current liabilities	1.767.778	1.893.950
Bank borrowings and non-current obligations under finance leases	313.664	481.269
Long term provisions	1.377.034	1.359.057
Other liabilities	77.080	53.624
Current liabilities	2.357.283	2.118.704
Convertible debenture issue	2.635	10.362
Bank borrowings and current obligations under finance leases	222.883	227.982
Deferred income	92.788	62.468
Other liabilities	2.038.977	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 €20,644 thousand as of 30-September-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 nine months (€295,658 thousand), must be multiplied by 4/3, this is €394,211 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 September 2007: 6% of €96,823 thousand x 8 = €46,475 thousand
For December 2006: 6% of €150,380 thousand x 8 = €72,182 thousand

Consolidated Cash Flow Statements (not audited) (a)

€ thousand	Jan-Sep	Jan-Sep
	2007	2006
Consolidated profit before tax	326.341	91.600
Depreciation and amortisation charge and impairment losses	171.556	161.357
Period provisions (net) (+/-)	130.151	86.312
Provisions used (-)	-112.266	-95.781
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)	-72.456	-24.864
Gains/Losses on disposal of investments (+/-)	-97.024	0
Results of associates accounted for using the equity method (+/-)	-2.091	-3.626
Gains/Losses on hedging transactions (+/-)	3.308	24.030
Effect of exchange rate changes not giving rise to cash flows	-2.115	-2.143
Other adjustments of the cash-flow (+/-)	-9.015	34.219
Net change in assets/liabilities not giving rise to cash flows	-5.200	54.295
Taxes paid	-33.047	-15.372
Cash flow from operating activities	298.142	310.027
Net investment in subsidiaries, jointly controlled entities and associates	-8.835	-15.683
Net investment in property, plant and equipment, intangible assets and investment property	57.946	-150.928
Net investment in non-current investments	148.717	0
Net investment in current investments and other current financial assets (b)	-3.571	-38.952
Net investment in other assets	-7.522	2.391
Dividends and interest received	65.875	38.090
Cash flow from investing activities	252.610	-165.082
Dividends paid (-)	-33.145	-18.619
Changes in bank borrowings and other financial liabilities (+/-)	-152.686	-56.523
Interest paid on debt (-)	-27.234	-18.712
Other debt	193	463
Capital increase	7.726	7.946
Net investment in treasury shares (+/-) (c)	-5.179	-4.992
Cash flow from financing activities	-210.325	-90.437
Net cash flow	340.427	54.508
Cash and cash equivalents at beginning of year	963.731	821.439
Cash and cash equivalents at end of year	1.304.158	875.947
VARIATION OF TOTAL LIQUID ASSETS (d)	343.998	93.460

(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 IRFSs. Current financial investments amount to €1,542 million, €53 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** stood at -€2,286.7 million at 30 September 2007, a 32.8% improvement on year-end 2006, thanks mainly to the increase in "Cash and cash equivalents", €340.4 million up on 31 December 2006, and the reduction of interest-paying debt by €180.4 million. The adjusted balance of liquid assets (short-term financial investments plus cash and other cash equivalents, excluding the value of hedging tools) was €2,825.9 million at 30 September 2007, up €384.1 million on year-end 2006. The **adjusted net debt**, including the conversion of operating leases to equivalent debt (excluding the effect of measurement of hedging instruments at the end of both years), was €820.5 million, decreasing by 39.1% on December 2006.

At 30 September 2007, the Iberia Group had an **equity** of €1,915.3 million, up 10.2% (€176.7 million) on year-end 2006, largely due to the significant growth in profits.

The balance of "**Non-current financial assets**" dropped by €207.7 million from year-end 2006, due to the refund of advance payments on fleet and engines (included in long-term deposits), the divestment corresponding to the Iberbus loans (partly transferred to short-term) and the exchange-rate adjustment, the cancellation of the €47.5 million loan granted by Iberia to Wam Acquisition S.A. and the sale of part of its stake in the company, obtaining a gain of €94.4 million in the consolidated accounts.

During the first nine months of 2007, Iberia generated a positive **cash flow** from operating activities of €298.1 million, while the total balance of cash and cash equivalents increased by €340.4 million in the same period.

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 **third quarter** of 2007, the variation in the valuation of derivatives had a negative effect of €37.9 million on reserves, caused mainly by the devaluation of the dollar. It also had a negative effect of €4.2 million on the results for the quarter, due mainly to an increase in the dry lease cost (€4.4 million). The effect on the income statement in the third quarter of 2006 was €9.7 million.

At 30 September 2007, the new measurement of derivatives brought about a cumulative reduction of reserves of €20.9 million from year-end 2006, and a reduction of €3.3 million in the cumulative earnings before tax for the first nine months. The negative effect on company profits in the same period of 2006 was €24.2 million.

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