FULL YEAR RESULTS
JANUARY-DECEMBER 2007

Main figures (not audited) (a)

IBERIA GROUP	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
€ thousand	2007	2006	%	2007	2006	%
Operating revenues	1.396.318	1.365.360	2,3	5.521.750	5.387.781	2,5
Operating costs	1.321.993	1.316.891	0,4	5.238.207	5.265.827	-0,5
EBITDAR (b)	232.099	214.584	8,2	932.026	790.476	17,9
Operating Income EBIT (b)	74.325	48.469	53,3	283.544	121.954	132,5
Non recurring revenues and costs (net)	7.004	-1.749	n.m.	-67.247	9.001	n.m.
Net gains on disposals of non-current assets and impairment losses	27.205	6.225	n.m.	196.213	4.205	n.m.
Profit/loss from operating activities	108.533	52.946	105,0	412.510	135.161	205,2
Profit after taxes	104.602	-9.348	n.m.	327.608	56.969	n.m.
Profit after taxes (exc. tax credits adjustments)	104.602	49.780	110,1	327.608	116.098	182,2
Total shareholders' equity (c)	---	---	---	2.005.870	1.738.596	15,4
In-balance sheet net debt (c)	---	---	---	-2.500.382	-1.722.181	45,2
Adjusted net debt x 8 (c)	---	---	---	581.678	1.346.628	-56,8
ASK (million)	16.772	16.458	1,9	66.454	65.802	1,0
RPK (million)	13.471	13.132	2,6	54.229	52.493	3,3
Load factor (%)	80,3	79,8	0,5 p.	81,6	79,8	1,8 p.
Passenger revenues	1.005.614	989.110	1,7	4.034.229	3.963.223	1,8
Yield (€ cent)	7,46	7,53	-0,9	7,44	7,55	-1,5
Passenger Revenue / ASK (€ cent)	6,00	6,01	-0,2	6,07	6,02	0,8
Operating revenue/ASK (€ cent)	8,33	8,30	0,3	8,31	8,19	1,5
Operating expense/ASK (€ cent)	7,88	8,00	-1,5	7,88	8,00	-1,5
Operating expense (ex fuel)/ASK (€ cent)	5,99	6,07	-1,4	6,16	6,21	-0,9

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) December 2007 v December 2006 (See notes page 14).
Number of shares as at 31-Dec-2007: 952,908,815; 31-Dec-2006: 948.066.632.

Highlights

- Iberia considerably improved its profitability in 2007, reaching a consolidated profit of €327.6 million. Net margin was 5.9%, up 3.8 percentage points on last year (excluding tax credits adjustments). The EBITDAR margin was 16.9%, a 2.2 percentage point improvement on 2006.

- Load factor improved by 1.8 points to 81.6%, a new annual record and higher than the levels recorded by the European network carriers in 2007. Traffic grew at a rate of 3.3%, and 8.7% in the long-haul sector, against a moderate growth in capacity, due to the extensive restructuring of the flight programme. By optimising network operations, unit passenger revenue was raised by 3.1% (at constant exchange rates) despite the 6.9% growth in the average stage length.

- Thanks to the efficient implementation of most of the actions designed in the Director Plan 2006/08, the increase in operating revenue, up 2.5% on 2006 despite the dollar effect, was combined successfully with a significant reduction of resources: 11.5 aircraft less in the average annual operating fleet and 1,538 fewer employees in the annual average headcount. Fleet utilisation increased by 5.3%, while staff productivity improved by 9.5%.

- Unit operating cost was 1.5% down year on year, with growing reductions over the four quarters of the year (considering unit cost ex fuel).

- Adjusted net debt was reduced by 56.8% from year-end 2006 and Iberia generated a cash flow of €1,179 million in 2007.

- Profit from operations in the fourth quarter was up by 105% year on year, and the consolidated profit reached €104.6 million.

Operating Statistics

IBERIA GROUP (a)	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2007	**2006**	**%**	**2007**	**2006**	**%**
SCHEDULED TRAFFIC						
Passengers (thousand)	**6.459**	**6.684**	**-3,4**	**26.856**	**27.799**	**-3,4**
Domestic	3.302	3.548	-6,9	13.732	14.680	-6,5
Medium Haul	2.106	2.136	-1,4	8.935	9.242	-3,3
Europe	1.954	1.992	-1,9	8.302	8.668	-4,2
Africa & Middle East (b)	152	144	5,8	633	574	10,4
Long Haul	1.050	1.000	5,1	4.189	3.876	8,1
ASK (million)	**16.772**	**16.458**	**1,9**	**66.454**	**65.802**	**1,0**
Domestic	2.735	3.079	-11,2	11.516	13.232	-13,0
Medium Haul	4.227	4.163	1,5	16.738	16.787	-0,3
Europe	3.739	3.685	1,5	14.762	14.945	-1,2
Africa & Middle East (b)	488	478	2,0	1.975	1.842	7,2
Long Haul	9.811	9.215	6,5	38.201	35.783	6,8
RPK (million)	**13.471**	**13.132**	**2,6**	**54.229**	**52.493**	**3,3**
Domestic	2.111	2.298	-8,2	8.738	9.633	-9,3
Medium Haul	2.925	2.851	2,6	12.172	12.220	-0,4
Europe	2.568	2.513	2,2	10.693	10.891	-1,8
Africa & Middle East (b)	357	338	5,8	1.478	1.329	11,2
Long Haul	8.436	7.983	5,7	33.319	30.641	8,7
Load factor (%)	**80,3**	**79,8**	**0,5 p.**	**81,6**	**79,8**	**1,8 p.**
Domestic	77,2	74,6	2,5 p.	75,9	72,8	3,1 p.
Medium Haul	69,2	68,5	0,7 p.	72,7	72,8	-0,1 p.
Europe	68,7	68,2	0,5 p.	72,4	72,9	-0,4 p.
Africa & Middle East (b)	73,3	70,6	2,7 p.	74,8	72,1	2,7 p.
Long Haul	86,0	86,6	-0,6 p.	87,2	85,6	1,6 p.
CARGO (c)						
Cargo Tones	72.366	73.223	-1,2	260.601	250.835	3,9
ATK (million)	438	426	2,8	1.702	1.644	3,6
RTK (million)	353	340	3,8	1.225	1.119	9,5
Load factor (%)	80,7	79,9	0,8 p.	71,9	68,1	3,9 p.
PASSENGER REVENUES						
Revenues (€ thousand)	1.005.614	989.110	1,7	4.034.229	3.963.223	1,8
Revenue / ASK (€ cent)	6,00	6,01	-0,2	6,07	6,02	0,8
Revenue / RPK (€ cent)	7,46	7,53	-0,9	7,44	7,55	-1,5

(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

January – December

Total load factor improved by 1.8 percentage points to 81.6%, an all-time high in the company's load factor. Revenue passenger kilometres (RPK) grew by 3.3%, against a 1.0% increase in capacity. Both load factor and growth are above the average recorded by members of the European Airline Association (with a load factor of 77.1%, up 0.7 points), and also outstrip the levels reached by the leading European network carriers in 2007.

Following the optimisation strategy designed in the Director Plan 2006/2008 with a view to consolidating network operations and improving profitability, Iberia further increased its capacity on long haul flights (by 6.8%) in 2007 and pursued with the thorough restructuring of the short and medium haul sector, begun in 2006. This strategy boosts connections at its principal hub at Madrid-Barajas and adjusts capacity on point-to-point routes between other airports. As a result, long-haul traffic represented 61.4% of the overall network in 2007, three points up on the previous year, giving rise to a 6.9% growth in average stage length.

Yield dropped 1.5% year on year, impacted by the effect of the aforesaid growth in average stage length, tough competition, especially on the European market, and the devaluation of the dollar against the euro. Despite all this, the average revenue per ASK rose by 0.8%, underpinned by the significant improvement in the load factor on domestic and long haul flights. Excluding the exchange rate effect, unit revenue per ASK would have grown by 3.1%. Passenger revenues totalled €4,034.2 million, following a year-on-year increase of 1.8%, with particularly strong growth in revenues in the long haul sector (up 13.6% year on year), which represented 44.7% of passenger revenues in 2007, compared to 40% in 2006.

In the **long haul** sector the company carried 4.2 million passengers in 2007, a year-on-year increase of 8.1%, breaking through the four million threshold on transatlantic flights for the first time in the history of the airline. Load factor improved by 1.6 points to 87.2%, another all-time high for Iberia in this segment. Traffic grew by 8.7% exceeding the growth in capacity, due to the increased weekly frequencies to several destinations (Sao Paulo, Montevideo and Chicago), the opening of two new destinations (Boston and Washington) in spring 2007, direct connections with Costa Rica and the use of larger capacity aircraft.

In absolute terms, the larger growth in traffic corresponded to South American routes, which recorded a 14% increase and a load factor of 88.2%, improving by 0.8 points. In relative terms, the largest growth in traffic was recorded in North America, where it rose by 19.4%, mainly due to the new routes operated from Madrid (Boston and Washington). In Central America, traffic increased by 3.7% and the load factor rose 2.4 points to 87.6%.

In 2007 Iberia has further consolidated its leadership on the Europe-Latin America market, with a 19.9% share, 0.9 percentage points up on 2006. The company's increase in market share was even greater in the business segment, where it improved by 3.6 points over 2006 to 22.6%.

The *Business Plus* Class continued its strong progress in 2007, maintaining its high customer appreciation. The number of passengers increased by 18.8% year on year in this class.

Passenger revenues on long haul flights grew by 13.6% pushed up by the increase in traffic and the improvement in yield, up 4.4%, bolstered by the buoyant traffic and improved class mix. *Business Plus* not only recorded a greater growth in number of passengers than Tourist Class, but also increased its average revenue per passenger, achieving a 23.8% growth in annual revenues. Average revenue per ASK was up 6.4% from 2006, despite the adverse effect of the dollar devaluation (at constant exchange rates it would have been up 10.2%).

Iberia continued restructuring its **medium haul** international flights during 2007. On the one hand, it boosted connections at Madrid-Barajas to consolidate its position as a network carrier, increasing frequencies on trunk routes and opening up five new destinations (Algiers, Bucharest, Saint Petersburg, Prague and Warsaw). At the same time, it selectively adjusted its capacity on point-to-point flights between airports other than Madrid, seeking to improve profitability. Consequently, although the total volume of capacity was slightly down (0.3%) in the medium haul sector, ASK on flights to and from Madrid grew 19% year on year.

Traffic and capacity decreased in similar proportions on medium haul flights (0.4%), as the significant growth on non-EU European routes (32.3%), together with the sustained growth in Africa and the Middle East (11.2%), practically offset the slump on EU flights (-5.0%), a highly competitive market. Mainly due to the pressure of these circumstances on yield, the average revenue per ASK dropped 4.1% in the medium haul sector, also affected by the growth of the average stage length (3%) and the dollar devaluation.

Iberia continued to focus its strategy on improving profitability in the **domestic** sector, and during 2007 it continued with the selective restructuring of its flight programme to face the capacity growth of its competitors. ASK fell 13% year on year and RPK by 9.3%, although the capacity and traffic on flights to and from Madrid increased by 1.0% and 5.0%, respectively. The load factor was 75.9% for the sector overall, 3.1 points up on 2006. This improvement, together with the increase in yield (1.7%), boosted the average revenue per ASK, which rose by 6.0% over the year.

Cargo maintained a good performance in 2007, increasing the revenue tonne kilometres RTK of goods and post by 9.5% over 2006. 94% of the total RTK was carried in the bellies of passenger aircraft, more or less the same percentage as last year. The load factor improved by 3.9 percentage points to 71.9%, with a 3.6% increase in the total available tonne kilometres (ATK).

October – December

Passenger load factor in the **overall network** rose to 80.3% in the fourth quarter, up 0.5 points year on year, while traffic increased by 2.6%. Much of this increase was on intercontinental flights, leading to a growth of 6.2% in the average stage length. This longer average stage length and the devaluation of the dollar against the euro had an adverse effect on the yield and unit revenue per ASK, slightly down on the last quarter of 2006 (0.9% and 0.2% respectively). At constant exchange rates, the yield would have increased by 2.1% and unit revenue by 2.8%. The passenger revenues on tickets actually flown in October-December 2007 increased by 1.7% over the same period of last year.

There was a 5.7% growth in traffic in the **long haul** sector, with a 6.5% increase in capacity. Growth was particularly strong on North America routes (almost 26% in RPK). The load factor slid by 0.6 percentage points to 86%, partly due to the effects of suspended operations of Air Madrid in December 2006, particularly affecting certain destinations in Latin America. Performance of the *Business Plus* class was outstanding, with a 12.5% increase in the number of passengers and a 3.2 point improvement in the load factor. This contributed towards the 0.8% increase in the sector yield, while unit revenue per ASK was similar to that obtained in the last quarter of 2006. Without the negative effect of the dollar devaluation, the yield would have been up by 5.5% and unit revenue per ASK by 4.7%. Passenger revenues rose by 6.5% in respect of 2006.

The load factor on international **medium haul** flights grew 0.7 points on the fourth quarter of 2006 to 69.2%, including a 2.5 point improvement in the load factor on flights to Africa and the Middle East. Traffic increased by 2.6% in the sector overall, with 1.5% more capacity, although following the network restructuring process, ASK on flights to and from the Madrid hub increased by 24.7%. Revenue per ASK dropped 4.6% as a result of the tough competition, the dollar devaluation and the growth of the average stage length in the sector (4.1%).

Iberia continued adjusting its capacity in the **domestic** sector in the last three months of 2007, reducing the number of ASK by 11.2% year on year. Unit revenue per ASK increased by 11.6% compared with the last quarter of 2006, thanks to the improvement in the load factor (2.5 points) and yield (7.9%), favoured by the programme optimisation.

Consolidated Statements of Income (not audited) (a)

€ thousand	4th Quarter (Oct – Dec) 2007	2006	%	Accumulated (Jan – Dec) 2007	2006	%
Profit/loss from operations (b)	**108.533**	**52.946**	**105,0**	**412.510**	**135.161**	**205,2**
Revenues from operating activities	**1.408.799**	**1.371.976**	**2,7**	**5.535.780**	**5.464.546**	**1,3**
Net sales	**1.341.683**	**1.313.682**	**2,1**	**5.304.475**	**5.187.953**	**2,2**
Passenger revenue (c)	1.074.937	1.053.136	2,1	4.324.916	4.222.904	2,4
Cargo revenue	96.266	95.164	1,2	343.115	329.738	4,1
Handling	73.066	78.640	-7,1	279.978	331.154	-15,5
Technical assistance to airlines	77.498	64.054	21,0	273.567	219.038	24,9
Other revenues	19.917	22.688	-12,2	82.899	85.119	-2,6
Other operating revenues	**67.116**	**58.293**	**15,1**	**231.305**	**276.593**	**-16,4**
Recurring	54.635	51.678	5,7	217.275	199.828	8,7
Non-recurring	12.482	6.616	88,7	14.030	76.765	-81,7
Costs from operating activities	**1.327.471**	**1.325.255**	**0,2**	**5.319.484**	**5.333.590**	**-0,3**
Procurements	**370.897**	**365.197**	**1,6**	**1.358.331**	**1.405.109**	**-3,3**
Aircraft fuel	317.942	317.797	0,0	1.145.202	1.177.516	-2,7
Aircraft spare parts	42.492	37.264	14,0	172.987	184.368	-6,2
of which: Non recurring	-	-	n.a.	-	26.415	n.a.
Catering materials	5.843	6.259	-6,6	23.236	24.073	-3,5
Other purchases	4.620	3.878	19,1	16.906	19.152	-11,7
Personnel expenses	**357.851**	**343.868**	**4,1**	**1.444.565**	**1.421.002**	**1,7**
of which: Non recurring	3.000	-	n.a.	64.000	25.800	148,1
Depreciation and amortization	**52.828**	**58.014**	**-8,9**	**215.208**	**219.371**	**-1,9**
Other operating costs	**545.896**	**558.176**	**-2,2**	**2.301.380**	**2.288.108**	**0,6**
Aircraft leases	104.947	108.101	-2,9	433.274	449.150	-3,5
Dry lease	92.016	90.536	1,6	372.165	385.309	-3,4
Wet lease	8.698	14.241	-38,9	45.953	51.245	-10,3
Cargo lease	4.233	3.324	27,4	15.156	12.597	20,3
Other rentals	19.972	21.142	-5,5	75.579	76.376	-1,0
Fleet maintenance (subcontracts)	62.117	52.785	17,7	246.437	181.942	35,4
of which: Non recurring	2.000	1.136	76,1	10.398	2.136	n.m.
Commercial expenses	63.292	59.697	6,0	242.589	246.054	-1,4
Traffic services	100.087	105.669	-5,3	446.898	451.756	-1,1
Navigation charges	65.072	69.998	-7,0	274.103	285.758	-4,1
In flight services	15.908	17.567	-9,4	72.570	67.957	6,8
Booking systems	29.533	29.947	-1,4	144.519	147.767	-2,2
Insurance	4.356	6.418	-32,1	18.441	29.750	-38,0
Other expenses	80.614	86.851	-7,2	346.970	351.598	-1,3
of which: Non recurring	478	7.229	-93,4	6.879	13.412	-48,7
Net gains on disposals of non-current assets	27.305	-330	n.m.	196.339	-2.350	n.m.
Impairment losses (d)	100	-6.555	n.m.	126	-6.555	101,9

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) Provisions in a sum of €9,149 thousand, recorded at 30 September in "Impairment losses", were reclassified at year-end 2007 and are now included in "Share of results of associates".

€ thousand	4th Quarter (Oct – Dec) 2007	2006	%	Accumulated (Jan – Dec) 2007	2006	%
Financial results	**34.043**	**19.756**	**72,3**	**63.465**	**25.515**	**148,7**
Financial revenues	46.536	34.494	34,9	126.244	88.050	43,4
Financial expenses	11.382	15.653	-27,3	59.885	60.625	-1,2
Exchange gains/losses	-1.041	629	-265,4	-3.044	-1.112	-173,7
Other revenues and expenses	-69	286	-124,3	151	-799	118,9
Share of results of associates	**-22.474**	**892**	**n.m.**	**-29.531**	**4.518**	**n.m.**
Profit before taxes	**120.103**	**73.594**	**63,2**	**446.444**	**165.193**	**170,3**
Taxes	-15.501	-82.942	81,3	-118.836	-108.224	-9,8
Profit after taxes	**104.602**	**-9.348**	**n.m.**	**327.608**	**56.969**	**n.m.**
Attributable to shareholders of the parent company	104.491	-9.454	n.m.	327.340	56.725	n.m.
Attributable to minority interests	111	106	5,1	268	244	9,7
Basic earnings per share (euros)	0,111	-0,010	n.m.	0,346	0,061	n.m.
Diluted earnings per share (euros)	0,111	-0,010	n.m.	0,346	0,060	n.m.

n.a.: not applicable; n.m.: not meaningful
Average weighted nº of shares 4th quarter: 944,858,815 in 2007 and 938,664,264 in 2006; full year: 945,467,107 in 2007 and 932,048,965 in 2006.

KPI (not audited) (a)

IBERIA GROUP	4th Quarter (Oct – Dec)			Accumulated (Jan – Dec)		
	2007	2006	%	2007	2006	%
Unit Ratios (€ cent/ASK) (Recurring)						
OPERATING REVENUE	8,33	8,30	0,3	8,31	8,19	1,5
OPERATING COST	7,88	8,00	-1,5	7,88	8,00	-1,5
Fuel	1,90	1,93	-1,8	1,72	1,79	-3,7
Fleet maintenance	0,61	0,54	13,2	0,62	0,51	19,9
Spare parts	0,25	0,23	11,9	0,26	0,24	8,4
Maintenance (subcontracts)	0,36	0,31	14,2	0,36	0,27	30,0
Personnel	2,12	2,09	1,3	2,08	2,12	-2,0
Aircraft lease	0,63	0,66	-4,7	0,65	0,68	-4,5
Commercial	0,38	0,36	4,0	0,37	0,37	-2,4
Traffic services	0,60	0,64	-7,1	0,67	0,69	-2,0
Navigation charges	0,39	0,43	-8,8	0,41	0,43	-5,0
In-flight services and catering materials	0,13	0,14	-10,4	0,14	0,14	3,1
Rest (b)	1,14	1,21	-5,6	1,22	1,26	-3,3
Iberia fleet maintenance (c)	0,66	0,61	7,6	0,69	0,63	9,9
Net commercial cost / traffic passenger and cargo revenue (%) (d)	3,3	3,5	-0,2 p.	3,4	3,6	-0,2 p.
Productivity						
Average fleet utilization (block hours/aircraft/	9,6	9,1	5,9	9,6	9,1	5,3
Annual average headcount (e)	22.168	23.437	-5,4	22.515	24.053	-6,4
ASK / Employee	757	702	7,7	2.952	2.736	7,9
Ground	1.017	926	9,8	3.938	3.618	8,8
Ground (without handling)	2.021	1.906	6,0	7.926	7.417	6,9
Block hours / Technical crew (f)	68,7	68,1	0,9	275,1	273,3	0,7
Block hours / Flight attendant (f)	30,5	30,2	1,1	121,4	120,2	1,0
Operating revenue per employee (€ thousand) (f)	63,0	58,3	8,1	245,2	224,0	9,5
EBITDAR margin (%)	16,6%	15,7%	0,9 p.	16,9%	14,7%	2,2 p.

(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

January - December

Recurrent operating revenues totalled €5,521.8 million in 2007, up 2.5% year on year. Passenger and cargo revenues increased at the same rate to a total of €4,668 million, 84.5% of the total operating revenues. This growth in revenues was also boosted by the considerable increase (24.9%) in maintenance revenues. Handling revenues fell by 15.5% as a result of the new competitive environment at Spanish airports, while the aggregate amount of other operating revenues was 5.3% up on 2006. Revenues from operating activities, including non-recurrent items, rose by 1.3% to €5,535. 8 million.

Passenger revenues reached €4,324.9 million, €102 million up on the previous year, rising 2.4%. Revenues on tickets actually flown during the period increased by €71 million (1.8%) to €4,034.2 million, while the sum 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 €31 million to €290.7 million.

Cargo revenues recorded a year-on-year growth of 4.1%, boosted by the increase in traffic (9.5% measured in RTK). Unit revenue was affected by the growth in the cargo average stage length (5.4%) and the dollar devaluation.

Revenues generated on **handling** services for third parties totalled €280 million, €51.2 million less than in 2006. The incorporation of a larger number of handling operators in early 2007, after the awarding of new licences in July 2006, and the increase in permissions for self-handling caused a drop in activity. Moreover, owing to the pressure from the new operators to attract customers, the unit revenues from these services also fell. Iberia maintained its presence at 36 airports (plus the Ceuta heliport) and joined the winning Joint Ventures (JV) at Barcelona, Fuerteventura and Lanzarote, where it had not been awarded the service contracts.

Technical assistance revenues totalled €273.6 million, €54.5 million up on 206, largely due to the increased workload at the engine shops. Revenues particularly increased from engine overhauls, especially on RB211 and CFM56.

Other recurrent operating revenues increased by 8.7% (€17.5 million) year on year, largely as a result of the increase in commission revenues (€4.6 million), allocation of deferred revenues (€5.7 million) and, above all, the inclusion of a new revenue item, namely recovery of expenses corresponding to the assignment of Iberia employees to the Joint Venture providing the handling services at Barcelona airport (€13,4 million).

Non-recurrent other operating revenues totalled €14 million in 2007, largely corresponding to the recovery of several provisions, down from €76.8 million in 2006. The latter figure included €53.3 million from recovery of the depreciation provision for engine reparable and €14.7 million from a capital gain obtained on the sale of Iberia's stake in Musini.

October - December

Revenues from operating activities totalled €1,408.8 million in the **fourth quarter** of 2007, up 2.7% year on year. Recurrent operating revenues rose by 2.3% to €1,396.3 million, largely due to the increases in passenger revenues (2.1%) and technical assistance revenues (21%).

Passenger revenues were €21.8 million up on 4Q2006, amounting to €1,074.9 million in the same period of 2007. Revenues on tickets actually flown during the period grew by €16.5 million, thanks to the growth of the long haul sector, while other passenger revenues improved by €5.3 million.

Cargo revenues were up 1.2%, pushed up by the 3.8% growth in RTK, although the unit revenue was dented by the dollar devaluation.

Handling revenues fell by €5.6 million (7.1%) due to the reduction of handling services for third parties and the lower unit revenue. The annual revenues from the handling services of the three joint ventures were recorded in the fourth quarter of 2007, in proportion to Iberia's interest, since no reliable information had been available prior to this quarter. These revenues totalled €16.4 million.

Technical assistance revenues increased by €13.4 million, as a result of the increase in the workload and value of engine overhauls for other carriers.

Other recurrent operating revenues increased by €3.0 million (up 5.7%), and non-recurrent revenues by €5.9 million year on year, totalling €12.5 million in the period October-December 2007. This figure includes €7.0 million corresponding to the recovery of provisions for unused tickets.

Costs from operating activities

January - December

Most costs from operating activities were reduced in 2007, mainly through the efficient implementation of the measures established in the Director Plan 2006/2008. Savings were particularly achieved through the reduction in headcount and restructuring of the network. The dollar devaluation against the euro also contributed to the reduction of operating costs. The positive effect of these factors was partly offset by the increases in prices (and its effect on ground staff personnel expenses) and the repercussion on costs of the major increase in technical assistance.

Operating costs were down 0.5% year on year, totalling €5,238.2 million in 2007. Unit operating cost was 1.5% down on 2006, at 7.88 €c/ASK, having been kept below the levels recorded last year in each of the four quarters of 2007.

Fuel cost went down 2.7% year on year to €1,145.2 million in 2007. This figure represents 21.9% of the Iberia Group operating costs and almost 25% of the operating costs of the transport business. The reduction on the cost recorded in 2006 was achieved as a result of the dollar devaluation against the euro, (- €75.7 million), and the fleet's fuel consumption efficiency, which cut the cost by €25.6 million. In addition, the valuation of "non-effective" (IFRS terminology) fuel hedges reduced the fuel cost by €5.4 million in 2007 (against an increased cost of €3.7 million in 2006). The favourable effect of these elements was partly offset by the kerosene price rise after hedging (€68.6 million) and, to a lesser extent, by the increase in activity (€9.5 million).

The Brent oil price, which was around 55 $/barrel at the beginning of the year, gradually rose during the first half of 2007, was more volatile in the summer and hiked in the last few months of the year, smashing the record levels reached in 2006. The average annual price of oil in dollars was more than 10% higher than the average price in 2006. Fuel hedges softened the blow of this price rise, curbing the cost by €17.8 million over the twelve months of 2007. All in all, the unit fuel cost in 2007 was 1.72 €c/ASK, 3.7% down on last year.

Recurrent personnel expenses, which represent 26.4% of the Group's total operating costs, totalled €1,380.6 million in 2007, 1.0% less than in 2006 as a result of a 6.4% cut in the average headcount. The saving achieved was partly offset by the impact of measures contemplated in the Collective Agreements and other agreements reached with the Group personnel: pay rise in line with the Consumer Price Index for the ground staff (producing a 2.1% increase in total personnel expenses), non-consolidating bonus payment for achievement of results (2.5%) and seniority. Unit personnel costs were brought down by 2.0% to 2.08 euro cents.

During 2007 the headcount was cut by 1,461 employees through the initiatives contemplated in the Director Plan 2006/08: 1,201 from ground staff and 260 from cabin crew. Most of these were early retirements, one of the options contemplated in Iberia's redundancy plan.

The Group average ground staff headcount was cut by 7.2% year on year, while its productivity –measured in ASK/employee- increased by 8.8%. The cut was particularly severe in handling staff (822 employees, representing 8.8% in respect of last year), through early retirements within the redundancy plan and the subrogation of personnel at several airports following the entry of new handling operators. Not counting the employees assigned to the Barcelona JV, Iberia's average handling headcount was reduced by 14.5% year on year.

The average headcount of technical crew was cut by 3.2% over the year, with a 0.7% improvement in productivity (measured in block hours per manpower equivalent). The average headcount of flight attendants was also cut, by 4.2%, with a 1% improvement in productivity, despite the greater weight of long haul flights in total operations that required larger crews than short and medium haul flights and reduced productivity by around 2 percentage points.

Group productivity across the board (measured in operating revenues/employee) improved by 9.5% in 2007, maintaining a strong growth.

Aircraft leasing costs totalled €433.3 million, 3.5% down on 2006. Passenger aircraft leasing costs were reduced by 4.2% as a result of the 3.4% reduction in dry lease costs, in turn due to the smaller impact of applying IAS 39, which increased the costs by €12.8 million in 2007 (cf. €24.6 million in 2006), and the smaller number of aircraft leased. The wet least costs were also reduced by €5.3 million (10.3%) year on year, as a result of the smaller number of block hours operated (3.9%) and the restructuring of wet lease operations. The reduction in passenger fleet costs was partly offset by the €2.6 million increase in cargo aircraft leasing costs, up 20.3% on 2006, due to a 3% increase in the number of block hours leased and the different type of cargo aircraft leased (changing the former DC8 for more efficient B-757). The unit aircraft leasing cost was 0.65 €c/ASK, 4.5% less than last year.

The aggregate recurrent fleet maintenance costs totalled €409 million, 21.1% more than last year, largely as a result of the increase in work done for third-party aircraft, the turnover of which was up 24.9%. This increased expense consisted of the following items: the cost of aircraft spare parts was €15 million up on the figure recorded in 2006; the cost of external aircraft repair and upkeep services rose by €55.1 million; and the provision for major repairs increased by €1.2 million. The unit maintenance cost of Iberia's fleet was 9.9% higher than in 2006, due to the increase in work deriving from aircraft returns and a large number of overhauls and engine maintenance, especially early in the year, which required an increase in the contracting of external services.

Commercial costs were reduced by 1.4% year on year as a result of the 10.7% reduction achieved in commissions by lowering the fixed commission to travel agencies in Spain to 0.4% from January 2007 (compared to 1% in 2006) and extending the zero commission model to most international markets. The aggregate amount of other commercial costs (advertising and promotion expenses and development of agreements) rose 6.2% year on year, mainly due to a sharp increase in the cost of media advertising in the last quarter of 2007. The ratio of net commercial costs to traffic revenues was 3.4%, 0.2 percentage points down on 2006.

Traffic service costs totalled €446.9 million in 2007, slightly down on last year (1.1%). Aircraft dispatch costs rose 4.5% (€5 million) partly due to the services provided by third parties at Barcelona, Lanzarote and Fuerteventura airports as from February this year, following the new concessions granted, whereas more than 80% of these costs were recorded in personnel expenses in 2006, when they were provided by Iberia staff. Landing fees were down 5.7% due to a smaller number of flights (6.7%). Other operating costs included especially the reduction achieved in the cost of incidents (interrupted journeys, missed connections and luggage delivery costs) with an overall reduction of 20.4% year on year. The unit cost of traffic services was 0.67 €c/ASK, 2.0% down on last year.

The aggregate cost of navigation charges was €11.7 million less than in 2006, a year-on-year reduction of 4.1%. The costs of in-flight navigation aids were reduced by 3.2%, and the cost of airport approach charges were lowered by 7.5%, in the latter case partly due to the smaller number of domestic flights operated, since Spanish airports charge a higher unit price for this service. The unit cost per ASK was down 5.0% to 0.41 euro cents.

The aggregate cost of "In-flight services" and "Catering materials" rose by €3.8 million year on year, up 4.1%, due to the 8.1% increase in the number of passengers on long-haul flights and especially to more passengers in the Business Plus class (up 18.8%).

The insurance cost was brought down 38.0% to €18.4 million, thanks to a smaller volume of the variables determining the company's risk and, to a lesser extent, the devaluation of the dollar. The costs and covers of aircraft insurance policies were improved as a result of current market trends in respect of premiums and capacity and the risk placement strategy.

Non-recurrent expenses totalled €81.3 million in 2007, 19.9% up on the expenses recorded in 2006. Of this sum, €64 million corresponded to the provision made for the potential cost of extending the Iberia redundancy plan and updating of the commitments acquired. Last year's figure (€67.8 million) included extraordinary provisions of €25.8 million for adjusting the redundancy plan costs and €26.4 million for obsolete stock (engine reparable).

October - December

In the fourth of 2007, costs from operating activities remained more or less on a par with the previous year, up just 0.2%. The non-recurrent expenses recorded in the last three months of both years were rather insignificant (€5.5 million in 2007 and €8.4 million in 2006). Recurrent operating costs rose 0.4% to €1,322 million.

Unit operating costs were 1.5% down, at 7.88 €c/ASK, mainly due to the savings achieved under the Director Plan 2006/08, together with the positive effect of the devaluation of the dollar against the euro. Iberia's share in the costs accrued during 2007 by the joint ventures (providing the handling services at Barcelona, Fuerteventura and Lanzarote airports since late February) were accounted in the last quarter of the year, since sufficiently reliable information had not been available earlier. If we adjusted these costs through the year, the unit cost for the fourth quarter would have been 2.1% less than the cost recorded in the same period of 2006.

Fuel costs totalled €317.9 million in the period October-December 2007, on a par with the same period of last year. Oil prices on international markets increased in the last quarter of the year rising to 96 $/barrel in November and December. However, the company managed to curb the effect of this rise on its fuel costs for the period by €8.3 million through hedging. Costs increased by €38 million year on year in the last quarter of 2007, due to the price rise (after hedging) and increased activity (1.9% in terms of ASK), which was mainly offset by the dollar devaluation and the more efficient fuel consumption. The unit fuel cost was down 1.8% to 1.90 euro cents.

The average Group headcount was cut by 5.4% year on year in the fourth quarter of 2007, with an 8.1% increase in operating revenues per employee. The average ground staff headcount was reduced by 7.2%, with a 9.8% increase in productivity (measured in ASK/employee). The average headcount rose slightly (0.3%) in flight crew, with improvements in productivity (measured in block hours per manpower equivalent) of 0.9% in technical crew and 1.1% in flight attendants.

Recurrent personnel expenses of the Iberia Group totalled €354.9 million, up 3.2% on the same period of 2006, largely due to the afore-mentioned recording of the annual personnel expenses of the three joint ventures providing handling services in the fourth quarter of 2007 and the rise in the CPI, forcing the company to increase provisions for its ground staff.

Depreciation was reduced by 8.9% (€5.2 million) and aircraft leasing costs by €3.2 million (2.9%) as a result of the smaller number of aircraft and the €5.5 million (38.9%) reduction of wet least costs, due to less number of block hours operated (down 23.7%) and the restructuring of operations under this type of lease. The unit aircraft leasing cost was 0.63 €c/ASK, 4.7% down on 2006.

Aggregate recurrent fleet maintenance costs amounted to €102.6 million in the fourth quarter of 2007, up 15.4% on the same period of last year, due to the larger volume of work done for third parties. The unit maintenance cost of the Iberia fleet was up 7.6% year on year to 0.66 €/ASK.

Commercial costs totalled €63.3 million, up 6.0% on the fourth quarter of 2006, due to the increase in advertising costs for special campaigns run in the last three months. This increase was partly offset by the significant reduction in commission charges (down 17.8%). The ratio of net commercial costs to traffic revenues was 3.3%, 0.2 percentage points down on the fourth quarter of 2006.

Traffic service costs amounted to €100.1 million, down 5.3% year on year, partly as a result of the reduction in the number of take-offs during the period (8.8%). Unit traffic service costs were down 7.1% year on year to 0.60 €c/ASK.

The cost of navigation charges was reduced by €4.9 million year on year (7.0%) to €65.1 million in the fourth quarter of 2007. The smaller number of flights operated during the period, especially domestic flights, and the devaluation of the dollar were the main reasons for this reduction, of 8.8% in unit terms.

Financial and Other Non-Operating Results

The **"Net gains on disposals of non-current assets"** amounted to €196.3 million in 2007, €27.3 million of which corresponded to the fourth quarter. That annual figure includes gains on disposals of non-current assets in a sum of €204 million. Approximately half of this amount (€94.4 million) corresponded to the gain obtained on the refunding of contributions to shareholders and sale of part of Iberia's stake on Wam Acquisition S.A. as part of the recapitalisation in this company. The rest of the gains was mainly obtained (approx. €70 million) on the following fleet operations: sale and lease back operations for six A-320; the sale of the first MD-87s (under the contract signed in February, which contemplates the sale of the entire MD fleet over 30 months); and the proceeds from disposal of several engines for fleets being phased out (B-757 and B-747). In November, a gain of €25.4 million was recorded on the disposal of assets corresponding to the final settlement of the expropriation made by AENA in 1999 of land in La Muñoza, the price of which was challenged by the company in court up to October 2007. Another significant item was a gain of €5.5 million obtained on closing of the sale of the SAVIA trademark, made two years earlier.

A cumulative balance of €0.1 million was recorded for **"Asset impairment"** over the twelve months of 2007, compared to a smaller cost of €6.6 million (due to excess provisions) in the previous year.

Financial income totalled €63.5 million in 2007, compared to €25.5 million in the previous year, due to the increase in financial revenues, up €38.2 million to €126.2 million. This increase in financial revenues was produced on the increased interest on short-term deposits, in turn deriving from the larger average balance and the higher interest rates. Financial income amounted to €34 million in the last quarter of the year, compared to €19.8 million in the same period of the previous year. Financial revenues were up €12 million on 2006, boosted by the higher interest rates and the larger balance.

The measurement of hedging instruments in accordance with IAS 39, recorded in **Other revenues and costs** on the Income Statement, increased financial income by €0.2 million in 2007, contrasting with the reduction of €0.8 million recorded in the previous year.

The company chalked up a consolidated profit before tax of €446.4 million in 2007, €281.2 million more than the profit posted in 2006, i.e. a 170.3% growth. Act 35/2006 was passed on 28 November 2006, including a partial amendment of **Corporation Tax**, lowering the general tax rate from 35% to 32.5% in 2007 and 30% as from 2008. The company recorded a tax expense of €118.8 million in 2007, compared to €108.2 million recorded in 2006, which included €59.1 million deriving from a tax adjustment to regularise tax credits. The consolidated profit after tax was €327.6 million in 2007, up €270.6 million on 2006.

Operating Fleet

IBERIA GROUP (a)	December 2007	September 2007	December 2006
Long Haul	**31**	**32**	**31**
Owned	5	5	5
Financial lease	0	0	0
Operating lease	23	24	24
Wet lease	3	3	2
Short and Medium Haul	**105**	**107**	**119**
Owned	30	33	40
Financial lease	9	15	14
Operating lease	64	57	58
Wet lease	2	2	7
Total	**136**	**139**	**150**
Owned	35	38	45
Financial lease	9	15	14
Operating lease	87	81	82
Wet lease	5	5	9

(a) End of period, excluding inactive aircraft
Additionally, as at 31-December-2007 Iberia has two Airbus A-320 and one Boeing B-757 leased to other airline.

Operating Fleet and Variations

At year-end 2007, the Iberia Group had a total operating passenger fleet of 136 aircraft, 35 of which were owned and 9 were financial leases.

The **long haul fleet** consisted of 31 aircraft, the same number as in December 2006, all belonging to the same family, the Airbus A-340. An A-340/300 was added under wet lease in April, and one A-340/600 under operating lease was provisionally out of operation in the fourth quarter.

The **short and medium haul fleet** consisted of 105 aircraft at 31 December 2007, 83 of which were Airbus A-320. Under its fleet renewal plan, the company added nine Airbus during 2007, all under operating leases: one A-321(in January) and eight A-319 (two of them in the last quarter). One A-320 previously leased to another carrier was added to the operating fleet under financial lease in July. A total of twenty-four aircraft were withdrawn during the year: five B-757 under wet lease; nine A-320 operating leases (one in the fourth quarter); one MD-88 owned (in September); and nine MD-87 that were owned (three in the last quarter).

The terms of six A-320 were also changed in 2007, having been operated under financial leases at the beginning of the year, acquired and then run under operating leases as from December 2007.

One of the objectives of the fleet renewal plan is to homogenise the fleet. The company owns only two types of aircraft (A-320 and MD-87/88 families) on domestic and medium-haul international flights, and the B-757 fleet (just two aircraft in the fourth quarter) is operated under a wet lease. Withdrawal of the MD fleet will be completed by mid-2009. Thanks to this plan, the average age of the entire Iberia operating fleet has been brought down to 7.7 years by the end of 2007.

Improved fleet utilisation, one of the most important objectives of the Director Plan, was considerable in 2007, from 9.1 to 9.6 block hours/aircraft/day, a cumulative improvement of 5.3% by the end of the year.

Consolidated Balance Sheet (not audited) (a)

€ thousand	December 2007	December 2006
ASSETS	**6.016.834**	**5.751.250**
Non-current assets	**2.086.515**	**2.491.336**
Intangible assets	50.347	48.853
Property, plant and equipment	1.133.666	1.350.909
Investments in associates	15.693	16.750
Non-current financial assets	405.093	623.394
Iberbus loans	*78.244*	*150.380*
Other	*326.849*	*473.014*
Deferred tax assets	481.307	445.355
Other non-current assets	409	6.075
Non-current assets held for sale	**-**	**-**
Current assets	**3.930.319**	**3.259.914**
Inventories	197.230	187.594
Accounts receivable	719.123	607.292
Current financial investments	859.769	1.489.334
Cash and cash equivalents	2.142.931	963.731
Other current assets	10.266	11.963
EQUITY AND LIABILITIES	**6.016.834**	**5.751.250**
Equity	**2.005.870**	**1.738.596**
Share capital	743.269	739.492
Share premium	119.472	115.405
Reserves	813.792	824.955
Translation differences and differences due to adjustment of capital to euros	667	840
Profit attributable to the parent company	327.340	56.725
Minority interests	1.330	1.179
Non-current liabilities	**1.798.974**	**1.893.950**
Bank borrowings and non-current obligations under finance leases	304.209	481.269
Long term provisions	1.376.997	1.359.057
Other liabilities	117.768	53.624
Current liabilities	**2.211.990**	**2.118.704**
Convertible debenture issue	315	10.362
Bank borrowings and current obligations under finance leases	162.536	227.982
Deferred income	97.101	62.468
Other liabilities	1.952.038	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 €35,258 thousand as of 31-December-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 and €389,952 thousand in 2007. Both figures ares 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 December 2007: 6% of €78,244 thousand x 8 = €37,557 thousand
For December 2006: 6% of €150,380 thousand x 8 = €72,182 thousand

Consolidated Cash Flow Statements (not audited) (a)

€ thousand	Jan-Dec 2007	Jan-Dec 2006
Consolidated profit before tax	**446.443**	**165.193**
Depreciation and amortisation charge and impairment losses	215.334	219.329
Period provisions (net) (+/-)	156.788	107.437
Provisions used (-) (b)	-146.740	-129.657
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)	-101.952	-24.334
Gains/Losses on disposal of investments (+/-)	-94.386	-
Results of associates accounted for using the equity method (+/-)	29.531	-4.518
Gains/Losses on hedging transactions (+/-)	7.175	28.889
Effect of exchange rate changes not giving rise to cash flows	-1.556	-2.920
Other adjustments of the cash-flow (+/-)	-5.998	-42.837
Net change in assets/liabilities not giving rise to cash flows	-54.557	128.760
Taxes paid	-137.446	101.105
Cash flow from operating activities	**312.636**	**546.447**
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	182.730	-115.979
Net investment in non-current investments	148.717	-
Net investment in current investments and other current financial assets (c)	734.910	-294.148
Net investment in other assets	-19.889	39.290
Dividends and interest received	101.735	55.460
Cash flow from investing activities	**1.139.368**	**-331.060**
Dividends paid (-)	-33.262	-18.727
Changes in bank borrowings and other financial liabilities (+/-)	-208.276	-35.538
Interest paid on debt (-)	-33.925	-41.661
Other debt	-9	435
Capital increase	7.847	7.946
Net investment in treasury shares (+/-) (d)	-5.179	14.450
Cash flow from financing activities	**-272.804**	**-73.095**
Net cash flow	**1.179.200**	**142.292**
Cash and cash equivalents at beginning of year	963.731	821.439
Cash and cash equivalents at end of year	2.142.931	963.731
VARIATION OF TOTAL LIQUID ASSETS (e)	**444.290**	**436.440**

(a) Report prepared in accordance with the International Financial Reporting Standards (IFRS).
(b) This corresponds mainly to payments under the redundancy plan in both years.
(c) The part of the Company's cash placed in deposits at more than three months and less than one year is not considered cash under the IFRS. Current financial investments amount to €860 million, €630 million less than at 31 December 2006, as stated on the balance sheet.
(d) The classification criterion for "Net variation in treasury stocks" was changed in 2007, 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.
(e) Net cash flow - Net investment in investments and other current financial assets

Net Debt to Equity / Cash Flow

The in-balance sheet **net debt** of the Iberia Group stood at -€2,500.4 million at 31 December 2007, compared to -€1,722.2 million at year-end 2006, revealing a significant improvement of €778.2 million (up 45.2%). 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), and other balance-sheet adjustments, was €581.7 million, down 56.8% on the previous year.

At 31 December 2007, the Iberia Group had an **equity** of €2,005.9 million, up €267.3 million) on year-end 2006, largely due to the significant growth in consolidated profits.

The fleet divestments, including the sale and lease back of six A-320, are the main cause of the reduction in the balance of **tangible fixed assets** at 31 December 2007 (-€217.2 million down on year-end 2006). The balance of **non-current financial assets** dropped by €218.3 million year on year, mainly as a result of the following events: the divestment corresponding to the Iberbus loans due in 2008, obtained to finance four A340/300 (partly transferred to short-term); adjustment of the balance of those loans applying current exchange rates; cancellation of the €47.5 million loan granted by Iberia to Wam Acquisition S.A. and the sale of 0.5% of its stake in the company.

The **long-term provisions** amounted to €1,377 million at year-end 2007, up 1.3% year on year. Provisions of €64 million were made in 2007 for possible costs deriving from the extension of the redundancy plan.

Iberia generated a positive **cash flow** of €312.6 million from operating activities in 2007, while the total balance of cash and cash equivalents increased by €1,179.2 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 company values these financial instruments at the end of each quarter, recording any changes in value. Most of the derivatives used by Iberia are effective from the point of view of the IFRS and the differences in value over time do not affect income, being recorded within reserves on the balance sheet. But the derivatives that are considered “non-effective” do affect the items on the income statement.

In **2007** the valuation of derivatives had a negative effect of €7.2 million on profit before taxes, broken down as follows: €12.8 million increased cost corresponding to the valuation of financial instruments tied to aircraft operating leases; €5.4 million smaller fuel cost deriving from hedges considered non-effective; and €0.2 million smaller cost in the valuation of other financial instruments. In 2006, application of IAS 39 had a net negative effect (increased cost) of €29.1 million on profit before taxes.

Furthermore, at 31 December 2007, the new measurement of derivatives reduced the balance of reserves on the balance sheet by €41 million from year-end 2006, mainly due to the depreciation of the dollar exchange rate.

In the **fourth quarter** of 2007, the new measurement of derivatives brought about a negative effect of €3.9 million in the results of the quarter, mainly in a €4.2 million increase in the dry lease cost. In the last quarter of 2006, the new measurement of derivatives led to a reduction of €4.9 million in the profit before taxes.

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