SUMMARY OF FY 2008

1. Main figures

Iberia Group

Financial Data € million (a)	4th Quarter 2008	4th Quarter 2007	% (a)	Accumulated 2008	Accumulated 2007	% (a)
Operating revenues (b)	1.329	1.396	-4,8	5.450	5.522	-1,3
Operating costs (b)	1.392	1.322	5,3	5.529	5.238	5,5
EBITDAR (b)	81	232	-65,3	500	932	-46,4
Recurring EBIT (b)	-63	74	n.a	-79	284	n.a
Adjusted EBIT (c)	-33	107	n.a	40	416	-90,4
Profit/loss from operations (d)	-25	109	n.a	5	413	-98,8
Consolidated income before taxes	-28	120	n.a	36	447	-91,9
Consolidated income after taxes	-19	105	n.a	32	328	-90,2
Non-current assets (e)	---	---	---	2.450	2.086	17,4
Current financial investments, cash & cash equivalents (e) (g)	---	---	---	2.272	2.967	-23,4
Equity (e)	---	---	---	1.564	2.006	-22,0
In-balance sheet net debt (e)	---	---	---	-1.803	-2.500	-27,9
Adjusted net debt x 8 (e)	---	---	---	1.012	532	90,3
Cash flow from operating activities	---	---	---	38	381	-90,0
EBITDAR margin (%) (b) (f)	6,1%	16,6%	-10,6 p.	9,2%	16,9%	-7,7 p.
EBIT margin (%) (b) (f)	-4,7%	5,3%	-10,1 p.	-1,5%	5,1%	-6,6 p.
Operating revenue/ASK (€ cent) (b)	8,37	8,33	0,5	8,24	8,31	-0,8
Operating expense/ASK (€ cent) (b)	8,77	7,88	11,2	8,36	7,88	6,1
Operating expense (ex fuel)/ASK (€ cent) (b)	5,84	5,99	-2,4	5,84	6,16	-5,1
Operating data						
ASK (million)	15.875	16.772	-5,3	66.098	66.454	-0,5
RPK (million)	12.302	13.471	-8,7	52.885	54.229	-2,5
Load factor (%) (f)	77,5	80,3	-2,8 p.	80,0	81,6	-1,6 p.
Yield (€ cent) (h)	7,63	7,46	2,2	7,36	7,44	-1,1
Passenger revenue / ASK (€ cent) (h)	5,91	6,00	-1,4	5,89	6,07	-3,0
Annual average headcount	20.956	22.168	-5,5	21.578	22.515	-4,2
ASK / Employee (thousand)	758	757	0,1	3.063	2.952	3,8
No. of aircraft end of period	119	136	-12,5	119	136	-12,5
Average fleet utilization (block hours/aircraft/day)	10,0	9,6	3,6	10,0	9,6	4,3

(a) Percentage changes are calculated over full figures in euros.
The 2008 financial statements include the revenue and costs associated with the Handling Joint Venture (JV) in proportion to Iberia's participation (in 2007 the whole of the annual impact was recorded in the fourth quarter).
(b) Only recurring items.
(c) Excluding 33% of operating leases (100% of dry leases + 50% of wet lease) equivalent to the implicit financial interest of the aircraft rentals.
(d) Includes non-recurring items.
(e) December 2008 vs December 2007.
(f) Year on year variation expressed in percentage points.
(g) Current financial investments (excluding the value of hedging instruments) plus cash and other cash equivalents.
(h) Calculated with passenger revenues generated during the period, excluding revenues from the cancellation of customer advances as well as other minor accounting regularizations.

2. Highlights

- In 2008 the Iberia Group generated consolidated income after taxes of €32 million and profit from operations of €5 million.

- Aircraft fuel costs rose by €521 million in 2008 while other operating costs fell by €230 million.

- The in-depth restructuring of the network and delivery of most of the other initiatives contemplated in the 2006-2008 Director Plan were key to mitigating the impact of rising fuel costs. Thanks to this, stripping out fuel costs, unit operating costs fell by 5.1% during the year.

- Operating revenues narrowed 1.3% year-on-year, hurt by the depreciation of the dollar; at constant exchange rates, revenue would have expanded slightly.

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

- At year-end, the consolidated balance sheet reflects the company's financial health, with equity of €1,564 million and liquidity of €2,272 million.

- Staff group productivity (measured as ASK per employee) climbed 3.8% while fleet utilisation (measured in block hours per aircraft) rose 4.3% to 10 hours daily.

- Iberia, American Airlines and British Airways signed a joint business agreement to develop their cooperation in their operations between Europe and North America.

3. Businesses' evolution

3.1. Transport

Operating Statistics (a)	4th Quarter			Accumulated		
	2008	2007	%	2008	2007	%
Passenger operations						
ASK (million)	15.875	16.772	-5,3	66.098	66.454	-0,5
Domestic	2.194	2.735	-19,8	9.546	11.516	-17,1
Medium Haul	4.126	4.227	-2,4	17.223	16.738	2,9
Europe	3.601	3.739	-3,7	15.192	14.762	2,9
Africa and Middle East (b)	525	488	7,6	2.031	1.975	2,8
Long Haul	9.555	9.811	-2,6	39.330	38.201	3,0
RPK (million)	12.302	13.471	-8,7	52.885	54.229	-2,5
Domestic	1.532	2.111	-27,4	6.810	8.738	-22,1
Medium Haul	2.858	2.925	-2,3	12.584	12.172	3,4
Europe	2.466	2.568	-4,0	11.049	10.693	3,3
Africa and Middle East (b)	391	357	9,5	1.535	1.478	3,8
Long Haul	7.913	8.436	-6,2	33.490	33.319	0,5
Load factor (%)	77,5	80,3	-2,8 p.	80,0	81,6	-1,6 p.
Domestic	69,8	77,2	-7,4 p.	71,3	75,9	-4,5 p.
Medium Haul	69,3	69,2	0,1 p.	73,1	72,7	0,3 p.
Europe	68,5	68,7	-0,2 p.	72,7	72,4	0,3 p.
Africa and Middle East (b)	74,6	73,3	1,3 p.	75,6	74,8	0,7 p.
Long Haul	82,8	86,0	-3,2 p.	85,2	87,2	-2,1 p.
Cargo						
Cargo tonnes	60.194	72.366	-16,8	242.213	260.601	-7,1
ATK (million)	414	438	-5,4	1.714	1.702	0,7
RTK (million)	295	353	-16,4	1.156	1.225	-5,6
Load factor (%)	71,3	80,7	-9,3 p.	67,4	71,9	-4,5 p.
Passenger revenues (c)						
Passenger revenues (€ thousand)	939	1.006	-6,6	3.891	4.034	-3,5
Passenger revenues/ ASK (€ cent)	5,91	6,00	-1,4	5,89	6,07	-3,0
Passenger revenues/ RPK (€ cent)	7,63	7,46	2,2	7,36	7,44	-1,1

(a) Iberia L.A.E. traffic.
(b) Except South Africa, that is included in Long Haul.
(c) Passenger revenues include only those revenues generated during the period. Therefore, revenues from the cancellation of customer advances as well as other minor accounting regularizations are excluded.
ASK: Available Seat Kilometre; RPK: Revenue Passenger Kilometre; ATK: Available Ton Kilometre; RTK: Revenue Ton Kilometre.
Year on year variation in Load factor expressed in percentage points.

Since the end of 2007 air traffic growth has been slowing. This trend gathered pace during the second half of 2008 as a result of the downturn in the global economy. Revenue passenger kilometres (RPK) on regular flights at the airlines belonging to the Association of European Airlines (AEA) rose 1.2% in 2008, compared to growth of 5.4% the year earlier. Meanwhile, the sector also scaled back capacity, albeit not by enough to offset the slide in demand, so that load factors declined on a widespread basis over the course of the year. The average load factor at AEA member airlines narrowed 1.3 percentage points in 2008 to 76.0%.

Last year Iberia posted a passenger load factor of 80.0%, compared to 81.6% in 2007 - which was the company's annual ranking, ahead (together with Air France-KLM) of the other European network carriers. Capacity at Iberia, measured in available seat-kilometres (ASK), narrowed 0.5% on 2007 across the network, mainly driven by capacity downsizing on domestic routes. Accordingly, aggregate capacity on international flights climbed 2.7% year-on-year.

The quarterly trend in activity highlights the gradual weakening in traffic across all markets, especially in the final months of the year, as the downturn in the economic situation intensified. The company stepped up the pace of capacity adjustments as 2008 progressed: overall capacity rose by 1.7% in 1H08, fell by 0.2% in 3Q08 and by a more notable 5.3% in 4Q08.

In 2008 Iberia concluded the review and optimisation of the flight programme set out in the 2006-2008 Director Plan, boosting network operations. The company continued to add capacity and optimise connections through its Madrid-Barajas hub and, at the same time finalised the selective streamlining of its capacity on point-to-point routes, with the greatest impact on domestic routes. The impact of these measures, together with sustained growth in capacity on transatlantic flights and flights to and from Central and Eastern Europe led to a 12.6% jump in the average stage length to 2,273 kilometres.

The yield, or passenger revenue per RPK, decreased by 1.1% for the network as a whole in 2008, while revenue per ASK slid 3.0% on 2007. Both indicators were hurt by the increase in average stage length and the depreciation of the dollar. Stripping out the adverse impact of movements in exchange rates, the drop in revenue per ASK narrows to just 0.7%, while the yield increases by 1.3%.

In the **long-haul** segment, capacity rose 3.0% year-on-year. A little over half of this amount was accounted for flights to and from Central America, a region which represents 26.8% of the company's total, where capacity rose 3.4% in 2008. This year the pace of capacity additions in South America slowed to 1.5% after the significant growth in 2007 (12.9%). Lastly, North America was the fastest growing sub sector in relative terms: available-seat kilometres climbed 6.4% on 2007, largely due to the addition of flights to Boston and Washington in May and June 2007, respectively.

In the long-haul segment, revenue per ASK narrowed 1.0% on 2007, mainly due to the depreciation of the dollar. At constant exchange rates, revenue per ASK would have increased 2.6% in this segment. The yield improved 1.4% (and by 5.1% stripping out the currency effect).

Following the review and optimisation of the network, available-seat kilometres on flights departing or arriving at the Madrid-Barajas hub rose 14.9% on 2007, 12 points above capacity growth for the overall **European network**. Some Eastern European destinations celebrated their first anniversary (Bucharest in March, Prague and Warsaw in October): supply and demand on these routes grew strongly in 2008. A new destination was also added in 2008: Dubrovnik, a route operated between June and October. Capacity on other European routes also increased, with Switzerland, Russia and Turkey standing out.

The company increased capacity on routes between its hub and Africa and the Middle East by 25.2% on 2007. That being said, overall available-seat kilometres in this segment rose by just 2.8% as other connections were scaled back under the umbrella of the network restructuring. In 2008 capacity growth was noteworthy on flights to Israel, Equatorial Guinea and Algeria, partially offset by reduced capacity on flights to and from Morocco and Egypt.

The yield in the medium haul segment fell by 2.8% on 2007, hit by the increase in the average stage length (up 5.4%), the depreciation of the dollar and the pound sterling against the euro and because of pricing pressure on European routes. Revenue per ASK narrowed 2.3%; at constant exchange rates this drop narrows to 0.3% year-on-year.

In line with the strategic network restructuring, capacity in the **domestic** segment declined 17.1% on 2007, while demand fell 22.1%, hurt by the downturn in the economy and impacted by the start-up of new high speed train routes. Iberia slashed available seat-kilometres on the Madrid-Barcelona route (the shuttle plus regular scheduled flights) by 21.8% compared to 2007, although hardly touching flight frequency, in response to the strong competition from the high speed train, which began to operate on 20 February 2008. On other domestic flights connecting at the hub, capacity rose 2.9% year-on-year.

The significant improvement in yield (7.1%) more than offset the negative impact of the drop in load factor, so that revenue per ASK inched 0.7% higher in 2008 in this segment.

The gradual deterioration in the economy hit airlines' business travellers particularly hard. Although Iberia maintains its leadership position in this segment, the number of business class passengers on Iberia's long haul routes narrowed 2.4% 2007, whereas the number of passengers in all classes rose 0.3% to over 4.2 million in 2008. On flights between Spain and Europe, business class traffic fell 13.2% in 2008 for the overall market. Iberia lifted its market share in this segment by 1.8 points relative to the year before.

RTK on cargo flights fell 5.6% on 2007 to 1,156.1 million, while ATK rose 0.7%. In all, the load factor deteriorated by 4.5 percentage points to 67.4%

3.2. Maintenance

In 2008 Iberia Maintenance undertook a total of 225 C and D inspections, equivalent to a 4.3% increase on activity in 2007. The percentage of inspections performed for third party carriers stood at 59.7% (2007: 35.0%). In engine maintenance, production rose 30% on 2007 to 243.

The average equivalent headcount at the maintenance and engineering division was 3,767 in 2008, 1% lower than the previous year.

In 2008 Iberia executed important business contracts, improving the company's overall positioning in aircraft maintenance. These agreements stand out for their economic and strategic significance:

- Signature of a long-term arrangement with DHL Air and EAT under which Iberia will overhaul over 80 Rolls Royce RB211-535 C37 engines.
- Agreement with Dana Airlines and Aurora Airlines for maintenance of MD80-88 engines and components.
- Contract with Air Europa for the repair and overhaul of CFM56-7B engines for its fleet of 33 Boeing 737s, marking the first time the company overhauls a CFM56-7B engine.
- Collaboration agreement with EADS/CASA for the development of the new Airbus 330 tanker.
- Agreement with US company Precision Conversions to change the configuration of its Boeing 757s from passenger to cargo aircraft.
- Contract with GE Aviation under which Iberia Maintenance was awarded status of preferred regional maintenance centre for the repair and overhaul of CFM56-5A engines.
- Agreement with SR Technics to repair and overhaul its CFM56-5C engines and components.

Here it is worth underscoring the fact that Iberia Maintenance is one of the few maintenance centres in the world to service RB211-535 engines, and the only provider in Europe. In addition, the engine subdivision is the only centre in Spain and one of just three in Europe certified to inspect General Electric's CF34 engine.

Among the multiple agreements executed under the umbrella of Iberia Maintenance's strategic development, two new joint ventures stand out.

In Spain, the company signed an agreement with Gestair to set up a (50/50) joint venture called CorJet. The creation of this new company enables Iberia to step up its maintenance activities for executive aircraft. Previously, Iberia Maintenance had been awarded a contract by US business jet aircraft maker Gulfstream, awarding it the status of Gulfstream Authorized Warranty Repair Facility for Europe, Africa and the Middle East, including aircraft-on-ground (AOG) support. Upon creation of the joint venture, this contract was transferred to CorJet.

Abroad, Iberia Maintenance and Singapore Technologies Aerospace Solutions Europe (STASEU) signed an exclusive agreement for the repair and overhaul of aeronautic components. The agreement covers 24 Airbus aircraft, models A319, A320, A330 and A340, owned by SAS and Air Greenland.. STASEU is part of Singapore Technologies Aerospace (STA), a company with which Iberia Maintenance recently set up Madrid Aerospace Services for the maintenance of landing gear for Airbus' A320, A330 and A340 aircraft, a growing market segment.

3.3. Handling

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

In 2008 Iberia Handling handled 80 million passengers, 8.3% fewer than in 2007. The average number of aircraft handled by Iberia was 376,040, a drop of 6.8% on 2007; it is worth noting that this comparison includes handling by Iberia during the first two months of 2007 at the five airports where it subsequently lost the concession (Barcelona, Almeria, Jerez de la Frontera, Lanzarote and Fuerteventura), as well as the entrance of new handling operators and the resulting new competitive scenario.

Third party handling, which accounted for 56.2% of the total aircraft handled, fell 2.2% on 2007. Iberia's handling business managed to hold on to a higher share than its competitors at each airport, thanks to the strength of its customer portfolio: Atlas Blue, TAM and Turkish Airlines entered the fold at the beginning of the year and Iberia began handling for First Choice last March.

The average headcount at Iberia Handling was 7,769 equivalent employees in 2007, 8,5% less than in 2007. The number of man hours fell faster than volumes so that staff productivity rose 3.1%. Enhanced productivity was the results of a series of initiatives undertaken under the umbrella of the 2006-2008 Director Plan.

4. Financial Evolution

4.1. Consolidated Statements of Income

Iberia Group						
€ million	Oct – Dec 2008	Oct – Dec 2007	% (a)	Jan – Dec 2008	Jan – Dec 2007	% (a)
Profit/loss from operations (a) (c)	**-25**	**109**	**n.a**	**5**	**413**	**-98,8**
Revenues from operations	**1.368**	**1.409**	**-2,9**	**5.515**	**5.536**	**-0,4**
Net sales	**1.259**	**1.342**	**-6,2**	**5.223**	**5.304**	**-1,5**
Passenger revenue (b)	1.015	1.075	-5,6	4.218	4.325	-2,5
Cargo revenue	87	96	-9,4	347	343	1,0
Handling	61	73	-16,5	275	280	-1,8
Technical assistance to airlines	71	77	-8,3	297	273	8,7
Other revenues	24	20	21,7	86	83	3,1
Other operating revenues	**109**	**67**	**63,0**	**292**	**231**	**26,4**
Recurring	70	55	28,0	227	217	4,5
Non-recurring	39	12	215,9	65	14	n.m
Costs from operations	**1.394**	**1.327**	**5,0**	**5.535**	**5.319**	**4,0**
Procurements	**509**	**371**	**37,2**	**1.864**	**1.358**	**37,2**
Aircraft fuel	464	318	46,1	1.666	1.145	45,5
Aircraft spare parts	35	42	-18,5	160	173	-7,2
Catering materials	5	6	-14,2	21	23	-11,1
Other purchases	5	5	1,8	17	17	1,1
Personnel expenses	**311**	**358**	**-13,0**	**1.321**	**1.444**	**-8,5**
of which: Non recurring	1	3	-52,3	1	64	-97,8
Depreciation and amortization	**46**	**53**	**-13,8**	**193**	**215**	**-10,4**
Other operating costs	**528**	**546**	**-3,2**	**2.157**	**2.301**	**-6,3**
Aircraft leases	98	105	-6,5	386	433	-10,9
Other rentals	20	20	1,4	76	76	0,5
Fleet maintenance (subcontracts)	57	62	-8,6	228	246	-7,3
of which: Non recurring	-	2	n.a.	-	10	n.a.
Commercial costs	39	63	-39,0	200	243	-17,4
Traffic services	102	100	1,8	413	447	-7,5
Navigation charges	63	65	-3,8	258	274	-5,8
In-flight services	18	16	10,1	72	72	-1,2
Booking systems	30	30	0,2	137	144	-4,9
Other costs	103	85	21,1	386	366	5,4
of which: Non-recurring	1	0	64,7	5	7	-34,2
Net gains on disposals of non-current assets	**1**	**27**	**-98,1**	**25**	**196**	**-87,5**
Impairment losses (c)	**0**	**0**	**n.a**	**0**	**0**	**n.a**

n.a.: not applicable; n.m.: not meaningful
(a) Percentage changes are calculated over full figures in euros.
Profit/loss from operations includes operating income, non recurring revenues and costs, as well as net gains on disposals of non-current assets and impairment losses. In 2008, revenues and costs of each quarter also include the proportional part of Iberia's stake in the Handling JV (in 2007 the full impact was recorded in the fourth quarter).
(b) Passenger revenues include issued but unused tickets, previously accounted in current liabilities as customer advances, together with other minor adjustments.
(c) A provision for financial investments amounting to 24 million € was recorded at 30th September 2008 under the chapter of "Impairment losses" has been reclassified to Financial Results ("Other revenues and expenses").

Iberia Group						
€ million	Oct – Dec 2008	Oct – Dec 2007	% (a)	Jan – Dec 2008	Jan – Dec 2007	% (a)
Financial results	15	34	-56,3	49	63	-22,9
Financial revenues	36	47	-23,6	137	126	8,7
Financial expenses	16	11	43,9	52	60	-13,6
Exchange gains/losses	2	-1	n.a	-2	-3	48,6
Other revenues and expenses (c)	-6	0	n.m	-34	0	n.m
Share of results of associates	-18	-22	20,9	-18	-29	40,0
Profit before taxes	-28	120	n.a	36	447	-91,9
Taxes	9	-16	n.a	-4	-119	96,7
Profit after taxes	-19	105	n.a	32	328	-90,2
Atributable to shareholders of the parent company	-19	104	n.a	32	327	-90,2
Basic earnings per share (euros)	-0,021	0,111	n.a	0,034	0,346	-90,1
Diluted earnings per share (euros)	-0,021	0,110	n.a	0,034	0,346	-90,0

n.a.: not applicable; n.m.: not meaningful
Average weighted nº of shares were 929,348 thousand in 2008 and 945,467 thousand in 2007.

4.2. Revenues from operations

Revenues from operations were €5,515 million in 2008, a slight drop (0.4%) on 2007, reflecting growing weakness in air traffic and the strength of the euro relative to the dollar (appreciating around 8% on average throughout the year). At constant exchange rates, revenues from operations would have advanced 1.8% in 2008. The fallback in passenger revenue and revenue from handling was partially mitigated by the healthy performance in other headings and the recognition of non-recurring revenues in 2008 of €65 million (2007: €14 million), reflecting the reversal of several provisions and settlement of a €15 million insurance claim in connection with an A-340 aircraft.

Passenger revenue narrowed 2.5% on 2007 to €4,218 million. Of this amount, €3,891 million corresponded to revenue from flight tickets used during the year, which fell 3.5% in 2008. The main contributing factors behind this drop were the sharp depreciation of several currencies, primarily the dollar, relative to the euro, coupled with weaker traffic (down 2.5% by RPK) on the back of weak demand and scaled back capacity in the domestic segment. At constant exchange rates passenger revenue from used flight tickets would have decreased 1.2% on 2007.

Cargo revenue climbed 1.0% on 2007 to €347 million. This growth reflects higher revenue at subsidiary Cacesa and higher revenue from excess baggage charges. Revenue from Iberia's cargo transport business narrowed 1.0% in 2008, reflecting the 5.6% drop in RTK on the back of the progressive economic downturn. Lower traffic was partially mitigated by a 4.9% rise in revenue per RTK for the overall network, achieved despite the weak dollar and the growth in the average stage length.

Revenues from **handling** amounted to €275 million, down 1.8% on 2007 due to lower volumes (-2.2% measured by aircraft handled). Here it is necessary to point out that the new concession regime was in effect for just 10 months in 2007 compared evidently to the full-12 month period in 2008, masking the consolidation of the company's position in this business. This heading also includes handling revenue accrued at the handling JVs in Barcelona (Groundforce), Lanzarote and Fuerteventura (Clever) where revenues strengthened year-on-year, as well as revenues generated in 2008 at the JVs set up last summer to provide ground handling services to persons with reduced mobility (PRM).

Revenue from **technical assistance to airlines** amounted to €297 million, €24 million more than in 2007, which translates into healthy growth of 8.7%, reflecting volume growth in technical assistance support: engine review and overhaul (especially CFM56s), components, C and D inspections and additional work. Dollar depreciation eroded revenue from technical assistance by four percentage points.

"**Other revenues**" rose €3 million, or 3.1%, on 2007. This reflects higher revenues from services provided at the cargo terminals, sundry sales and, above all, growth in revenues from use of the Amadeus booking system, which reached €55 million, offset by the elimination of revenue from in-flight product sales, due to the outsourcing this business mid-2007.

"**Other operating revenues - recurring**" (commissions, deferred income, revenues from the provision of staff to the JVs, rents and other sundry revenue items) rose 4.5% on aggregate to €227 million in 2008.

4.3. Costs from operations

In 2008, **costs from operations** at the Iberia Group increased by 4.0% to €5,535 million due to the hike in average fuel prices, which were partially offset by the savings arising from implementation of strategic initiatives under the 2006-08 Director Plan and by the positive impact of dollar depreciation against the euro. Except for aircraft fuel, all the main cost headings fell with respect to 2007. Recurring costs from operations amounted to €5,529 million in 2008, up 5.5% on 2007. Stripping out fuel expense, the rest of the operating costs declined by 5.6%.

Unit operating costs rose 6.1% on the year before to 8.36¢ per ASK in 2008. Again, stripping out aircraft fuel, unit costs fell 5.1% to 5.84¢ per ASK, remaining below 2007 levels.

Fuel costs amounted to €1,666 million in 2008, up 45.5% on 2007. This meant its contribution to operating costs rose to 30.1%, and represented 33.6% of the transport business costs. Unit fuel costs stood at 2.52¢ per ASK in 2008, up 46.2% on 2007.

On balance, aircraft fuel expense rose by €521 million in 2008, driven by the high prices fetched by oil and oil derivatives for the bulk of the year and tremendous price volatility. In 1H08 aviation fuel prices continued to rise, despite starting from very high levels (around $900 per metric tonne), peaking at over $1,450 per metric tonne in July, when they hit an all-time high. In the ensuing months, fuel prices fell sharply due to the rapid deterioration in the economic environment, ending the year at under $500 a tonne.

In 2008, the Iberia Group's recurring **personnel expenses**, which accounted for 23.9% of total operating costs, amounted to €1,320 million, down 4.4% on 2007, thanks mainly to the reduced average headcount (4.2% lower).

The average ground staff **headcount** dropped 5.1% on 2007 to 16,011 equivalent employees, thanks to voluntary redundancies effected in the past two years under the umbrella of productivity enhancement measures included in the Director Plan. The average in-flight staff headcount (technical and cabin crew) was reduced by 1.3% in 2008 to 5,567 FTEs. Personnel expenses at all three categories fell during the year.

Group staff **productivity**, measured as ASK per employee, rose 3.8% in 2008. Unit personnel expenses narrowed 3.9% on 2007 to 2.0¢ per ASK.

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

OPERATING FLEET (a)	December 2008	September 2008	December 2007
Long Haul	33	33	31
Owned	6	7	5
Financial lease	1	0	0
Operating lease	23	23	23
Wet lease	3	3	3
Short and Medium Haul	86	92	105
Owned	10	14	30
Financial lease	10	10	9
Operating lease	66	67	64
Wet lease	0	1	2
Total	119	125	136
Owned	16	21	35
Financial lease	11	10	9
Operating lease	89	90	87
Wet lease	3	4	5

(a) End of period, excluding inactive aircraft. Additionally, as at 31-December 2008 Iberia has a Boeing B-757 and an Airbus A 320 leased to other airlines.

At 31 December 2008, Iberia's operating fleet was made up of 119 aircraft, of which 89 were held under operating leases and three under wet leases.

Aircraft leases fell 10.9% on 2007 to €386 million. Passenger aircraft operating lease expense narrowed €35 million thanks mainly to better prices negotiated, falling interest rates, and the depreciation of the dollar. Wet lease expenses also dropped €13 million (down 28.7%) due to restructuring of the regular portion (i.e., not one-off) of this arrangement, resulting in a lower number of aircraft operated under this regime and, accordingly, a reduced number of block hours (down 12.0% on 2007). Cargo aircraft lease expense, which accounts for a relatively small portion of lease expense, rose 3.6% on the back of a 5.5% jump in block hours leased, mostly in the early part of the year. Unit fleet lease expense per ASK fell 10.5% on 2007 to €0,58 cents/ASK.

Depreciation and amortisation charges were 10.4% lower in 2008, at €193 million. Of this balance, 64% corresponded to fleet depreciation charges, which narrowed 13.8%, reflecting fewer on-balance sheet aircraft, partially due to the withdrawal of the MD87/88 aircraft. The process of retiring this aircraft from service concluded in 4Q08.

Aggregate recurring **fleet maintenance** expenses (including subcontracts and consumption of spare parts) amounted to €389 million in 2008, down 4.9% on 2007, in part boosted by the weaker dollar. Most of this reduction was driven by lower expense in connection with consumption of spare parts, which contracted 7.2% on 2007, while recurring costs incurred in subcontracts also narrowed 3.2%. The lower costs, which are tied to productivity improvements and a more modern and uniform fleet, are more remarkable when considered in the light of the growth in technical assistance provided by Iberia to third parties.Unit maintenance expense for aircraft operated in Iberia's transport business declined by 5.9% per ASK to €0.65¢.

Commercial costs came to €200 million in 2008, down 17.4% on a year earlier. Commissions, promotional expenses and development expenditure on aggregate fell 15.4% to €176 million, while advertising expense plunged 29.4% to €24 million in 2008. Thanks to the company's hard work in recent years on reducing commercial expenses, the ratio of net commercial costs to passenger revenue fell by 0.8 percentage points from 2007 to 2.6% in 2008.

Last year, **traffic service** costs fell 7.5% on 2007, with virtually all the items included under this heading registering decreases. The drop in spending was partially driven by the drop in take-offs (down 15% year-on-year), as a result of the comprehensive overhaul of the short and medium haul flight programme and the increasing weight of long-haul flights. Expenses incurred in connection with landing fees, the use of jet bridges and other airport services dropped 5.1% while incident-related costs (discontinued flights, missed connections and baggage deliveries) fell 20.5% thanks to higher quality operations management (except for in the latter part of the year). On aggregate the other items included under this heading (aircraft dispatch, levies, aircraft cleaning and crew layover expense, among others) fell 8.5% on 2007.

Navigation charges declined 5.8% year-on-year, boosted by the reduced number of flights operated during the year and, to a lesser extent, dollar weakness. In-route navigation assistance services were 5.1% lower in 2008, at €210 million. Meanwhile Eurocontrol unit navigation rates for use of airspace in the main countries Iberia flies over, fell by 0.3% on average last year.

Approach rates fell 8.8% on 2007 to €48 million, due primarily to reduced traffic. In 2008 approach navigation fees at Spanish airports rose by 3% on a unit basis compared to 2007.

Booking system expenses fell 4.9% on 2007, partly driven by lower bookings. Factoring in the growth in revenue from use of booking systems, derived primarily from application of a new agreement in effect with Amadeus, the net cost of booking systems fell 12.6% year-on-year.

"**Other recurring costs**" amounted to €381 million in 2008, up 6.2% on 2007, driven by growth in shuttling crew members, other maintenance expense (IT, ground equipment, tools and installations), software, sundry services and levies, among other items.

"**Non-recurring costs**" amounted to €5 million in 2008, and include a series of provisions, noteworthy among which is the one-off charge of €1.4 million recognised to update the estimate made by the company in relation to cost of extending the redundancy programme.

In 2007 non-recurring costs recognised totalled €81 million, of which €64 million corresponded to a one-off provision also recorded to extend and update estimated redundancy costs. In addition, in 2007 the company recognised €10 million as non-recurring maintenance expense for work performed in relation to aircraft returns.

4.4. Other results

In 2008 the company recognised a gain of €25 million under "**Net gains on disposals of non-current assets**", generated almost entirely by aircraft disposals.

In 2007 the Group recognised net gains of €196 million, of which €94 million corresponded to the gain on the sale of a portion of Iberia's stake in Wam Acquisition, S.A., as part of the recapitalisation of this company. Most of the remaining gains recognised in 2007 derived from a series of fleet related transactions (around €70 million) and the sale by Iberia of land it owned in the industrial region of La Muñoza (around €25 million).

Financial results amounted to net revenue of €49 million in 2008, €15 million less than in 2007, due to the negative impact of restating hedges to fair value, namely a charge of €29 million in 2008, recognised under "Other revenues and expenses". Most of this charge reflects the impairment of fuel hedges not deemed "effective" for hedge accounting purposes (€23 million). In 2008, "Other revenues and expenses" also included a provision related to the participation of Iberia in Clickair.

Financial revenues, net of financial expenses, rose 28.8% on 2007 to €85 million. Financial revenues climbed 8.7% to €137 million thanks to higher interest income on short term deposits, due to a higher average cash balance and higher interest rates. Moreover, financial expense declined a significant 13.6%, largely due to lower interest charges on loans and finance lease obligations.

The **share of results of associates** meanwhile improved by €12 million in relation to the losses recognised in 2007, mainly thanks to a stronger earnings performance at Clickair.

5. Financial position

Current financial investments, cash and cash equivalents amounted to €2,351 million at the end of 2008, €652 million less than in 2007 due to dividend payment, BA shares purchase and the decrease of operating results. This figure includes the valuation of hedging instruments, which according to IFRS 39 was €79 million at 31st December 2008 and €35 million at 31st December 2007.

The Iberia Group's **in-balance sheet net debt** remained negative, i.e. the balance of current financial assets (excluding the measurement of hedges) exceeded the total balance of interest-bearing debt in the amount of € 1,803 million at 31 December 2008 compared to €2,500 million at 31 December 2007.

Adjusted net debt, including the capitalisation of operating leases (excluding the effect of hedging revaluation and adjusting for interest on the loans to the Iberbus companies), amounted to €1,012 million, an increase of €480 million on the year-end 2007 balance.

The Iberia Group's **equity** stood at €1,564 million at 31 December 2008, €442 million less than at year end 2007, due mainly to the dividend paid against 2007 profits (€158 million), coupled with fair value adjustments deferred in reserves in connection with the impairment of financial instruments and hedges.

At 31 December 2008, the consolidated balance sheet of the parent company included a €64 million reserve for treasury stock relating to 27,898,271 treasury shares (equivalent to 2.93 of share capital), with an overall nominal value of €22 million, purchased at an average price of €2.31 per share.

6.Relevant events after 31 December 2008

- On the 22nd of January 2009, Iberia and pilot union SEPLA reached a preliminary agreement regarding the renewal of the pilots' collective agreement which has to be voted by the Pilots' Assembly.

- On the 9th of January 2009, European Commission authorised the merger of Clickair and Vueling.
  On the 13 and 18 of February the Boards of Directors of Vueling and Clickair approved a framework agreement for a merger of equals between the two carriers, preserving the merged entity's independence. The newco will have Iberia as a core shareholder and Inversiones Hemisferio, S.L. and Nefinsa, S.A. as strategic shareholders.

7. Main risks and uncertainties

Thanks to delivery of its strategic targets in recent years, the Iberia Group has built solid foundations to face the industry challenges.

Spain has entered into a severe recession, the duration and intensity of which remain unknown. The economic downturn has been shaped in local and global factors: on the home front, the end of the expansionary cycle generated a legacy of macroeconomic imbalances; the Spanish economy has also been hit by the impact of the international credit crisis and the fallout on interest rates and liquidity. As a result of these developments, all economic forecasts have been revised successively downwards. In its most recent set of projections, the IMF calculates that Spanish GDP will contract by 1.7% in 2009 and by a further 0.1% in 2010.

Another significant risk factor is oil price volatility and uncertainty. Airline profits deteriorated sharply over the course of 2008 as fuel prices surged from $90 a barrel in January to peak at over €140 in July. In the latter half of 2008, Brent crude oil prices plunged to end the year at below $40 a barrel, although most airlines were not able to benefit from this drop. In light of acute market volatility, it is extremely difficult to predict the trend oil prices will take in the coming months. Iberia has developed a complex scheme of aircraft fuel hedges for the coming quarters, using a range of derivatives to hedge around 50% of projected annual consumption.

The evolution of the dollar represents another source of uncertainty: the possible appreciation of the dollar against the euro would drive both revenues and expenses higher as around 45% of the company's costs and 25% of its revenues are tied to the greenback.

The company undertakes multiple risk control and management initiatives, establishing systems that enable it to identify, evaluate and mitigate the main risks affecting its various businesses. Specifically, Iberia operates a global financial risk management programme designed to control and diminish the potential impact of swings in fuel prices, exchange rates and interest rates on its income statement.

The company will also have to tackle intensifying competitive pressure in all markets. In the domestic market, the new high speed rail routes are emerging as a competitor for the airlines. The advent of the high speed train (AVE) between Spain's two largest cities, Madrid and Barcelona, in February 2008, has triggered a drop in air traffic on this route. Previously, in December 2007, high speed rail connections started up between Madrid and Malaga. In 2009 the AVE is expected to connect Madrid with Valencia and Alicante to the east, and with Bilbao to the north.

The union representatives for the technical crew and Iberia's management have held protracted negotiations to set the terms of the new collective agreement. These talks have concluded with a preliminary agreement reached in the second half of January 2009. The agreement contemplates measures that will enable delivery of most of the targets set for this group in terms of unit costs and productivity under the 2006-08 Director Plan.

In July 2008 the XVIII collective agreement for Iberia ground staff was signed, effective from 1 January to 31 December 2008. Also last year, management and union representatives for cabin crew agreed to extend the XV collective agreement in effect until 31 December 2008.

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Iberia Group

Consolidated Financial Statements for 2008 and 2007, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23). In the event of a discrepancy, the Spanish-language version prevails.

IBERIA GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007

(Millions of Euros)

ASSETS	Notes	2008	2007	EQUITY AND LIABILITIES	Notes	2008	2007
NON-CURRENT ASSETS:				**EQUITY:**	9		
Intangible assets	5.1	52	51	**Share capital**		743	743
Property, plant and equipment-	6	1,118	1,133	**Share premium**		120	120
Aircraft		779	791	**Reserves of the Parent**		694	817
Other items of property, plant and equipment		339	342	**Reserves at fully consolidated companies**		(5)	(12)
Investments in associates		17	16	**Reserves at companies accounted for using the equity method**		(21)	10
Non-current financial assets-	7	672	404	**Profit attributable to the Parent-**		32	327
Equity instruments		247	42	Consolidated profit for the year		32	328
Loans and receivables		123	116	Profit attributable to minority interests		-	(1)
Derivatives		70	26	**Equity attributable to shareholders of the Parent**		1,563	2,005
Other financial assets		232	220	**Minority interests**		1	1
Deferred tax assets	13	591	481	**Total equity**		1,564	2,006
Other non-current assets		-	1				
Total non-current assets		2,450	2,086				
				NON-CURRENT LIABILITIES:			
				Long-term provisions	11	1,283	1,377
				Non-current payables	10	403	421
				Deferred tax liabilities	13	1	1
				Non-current accrued expenses and deferred income	5.16	78	97
				Total non-current liabilities		1,765	1,896
CURRENT ASSETS:							
Non-current assets classified as held for sale	6	11	-				
Inventories-	5.5	224	197				
Aircraft spare parts		176	151				
Other inventories		48	46				
Accounts receivable	8	586	720				
Current financial assets-	7.2	1,751	860	**CURRENT LIABILITIES:**			
Loans and receivables		34	60	**Current payables**	10	640	269
Derivatives		79	35	**Customer advances**	5.16	394	455
Other financial assets		1,638	765	**Trade and other payables-**		1,254	1,384
Current prepayments and accrued income		12	11	Suppliers and sundry accounts payable		970	1.020
Cash and cash equivalents-	5.7	600	2,143	Remuneration payable		159	202
Cash		74	77	Tax payables	13	125	162
Other cash equivalents		526	2,066	**Current accrued expenses and deferred income**		17	7
Total current assets		3,184	3,931	**Total current liabilities**		2,305	2,115
TOTAL ASSETS		5,634	6,017	**TOTAL EQUITY AND LIABILITIES**		5,634	6,017

The accompanying Notes 1 to 23 are an integral part of the consolidated balance sheets at 31 December 2008 and 2007.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23). In the event of a discrepancy, the Spanish-language version prevails.

IBERIA GROUP

CONSOLIDATED INCOME STATEMENTS FOR 2008 AND 2007

(Millions of Euros)

		Income (Expenses)	
	Notes	**2008**	**2007**
Revenue	**14.1**	**5,222**	**5,304**
Other operating income-	**14.2**	**292**	**231**
Recurring		227	217
Non-recurring		65	14
Procurements	**15.1**	**(1,864)**	**(1,354)**
Staff costs-	**15.2**	**(1,321)**	**(1,444)**
Recurring		(1,320)	(1,380)
Non-recurring		(1)	(64)
Depreciation and amortisation charge		**(193)**	**(215)**
Other operating expenses-	**15.3**	**(2,156)**	**(2,305)**
Recurring		(2,152)	(2,288)
Non-recurring		(4)	(17)
Net gains on disposal of non-current assets	**14.3**	**25**	**196**
Profit from operations		**5**	**413**
Finance income	14.4	137	126
Finance costs	15.4	(52)	(60)
Exchange differences (gains and losses)		(2)	(3)
Share of results for the year of associates	16	(18)	(29)
Other income and expenses		(34)	-
Profit before tax		**36**	**447**
Income tax	13	(4)	(119)
Profit for the year from continuing operations		**32**	**328**
Attributable to:			
Shareholders of the Parent		32	327
Minority interests		-	(1)
Basic earnings per share (in euros)	**9.3**	**0,034**	**0,346**

The accompanying Notes 1 to 23 are an integral part of the consolidated income statements for 2008 and 2007.

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IBERIA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

A) CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR 2008 AND 2007

(Millions of Euros)

	Income/(Expenses)	
	31/12/08	**31/12/07**
CONSOLIDATED PROFIT FOR THE YEAR	**32**	**328**
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		
Measurement of financial instruments:	**(114)**	**-**
Available-for-sale financial assets	(114)	-
Cash flow hedges	**(335)**	**(84)**
Tax effect	**135**	**25**
	(314)	**(59)**
TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT:		
Cash flow hedges	**66**	**40**
Tax effect	**(20)**	**(12)**
	46	**28**
TOTAL RECOGNISED INCOME / (EXPENSES)	**(236)**	**296**

The accompanying Notes 1 to 23 are an integral part of the consolidated statement of changes in equity for the years ended 31 December 2008 and 2007.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23).
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IBERIA GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
B) CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (Note 9)

(Millions of Euros)

			Reserves of the Parent						Reserves at					
	Share Capital	Share Premium	Adjustment of Share Capital to Euros	Legal Reserve	Treasury Shares	Voluntary Reserves	Reserves Arising from Application of IFRSS	Valuation Adjustments	Fully Consolidated Companies	Companies Accounted for Using the Equity	Profit	Total	Minority Interests	Total Equity
Balances at 31 December 2006	**739**	**116**	**1**	**147**	**(14)**	**596**	**165**	**(58)**	**(17)**	**6**	**57**	**1,738**	**1**	**1,739**
Total recognised income and expenses	-	-	-	-	-	-	-	(31)	-	-	327	**296**	-	**296**
Transactions with owners														
Distribution of profit:														
To reserves	-	-	-	1	-	51	(37)	-	5	4	(24)	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	(33)	(33)	-	(33)
Capital increase	4	4	-	-	-	-	-	-	-	-	-	8		8
Changes in treasury shares	-	-	-	-	(5)	-	-	-	-	-	-	(5)	-	(5)
Other changes	-	-	-	-	-	-	1		-	-	-	1	-	1
Balances at 31 December 2007	**743**	**120**	**1**	**148**	**(19)**	**647**	**129**	**(89)**	**(12)**	**10**	**327**	**2,005**	**1**	**2,006**
Total recognised income and expenses	-	-	-	-	-	-	-	**(268)**	-	-	32	**(236)**	-	**(236)**
Transactions with owners														
Distribution of profit:														
To reserves	-	-	-	1	-	195	(3)	-	7	(31)	(169)	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	(158)	(158)	-	(158)
Changes in treasury shares	-	-	-	-	(45)	-	-	-	-	-	-	(45)	-	(45)
Other changes	-	-	-	-	-	-	(3)	-	-	-	-	(3)	-	(3)
Balances at 31 December 2008	**743**	**120**	**1**	**149**	**(64)**	**842**	**123**	**(357)**	**(5)**	**(21)**	**32**	**1,563**	**1**	**1,564**

The accompanying Notes 1 to 23 are an integral part of the consolidated statements of changes in equity for the years ended 31 December 2008 and 2007.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23). In the event of a discrepancy, the Spanish-language version prevails.

IBERIA GROUP

CONSOLIDATED CASH FLOW STATEMENTS FOR 2008 AND 2007 (Note 22)

(Millions of Euros)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES (I)	**38**	**381**
Profit before tax	**36**	**447**
Adjustments for:	**113**	**142**
- Depreciation and amortisation charge	193	215
- Impairment losses	6	-
- Changes in provisions	52	163
- Gains/Losses on derecognition and disposal of non-current assets	(25)	(102)
- Gains/Losses on derecognition and disposal of financial instruments	-	(94)
- Finance income	(137)	(126)
- Finance costs	52	60
- Exchange differences	-	(4)
- Change in fair value of financial instruments	5	7
- Other income and expenses	(33)	23
Changes in working capital	**(56)**	**(8)**
- Inventories	(26)	(15)
- Trade and other receivables	126	(113)
- Other current assets	(26)	1
- Trade and other payables	(153)	125
- Other current liabilities	11	(35)
- Other non-current assets and liabilities	12	29
Other cash flows from operating activities	**(55)**	**(200)**
- Interest paid	(26)	(34)
- Dividends received	1	14
- Interest received	137	88
- Income tax recovered (paid)	(31)	(121)
- Other amounts received (paid)	(136)	(147)
CASH FLOWS FROM INVESTING ACTIVITIES (II)	**(390)**	**351**
Payments due to investment	**(633)**	**(328)**
- Group companies and associates	(57)	(9)
- Intangible assets	(20)	(20)
- Property, plant and equipment	(127)	(163)
- Other financial assets	(429)	(136)
Proceeds from disposal	**243**	**679**
- Intangible assets	**-**	6
- Property, plant and equipment	106	360
- Other financial assets	47	265
- Other assets	90	48
CASH FLOWS FROM FINANCING ACTIVITIES (III)	**(301)**	**(239)**
Proceeds and payments relating to equity instruments	**(45)**	**3**
- Proceeds from issue of equity instruments	**-**	8
- Purchase of treasury shares	(46)	(8)
- Disposal of treasury shares	1	3
Proceeds and payments relating to financial liability instruments	**(98)**	**(209)**
- Proceeds from issue of bank borrowings	56	29
- Repayment of bank borrowings	(154)	(238)
Dividends and returns on other equity instruments paid	**(158)**	**(33)**
- Dividends	(158)	(33)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)	**(653)**	**493**
Cash and cash equivalents at beginning of year	2,835	2,342
Cash and cash equivalents at end of year	2,182	2,835

The accompanying Notes 1 to 23 are an integral part of the consolidated cash flow statement.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Iberia Group

Notes to the Consolidated Financial Statements for 2008 and 2007 prepared in accordance with IFRSs

1. Activity of the Parent and the Group

Iberia, Líneas Aéreas de España, S.A. engages mainly in the air transport of passengers and freight and also performs other complementary activities, the most noteworthy of which include assistance for passengers and aircraft at airports and aircraft maintenance.

As a carrier of passengers and cargo, Iberia, Líneas Aéreas de España, S.A. operates through a large network serving three main markets: Spain, Europe and the Americas.

Iberia, Líneas Aéreas de España, S.A. is a fully-fledged member of the Oneworld alliance, one of the world's largest airline groups, which facilitates the globalisation of its air transport business.

In addition to the activities carried out directly by Iberia, Líneas Aéreas de España, S.A. and for the purpose of complementing them or developing transport-related business activities, the Company has been incorporating or investing in various companies which compose the Iberia Group of which Iberia, Líneas Aéreas de España, S.A. is the Parent.

The registered office of Iberia, Líneas Aéreas de España, S.A. is located in Madrid and since April 2001, its shares have been listed on the Spanish stock market.

2. Group companies

2.1 Subsidiaries

Subsidiaries are defined as companies in which Iberia, Líneas Aéreas de España, S.A., as the Parent, owns directly or indirectly more than 50% of the share capital and, accordingly, has the capacity to exercise effective control thereon.

The fully consolidated companies composing the Iberia Group, their main business activity and the ownership interests held by the Parent therein are as follows:

- Cargosur, S.A. (corporate holdings), VIVA Vuelos Internacionales de Vacaciones, S.A. (corporate holdings), Campos Velázquez, S.A. (acquisition of urban property), Iberia Tecnología, S.A. (corporate holdings), Consultores Hansa, S.A. (inactive), Binter Finance B.V. (financing and cash) and Iberia México (cargo handling at Mexico airport). Iberia, Líneas Aéreas de España, S.A. has a 100% direct or indirect ownership interest in these companies.

- Compañía Auxiliar al Cargo Exprés, S.A. (cargo transport), Auxiliar Logística Aeroportuaria, S.A. (cargo transport) and Iberia Desarrollo Barcelona, S.R.L. (aircraft maintenance infrastructures), which are directly or indirectly 75% owned.

Notes 9.6 and 16 to the consolidated financial statements show the contributions made by these companies to Group reserves and profit. The assets contributed by these companies are not material.

2.2 Associates

Associates are companies over which the Parent exercises significant influence, i.e. it has the power to participate in decisions regarding the investee's financial and operational policies, but not control. In general, the Group considers that it has significant influence when its ownership interest in the subsidiary is 20% or more.

Exceptionally, the Iberbús companies (see Note 7), in which the Group owns more than 20% of the voting rights, are not considered to be associates and, accordingly, are not consolidated, since the majority shareholder, Airbus, guarantees that Iberia, Líneas Aéreas de España, S.A., a minority shareholder of and lender to these companies, will recover its investment in full.

The associates, their main business activity and the ownership interests held by the Parent therein are as follows: 43.5 % of Iberia Cards (issue and management of payment instruments), 49% of Multiservicios Aeroportuarios, S.A. (airport-related ancillary services), 65% of Iber-América Aerospace, LLC (purchase and sale of aircraft parts and engines), 50% de Empresa Logística de Carga Aérea, S.A. (operation of a freight terminal at Havana airport), 50% of Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A. (aircraft maintenance), 51% of Handling Guinea Ecuatorial, S.A. (handling services operator at Malabo airport), 25% of the Air Miles Group (multi-industry customer loyalty), 39% of Serpista, S.A. (airport equipment maintenance), 49% of International Supply Management, S.L. (marketing of chemical products), 40% of Noamar Air Handling Holdco N.V. (handling services operator at Tel Aviv airport), 50% of Madrid Aerospace Service (landing-gear maintenance) and 20% of Clickair, S.A. (passenger transport). The interest in the dividend rights of Clickair, S.A. amounts to 80%.

Notes 9.7 and 16 to the accompanying consolidated financial statements show the contributions made by these companies to Group reserves and profit.

Changes in the scope of consolidation

In 2007 Iberia Tecnología, S.A., which is wholly-owned by Iberia, Línea Aéreas de España, S.A. incorporated Iberia Desarrollo Barcelona, S.R.L., which commenced operations in 2008.

In 2008 Iberia México was newly and fully consolidated and Madrid Aerospace Services, S.L. began to be accounted for using the equity method.

3. Basis of presentation of the financial statements and basis of consolidation

3.1 Basis of presentation of the financial statements and basis of consolidation

The consolidated financial statements for 2008 were obtained from the accounting records and financial statements of the Parent and the Group companies.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and with Law 62/2003, of 30 December, on Tax, Administrative, Labour and Social Security Measures, so that they present fairly the Group's consolidated equity and financial position at 31 December 2008 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the Group in the year then ended.

The 2008 consolidated financial statements of the Group and the 2008 individual financial statements of the Group companies, which were prepared by the respective directors, have not yet been approved by the shareholders at their respective Annual General Meetings. However, the Parent's directors consider that the aforementioned financial statements will be approved without any material changes.

3.2 Main decisions relating to IFRSs

The Group took the following decisions in relation to the presentation of the financial statements and other disclosures included herein:

1. The Group's functional currency is the euro; accordingly, the financial statements are expressed in euros.

2. The balance sheet is presented distinguishing between current and non-current items; and the income statement is presented by nature.

3. The Group has elected to submit the cash flow statement using the indirect method.

The Group took the following decisions in relation to the adoption of new Standards and Interpretations issued:

1. Standards and interpretations applicable in 2007

   IFRIC 11 IFRS 2 Group and Treasury Share Transactions and the amendment to IAS 39/IFRS 7 Reclassification of Financial Assets became effective for the first time in 2008. The adoption of these new interpretations and amendments had no impact on the Group’s consolidated financial statements.

2. Standards and interpretations issued but not yet in force

   At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union.

		Obligatory Application in the Years Beginning on or After
Standards and Amendments to Standards:		
IFRS 8	Operating segments	1 January 2009
Revised IAS 23	Borrowing costs	1 January 2009
Revised IAS 1	Presentation of financial statements	1 January 2009
Revised IFRS 3 (1)	Business combinations	1 July 2009
Amended IAS 27 (1)	Consolidated and separate financial statements	1 July 2009
Amended IFRS 2	Share-based payment - vesting conditions and cancellations	1 January 2009
Amended IAS 32 and IAS 1	Financial instruments puttable at fair value and obligations arising on liquidation	1 January 2009
Amended IFRS 1 and IAS 27	Cost of an investment in an entity's separate financial statements	1 January 2009
Amended IAS 39 (1)	Eligible hedged items	1 July 2009
Interpretations:		
IFRIC 12 (1)	Service concession arrangements	(3)
IFRIC 13	Customer loyalty programmes	1 January 2009 (2)
IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2009 (2)
IFRIC 15 (1)	Agreements for the construction of real estate	1 January 2009
IFRIC 16 (1)	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC 17 (1)	Distributions of non-cash assets to owners	1 July 2009

(1) Standards and interpretations not yet adopted by the European Union at the date of preparation of these consolidated financial statements.
(2) Date of obligatory application as approved in the Official Journal of the European Union.
(3) This interpretation is awaiting endorsement. As announced by the EU's Accounting Regulatory Committee (ARC) it will foreseeably be approved for use in the EU with a new effective date which would postpone its obligatory application until 2010 (in theory the IASB had initially established 1 January 2008 as the effective date).

The directors consider that the application of these standards and interpretations will not have a significant effect on the consolidated financial statements, except for IFRIC 13, the potential impact of which has not yet been assessed.

3.3 Responsibility for the information and use of estimates

The information in these consolidated financial statements is the responsibility of the directors of the Parent.

In the Group's consolidated financial statements for 2008 estimates were made by the directors of the Parent in order to quantify or measure and, where appropriate, recognise certain of the assets, liabilities, income, expenses or obligations. These estimates relate basically to the following:

1. The assessment of possible impairment losses on certain assets.

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

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

4. The methods used to measure certain assets.

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

6. The calculation of the accrued liability at year-end in relation to the value of the unused points granted to the holders of "Iberia Plus" loyalty cards.

7. The calculation of provisions.

8. The market value of certain financial instruments.

These estimates were made on the basis of the best information available at 31 December 2008 on the events analysed.

In any case, events that take place in the future might make it necessary to change these estimates in the coming years, which, if any, would be applied prospectively.

3.4 Basis of consolidation

The financial statements of the subsidiaries are fully consolidated. Accordingly, all material balances and equity effects of the transactions between consolidated companies are eliminated on consolidation.

The share of third parties of the Group's equity and profit for the year are presented under "Minority Interests" in the consolidated balance sheet and the consolidated income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statements from the effective date of acquisition or until the effective date of disposal, as appropriate.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The Group's share of the profits obtained by the investee in the year are presented under "Share of Results for the Year of Associates" in the accompanying income statement.

In the case of transactions with an associate, the related profits and losses are eliminated to the extent of the Group's interest in the associate's capital.

If as a result of losses incurred by an associate its equity were negative, the investment should be presented in the Group's consolidated balance sheet with a zero value, unless the Group is obliged to give it financial support.

The accounting principles and policies used by the companies included in the scope of consolidation were unified in consolidation with those of the Group.

4. Distribution of the Parent's profit

The directors of Iberia, Líneas Aéreas de España, S.A. propose that the profit for 2008 be taken in full to voluntary reserves.

5. Accounting policies and measurement bases

The principal accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2008 were as follows:

5.1 Intangible assets

Intangible assets include computer software which was acquired mainly from third parties. The Group recognises under this heading the computer software acquisition and development costs incurred. Computer software maintenance costs are recognised in the consolidated income statement for the year in which they are incurred. Computer software is amortised on a straight-line basis over five years.

5.2 Property, plant and equipment

Property, plant and equipment are carried at historical cost, net of the related accumulated depreciation and the impairment losses, if any.

The improvements to items of property, plant and equipment leading to increased capacity, efficiency, or to a lengthening of the useful lives of the assets are capitalised.

The Group companies depreciate the depreciable amount of their property, plant and equipment using the straight-line method over the years of estimated useful life of the related assets.

The years of estimated useful life of the various property, plant and equipment items are as follows:

	Years of Estimated Useful Life
Aircraft	18 - 22
Buildings and other structures	20 - 50
Machinery, fixtures and tools	10 - 15
Transport equipment	7 - 10
Furniture	10
Computer hardware	4 - 7
Spare parts for property, plant and equipment	8 -18
Flight simulators	12 - 14

The estimated residual value of rotatable fuselage parts (those assigned to specific types or families of aircraft), which is recognised under “Spare Parts for Property, Plant and Equipment”, ranges from 10% to 20% of acquisition cost, depending on the type of aircraft to which the parts are assigned. The estimated residual value of repairable fuselage parts is 10% of acquisition cost.

The Group depreciates in full the acquisition cost of other items of property, plant and equipment.

When including owned aircraft and aircraft operated under a finance lease, the Group separates from the cost of the aircraft the cost relating to the components that will be replaced during the scheduled overhauls that take place every four to seven years. This cost is depreciated on a straight-line basis over the period from the acquisition of the aircraft to the first scheduled overhaul. The cost of the repairs made during these overhauls is capitalised to property, plant and equipment and depreciated over the period elapsing until the next scheduled overhaul takes place.

The cost of maintenance of items of property, plant and equipment and the cost of minor repairs to aircraft operated by the Group are recognised in the income statement as incurred.

For each aircraft operating under an operating lease, based on the terms of the related leases, the Group recognises an allowance for the total cost to be incurred in scheduled overhauls and allocates this cost to the income statement on a straight-line basis over the period between two consecutive overhauls (see Note 11).

5.3 Impairment of property, plant and equipment and intangible assets

When there is any indication of decline in value, the Group performs an impairment test to estimate the possible loss of value that reduces the recoverable amount of the assets to below their carrying amount.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the Group recognises an impairment loss in the income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to a maximum of the original carrying amount that would have been recognised had no impairment loss been recognised.

5.4 Leases

Leases are classified as finance or operating leases depending on the substance and the nature of the transaction. The main leases entered into by the Group are for aircraft and do not contemplate the automatic transfer of ownership at the end of the lease term.

Leases are classified as finance leases whenever the terms of the leases include an option for the lessee to acquire the asset (purchase option) and Group management has decided to exercise the option. Other leases, with or without a purchase option, are classified as operating leases unless, based on the agreed terms and conditions the transaction can be equated to an acquisition (evaluating for the purpose the following indicators: purchase option, lease term and present value of the payment obligations).

5.4.1 Finance leases

For finance leases, the Group recognises the cost of the leased assets in the consolidated balance sheet based on the nature of the leased asset and, simultaneously, a liability for the same amount. This amount is calculated as the lower of the fair value of the leased asset and the present value, at the beginning of the lease term, of the minimum payments agreed upon, plus the purchase option, when there is no reasonable doubt as to its exercise. The calculation does not include contingent payments, the service cost or the taxes that can be passed on by the lessor. The total finance charge on the lease is allocated to the income statement for the year in which it is incurred, using the effective interest rate method. Contingent payments, if any, are recognised as an expense for the year in which they are incurred.

The assets recognised for these types of transactions are depreciated on the basis of their nature using similar criteria to those applied to items of property, plant and equipment taken as a whole.

5.4.2 Operating leases

The costs arising from operating leases are charged to the income statement in accordance with the terms of the related agreements.

5.5 Inventories

Inventories are measured at the lower of acquisition cost (weighted average cost) or market value (net realisable value) and include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

The Group makes the appropriate valuation adjustments, and recognises them as an expense in the income statement when the net realisable value of the inventories is lower than their acquisition cost.

5.6 Financial assets

The financial assets held by the Group are classified as follows:

1. Held-to-maturity investments: debt securities with fixed maturity and determinable payments that are traded in an active market and which the Group has the positive intention and ability to hold to the date of maturity.

2. Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

3. Available-for-sale financial assets: these include debt securities and equity instruments of other companies that are not classified in any of the previous categories.

Loans and receivables and held-to-maturity investments are initially recognised at the fair value of the consideration paid, plus any directly attributable transaction costs. They will subsequently be measured at amortised cost. The Group has recognised provisions to cover uncollectibility risks. These provisions are calculated according to the probability of recovery of the debt based on age thereof and the debtor's solvency.

Available-for-sale financial assets are measured at fair value until the asset is disposed of or has become permanently impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement.

At least at each reporting date the Group tests its financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the income statement.

Deposits and guarantees given are recognised at the amount delivered. Deposits include the amounts delivered under the contracts for the acquisition of new aircraft, which may be reimbursed on delivery of the aircraft.

The Group generally classifies its temporary cash surpluses under "Current Financial Assets" at the amounts actually paid. The interest income associated with these transactions is recognised as income when accrued while unmatured interest is presented in the balance sheet as an addition to the balance of the aforementioned heading.

5.7 Cash and cash equivalents

The Group includes under "Cash" and "Cash Equivalents" cash and short-term highly liquid investments maturing in less than three months that are readily convertible to cash and which are subject to an insignificant risk of changes in value. The interest income associated with these transactions is recognised as income when accrued while unmatured interest is presented in the balance sheet as an addition to the balance of the aforementioned heading.

5.8 Financial liabilities

Financial liabilities are accounts payable by the Group that have arisen from the purchase of goods and services in the normal course of its business and those which, not having commercial substance, cannot be considered to be derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

The Group derecognises financial liabilities when the obligations they generate are extinguished.

5.9 Treasury shares of the Parent

Treasury shares are recognised at the value of the consideration paid and are deducted from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised in equity.

5.10 Derivative financial instruments and hedging transactions

The derivatives held by the Group relate mainly to foreign currency, interest rate and fuel price hedges, the purpose of which is to significantly reduce these risks in the underlying hedged transactions.

Financial derivatives are initially recognised at cost in the consolidated balance sheet, and the required valuation adjustments are subsequently made to reflect their fair value at all times. Increases in value are recognised under "Derivatives" and reductions in value under "Non-Current or Current Liabilities – Derivatives" in the consolidated balance sheet. Gains and losses from these changes are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument and the resulting hedge is highly effective, in which case the recognition criteria are as follows:

1. Fair value hedges: the hedged item and the hedging instrument are both measured at fair value, and any changes in the fair values are recognised in the consolidated income statement; the effects of these changes are offset under the same heading in the consolidated income statement.

2. Cash flow hedges: changes in the fair value of the derivatives are recognised under "Equity – Valuation Adjustments". The cumulative gain or loss recognised in this heading is transferred to the consolidated income statement to the extent of the impact of the underlying (resulting from the risk hedged) on the consolidated income statement; thus this effect is netted off under the same heading in the consolidated income statement.

The fair value of the various derivative financial instruments is measured by discounting the expected cash flows based on spot and futures market conditions at year-end.

5.11 Current/Non-current classification

In the consolidated balance sheet, assets and liabilities that are expected to be settled or fall due within 12 months from the balance sheet date are classified as current items and those which fall due or will be settled within more than 12 months are classified as non-current items.

5.12 Provisions for restructuring costs

In December 2001 the Parent obtained authorisation from the employment authorities for a collective redundancy procedure. Subsequently, the required authorisations were obtained (the last of which was granted in November 2007) to extend the procedure to various employee groups. The procedure will remain in force until 31 December 2010 for ground personnel. Also, a collective redundancy procedure for handling personnel associated with the process for the assignment of resources by way of subrogation was approved in 2006 which will remain in force until 2014. The accompanying consolidated balance sheet at 31 December 2008 does not include any provision for this second collective redundancy procedure, since there was no cost commitment in relation thereto.

The first collective redundancy procedure provides for the payment of certain amounts until the statutory retirement age to employees who meet certain conditions and decide to request early retirement.

The Parent recognises provisions for the effective cost commitments which will be disbursed in subsequent years.

The actuarial studies used to determine the liability to the employees who have opted for early retirement under these conditions are based on similar assumptions to those described in Note 5.13. The successive payments resulting from these commitments are deducted from the provisions recorded.

5.13 Obligations to employees

Under the collective labour agreements in force at the Parent, on reaching the age of 60 flight crew cease to discharge their duties and are placed on reserve, although their employment relationship remains in place until their statutory retirement age. The Parent recognises the costs of staff placed on reserve throughout the active working life of each employee based on the related actuarial studies.

The collective labour agreements in force at the Parent also provide that flight crew who meet certain conditions may take early retirement (special leave of absence and voluntary termination). The Parent is required to pay certain amounts of remuneration to these employees until they reach the statutory retirement age. The Parent recognises, with a charge to the consolidated income statement in the year in which this circumstance arises, the provision required, calculated on the basis of actuarial studies, to meet the future payment obligations to the employees concerned. 164 employees are currently on special leave and 300 employees have opted for voluntary termination.

“Long-Term Provisions – Provisions for Obligations to Employees” in the consolidated balance sheet includes, inter alia, the liabilities incurred in this connection (see Note 11).

The aforementioned amounts were calculated on the basis of actuarial studies conducted by independent actuaries using the projected unit credit method and based on a discount rate of 4% and PERM/F-2000 P mortality tables. The main assumption used was 2.5% growth in pensions and the CPI.

5.14 Montepío de Previsión Social Loreto

The main purpose of the Montepío de Previsión Social Loreto is to pay retirement pensions to its members (who include the employees of Iberia, Líneas Aéreas de España, S.A.) and other welfare benefits in certain circumstances (death or permanent disability).

Under the current collective labour agreements, the Parent and its employees make the statutory contributions (defined contributions) to the Montepío, as established in these labour agreements. The Montepío's bylaws limit the Parent's liability to the payment of the statutory contributions established.

Both in 2008 and 2007 the Parent’s contributions in this connection amounted to EUR 22 million and were recognised under “Staff Costs – Recurring” in the accompanying consolidated income statements.

5.15 Long-term provisions

In the preparation of the consolidated financial statements, the directors drew a distinction between:

1. Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources, but which are uncertain as to their amount and/or timing.

2. Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more future events not wholly within the control of the consolidated companies.

The consolidated financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are disclosed in the notes to the financial statements, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as finance cost on an accrual basis. The Group reverses these provisions, fully or partially, when such obligations cease to exist or are reduced.

5.16 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Ticket sales and sales of the traffic documents for cargo and other services are initially credited to "Customer Advances" in the consolidated balance sheet. The balance of this heading reflects the estimated liability for ticket sales and traffic documents sold each year prior to 31 December but not yet used at that date. The revenue relating to ticket sales and traffic documents is recognised when the transport or service is performed.

Iberia, Líneas Aéreas de España, S.A. has in place the "Iberia Plus" card the purpose of which is to foster customer loyalty. Cardholders accumulate points for taking certain flights, using the services of entities included in the programme or making purchases with credit cards covered by the programme. The points can be exchanged for free tickets or other services offered by the companies included in the programme. "Trade and Other Payables" in the accompanying consolidated balance sheets at 31 December 2008 and 2007 include provisions of EUR 115 million and EUR 103 million, respectively, in this connection, based on the estimated redemption value of the unused points accumulated at those dates, taking into account the historical experience in the redemption of points.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment is established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income in the income statement.

In general, any incentives, bonuses or reductions received in cash or in kind by the Parent relating to aircraft coming into service under operating lease are recognised in the consolidated income statement on a straight-line basis over the term of the lease or when the discounted use arises. "Non-Current Accruals and Deferred Income" in the consolidated balance sheet includes the amounts not yet recognised as income at each year-end.

5.17 Income tax

Since 1 January 2002 Iberia, Líneas Aéreas de España, S.A. and certain subsidiaries file consolidated tax returns under the tax system provided for by Chapter VII of Title VII of the Consolidated Spanish Corporation Tax Law. The companies composing the Consolidated Tax Group are the fully consolidated companies except for Binter Finance, BV and Iberia México, S.A., which do not meet the legally established requirements to be included in the group.

For each company, the current tax for the year is the amount paid in settlement of the income tax returns for that year. Tax credits and other tax benefits applied to the taxable profit, excluding withholdings, prepayments and tax loss carryforwards effectively offset during the year, reduce the current tax amount.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are only recognised to the extent that it is considered probable that the Group will have sufficient taxable profits in the future against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities arising from items directly charged or credited to equity accounts are also recognised with a charge or credit, respectively, to equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

5.18 Non-current assets and disposal groups classified as held for sale

The Group classifies a non-current asset or disposal group classified as held for sale when it has taken the decision to sell it and the sale is expected to be completed within twelve months.

These assets or disposal groups are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets classified as held for sale are not depreciated, but rather at the date of each consolidated balance sheet the related valuation adjustments are made to ensure that the carrying amount is not higher than fair value less costs to sell.

Income and expenses arising from non-current assets and disposal groups classified as held for sale which do not qualify for classification as discontinued operations are recognised under the related heading in the consolidated income statement on the basis of their nature.

5.19 Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies.

5.20 Balances and transactions in currencies other than the euro

Transactions in currencies other than the euro and the resulting receivables and payables are recognised at their equivalent euro value at the transaction date.

The balances of accounts receivable and payable denominated in currencies other than the euro are translated to euros at the exchange rates prevailing at 31 December of each year. However, following customary airline practice, the balance of the liability for unused traffic documents is reflected in the consolidated balance sheet at the exchange rate prevailing in the month of the sale, as set by the International Air Transport Association (IATA). The IATA exchange rate for each month is the average exchange rate for the last five bank working days prior to the 25th day, inclusive, of the preceding month.

The changes in value arising from the differences between the official exchange rates at year-end and the exchange rates at which the receivables and payables in currencies other than the euro were recognised and those arising at the date of collection or payment of receivables and payables denominated in currencies other than the euro are allocated to “Exchange Differences” in the consolidated income statement.

5.21 Consolidated cash flow statements

The following terms, with the meanings specified, are used in the consolidated cash flow statements, which were prepared using the indirect method:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term investments that are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

5.22 Risk management policy

The Group has adopted numerous measures to control and manage risks and has implemented systems to enable it to identify, assess, manage and mitigate the main risks affecting its various business activities.

The measures taken in this respect cover the key parameters and levers of the Group's management, i.e. the income statement, borrowings, investments and divestments and the implementation of the Master Plan, in order to optimise the income statement and borrowings and to take balanced decisions in terms of the risk and return on new investments.

With regard to financial risks, the Group uses a global management programme designed to control and reduce the potential adverse effect of fluctuations in exchange rates, interest rates, and fuel prices on the Group's earnings and to maintain the required liquidity for its operational needs and investments.

In order to attain this objective, the Group uses a VAR (Value at Risk) model to conduct probabilistic assessments of the possible impact of these market variables on its earnings, defines maximum volatility parameters and designs the required hedging programmes.

Exchange rate risk

Due to the nature of the Group's international business activities, it generates collections and payments in currencies other than the euro. The greatest risk exposure relates to the appreciation of the US dollar against the euro, since the Group's payments in US dollars exceed its income in this currency.

Exchange rate risk is managed basically by a combination of two strategies: firstly, strategic hedges (up to five years) are arranged using currency swaps and options and other derivative products for an amount hedging a given percentage of the position; secondly, tactical hedges with a time horizon of one year or less are arranged; these hedges, which are associated with actual changes in the Group’s US dollar payments, enable it to respond to market trends.

Interest rate risk

As a result of the Company's net borrowing position (including operating lease transactions on aircraft), the Group is exposed to a rise in interest rates in the currencies in which its debt is denominated.

In order to manage this risk, a minimum percentage of the Group's debt bears fixed interest or has hedged interest rates. Also, by diversifying the borrowing currencies (US dollar, euro, Swiss franc and GB pound), the Group is able to reduce the risk of an overall rise in the interest rates on its borrowings.

Fuel price risk

The Group manages the cost of aircraft fuel using active risk control policies and directly hedges the price of kerosene (JET Kero CIF-NWE).

This risk is normally reduced by arranging swaps and options.

Liquidity risk

In view of the cyclical nature of its business and the investment and financing requirements resulting from the renewal of its aircraft, the Group has a liquidity policy to ensure a significant volume of available cash and current financial assets.

This cash position is invested in highly liquid, short-term instruments such as debt repos, eurodeposits and bank promissory notes arranged through top level banks, in accordance with the current counterparty risk policy.

In addition to short-term investments and the cash position, the Group has ongoing credit facilities which guarantee its liquidity requirements.

5.23 Activities with an environmental impact

In general, environmental activities are those the purpose of which is to prevent, reduce or redress damage to the environment.

Investments made in connection with environmental activities are measured at cost and are capitalised as an addition to non-current assets in the year in which they are made.

The expenses arising from environmental protection and enhancement measures are charged to income in the year in which they are incurred, regardless of when the resulting monetary or financial flow arises.

Provisions for probable or certain third-party liabiltiy, litigation in progress and outstanding indemnity payments or obligations of undetermined amount –which, relating to the environment, are not covered by the insurance policies taken out- are recognised, if applicable, when the liability or obligation giving rise to the indemnity or payment arises.

6. Property, plant and equipment

The changes in this heading in the consolidated balance sheet in 2007 and 2008 were as follows:

2007	31/12/06	Additions or Charge for the Year	Transfers	Disposals	31/12/07
	Millions of Euros				
Cost:					
Aircraft	2,369	85	147	(509)	2,092
Other items of property, plant and equipment-					
Land	3	-	-	-	3
Buildings and other structures	152	3	7	(3)	159
Machinery, fixtures and tools	461	24	4	(25)	464
Transport equipment	40	1	-	(5)	36
Furniture and fixtures	21	1	-	(1)	21
Computer hardware	119	8	-	(27)	100
Spare parts	201	19	-	(13)	207
Flight simulators	3	-	-	-	3
Property, plant and equipment in the course of construction	19	10	(16)	(5)	8
	1,019	66	(5)	(79)	1,001
Accumulated depreciation:					
Aircraft	(1,214)	(143)	(39)	234	(1,162)
Other items of property, plant and equipment-					
Buildings and other structures	(114)	(4)	-	2	(116)
Machinery, fixtures and tools	(325)	(23)	-	19	(329)
Transport equipment	(25)	(3)	-	5	(23)
Furniture and fixtures	(13)	(2)	-	-	(15)
Computer hardware	(88)	(13)	-	28	(73)
Spare parts	(97)	(9)	-	7	(99)
Flight simulators	(1)	-	-	-	(1)
	(663)	(54)	-	61	(656)
Impairment losses and provisions:					
Aircraft	(157)	-	(10)	28	(139)
Other items of property, plant and equipment	(3)	-	-	-	(3)
	1,351				**1,133**

2008	Millions of Euros				
	31/12/07	Additions or Charge for the Year	Transfers	Disposals	31/12/08
Cost:					
Aircraft	2,092	137	(315)	(365)	1,549
Other items of property, plant and equipment-					
Land	3	-	-	-	3
Buildings and other structures	159	-	-	(1)	158
Machinery, fixtures and tools	464	10	1	(25)	450
Transport equipment	36	-	-	(4)	32
Furniture and fixtures	21	-	-	-	21
Computer hardware	100	15	-	(3)	112
Spare parts	207	19	-	(10)	216
Flight simulators	3	-	-	-	3
Property, plant and equipment in the course of construction	8	21	(6)	(2)	21
	1,001	65	(5)	(45)	1,016
Accumulated depreciation:					
Aircraft	(1,162)	(121)	280	272	(731)
Other items of property, plant and equipment-					
Buildings and other structures	(116)	(4)	-	2	(118)
Machinery, fixtures and tools	(329)	(24)	-	23	(330)
Transport equipment	(23)	(3)	-	3	(23)
Furniture and fixtures	(15)	(1)	-	-	(16)
Computer hardware	(73)	(11)	-	3	(81)
Spare parts	(99)	(10)	-	4	(105)
Flight simulators	(1)	-	-	-	(1)
	(656)	(53)	-	35	(674)
Impairment losses and provisions:					
Aircraft	(139)	-	54	46	(39)
Other items of property, plant and equipment	(3)	-	-	-	(3)
	1,133				**1,118**

6.1 Aircraft

Additions

The detail of the additions shown in the foregoing tables is as follows:

	Millions of Euros	
	2007	2008
Aircraft	29	73
Engines	36	44
Refurbishments	20	20
	85	**137**

Aircraft additions in 2008 relate to two A-320 units subsequently sold during the year (see “Disposals”) and to two A-340 units which had been operated under an operating lease. A finance lease was arranged for one of these A-340 units and the purchase option on the other was exercised.

Transfers

Transfers in 2007 included EUR 92 million in relation to deposits given previously for the acquisition of aircraft and engines, which were recognised under “ Non-Current Financial Assets – Other Financial Assets” (see Note 7.1.3.). Transfers also include EUR 50 million in relation to engines of the B-747 aircraft classified in 2006 under “Other Non-Current Assets Held for Sale” (the related accumulated depreciation of EUR 39 million and provisions of EUR 10 million were also transferred) and EUR 5 million previously classified as property, plant and equipment in the course of construction under “Other Items of Property, Plant and Equipment”.

In 2008 the Group reclassified the MD aircraft, which it no longer operates and for which there are sale agreements anticipating delivery in 2009, to “Non-Current Assets Classified as Held for Sale”, recognising a cost of EUR 345 million, accumulated depreciation of EUR 280 million and impairment losses of EUR 54 million. The remaining transfers in 2008 relate mainly to deposits previously given for the acquisition of aircraft and engines, which were recognised under “Non-Current Assets – Other Financial Assets” (see Note 7.1.3).

Disposals

The disposals were as follows:

	Millions of Euros					
	2007			2008		
Aircraft	Cost	Accumulated Depreciation	Provisions	Cost	Accumulated Depreciation	Provisions
A-320	314	(72)	-	47	(10)	-
MD	134	(111)	(20)	152	(132)	(18)
A-340	-	-	-	15	(9)	-
B-747	36	(29)	(7)	148	(120)	(28)
MD-88	25	(22)	(1)	3	(1)	-
	509	**(234)**	**(28)**	**365**	**(272)**	**(46)**

Disposals in 2007 were as follows:

<u>*A-320 aircraft*</u>

The Parent sold six A-320 aircraft operated under finance lease on which the purchase option had been exercised. This sale was made to banks which subsequently leased the aircraft to the Company under operating lease.

The carrying amount of these 6 aircraft at the time of sale totalled EUR 123 million and the Group recognised losses of approximately EUR 1 million as a result of the sale.

Additionally, the Group sold a further six A-320 aircraft that had been purchased in the same year but which the Parent had never brought into service. These aircraft were sold to banks and the proceeds of the sale were included under "Net Gains on Disposal of Non-Current Assets" in the consolidated income statement.

MD-87 and MD-88 aircraft

Disposals of MD-87 and MD-88 aircraft relate to the sale of 6 MD-87 aircraft and the derecognition of an MD-88 aircraft. The gain of EUR 5 million obtained on these disposals is recognised under "Net Gains on Disposal of Non-Current Assets" in the consolidated income statement.

B-747 aircraft

The Parent sold 14 B-747 aircraft engines, giving rise to a gain of approximately EUR 1 million.

Disposals in 2008 were as follows:

A-320 aircraft

In 2008 the Parent sold two A-320 aircraft which had been purchased during the year but which were not brought into service. These aircraft were sold to banks and the proceeds of the sale are recognised under "Net Gains on Disposal of Non-Current Assets" in the 2008 consolidated income statement. The Parent also carried out overhauls of these aircraft as scheduled, and derecognised the cost of the overhauls which had been fully depreciated.

MD-87 aircraft

The MD-87 aircraft disposals relate to the sale of 8 MD-87 aircraft and 20 MD-87 engines on which the Parent obtained a gain of EUR 5 million, which is recognised under "Net Gains on Disposal of Non-Current Assets" in the accompanying consoildated income statement.

B-747 aircraft

The Company derecognised two B-747 aircraft and two B-747 engines whose carrying amount was zero.

Aircraft allowances

In order to provide for possible impairment losses for planned aircraft disposals, the Group records allowances to adjust the carrying amount of the aircraft to be derecognised to their net realisable value. The changes in 2007 and 2008 were as follows:

	Millions of Euros						
Aircraft	Balance at 31/12/06	Disposals	Transfers	Balance at 31/12/07	Disposals	Transfers	Balance at 31/12/08
B-747	60	(7)	10	63	(28)	-	35
MD	93	(21)	-	72	(18)	(54)	-
Other	4	-	-	4	-	-	4
	157	**(28)**	**10**	**139**	**(46)**	**(54)**	**39**

Obligations and other guarantees on aircraft

The Group is using two aircraft under finance lease and four aircraft under operating lease the payments under which secure, together with the aircraft, the repayment of a bond issue launched by the lessor in the European market in 2000. At 31 December 2008, EUR 82 million of the bonds had not yet been repaid.

Also, the Parent is guaranteeing the use of 20 aircraft under operating or finance lease for periods of between 9 and 14 years vis-à-vis the subscribers of a bond issue with outstanding amounts at 31 December 2008 of USD 101 million and EUR 120 million.

The Group is currently implementing a fleet renewal plan instrumented through various agreements entered into with Airbus, for A-319, A-320, A-330 and A-340 type aircraft. The aircraft not yet delivered at 31 December 2008 and the year in which they are scheduled to be added to the fleet are as follows:

Type of Aircraft	2009	2010	2011	Total
A-320	2	5	5	12
A-340-600	3	2	-	5
	5	**7**	**5**	**17**

Based on the basic prices established in the agreements, the total cost of the aircraft subject to firm purchase commitments not yet delivered at 31 December 2008 amounted to approximately EUR 1,324 million.

The Parent also has options on 24 A-320 aircraft, giving rise to an advance of EUR 3 million, which is recognised under “Other Non-Current Financial Assets – Other Financial Assets” in the consolidated balance sheet at 31 December 2008 (see Note 7.1.3.).

Aircraft in service

Following is a summary of the Group's aircraft in service at 31 December 2008:

Type of Aircraft	Owned	Under Finance Lease	Under Operating Lease	Under Wet Lease (a)	Total
A-319 (b)	-	-	22	-	22
A-320	10	6	29	-	45
A-321	-	4	15	-	19
A-340-300	6	1	11	3	21
A-340-600	-	-	12	-	12
	16	**11**	**89**	**3**	**119**

(a) Lease type which includes the aircraft, maintenance, technical crews and insurance.

(b) Excludes two “parked” A-319 aircraft yet to be received.

The foregoing table excludes three B-747 aircraft owned by the Parent which were grounded at 31 December 2008 because they were to be sold or scrapped and which have a carrying amount of zero. It also excludes the MD aircraft discussed in the paragraph on “Non-Current Assets Classified as Held for Sale” at the end of this Note.

Aircraft operated under operating lease and wet leases

In 2008 three A-319 aircraft were included under operating lease. The wet leases for two B-757 aircraft were also cancelled and a third B-757 aircraft, that had been grounded and in the process of being returned at 2007 year-end, was returned.

Following are the expiry dates of the operating leases of aircraft being operated by the Parent:

Aircraft	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Number of Aircraft
A-319	-	-	-	6	10	3	-	-	-	-	3	22
A-320	1	1	1	2	6	2	2	5	-	-	9	29
A-321	-	-	-	-	1	-	2	3	2	1	6	15
A-340-300	1	3	1	3	-	2	1	-	-	-	-	11
A-340-600	-	-	-	-	-	-	3	2	3	4	-	12
Total	**2**	**4**	**2**	**11**	**17**	**7**	**8**	**10**	**5**	**5**	**18**	**89**

In addition to the foregoing aircraft, the Parent had arranged wet leases for one B-757 unit and one A-320 unit, which at 31 December 2008 were subleased to other airlines, and one A-320 unit, which at 31 December 2008 was not in service, awaiting its return to the lessor.

Certain of the operating leases include a purchase option on the aircraft that can be exercised during the lease term, and the possibility of extending the lease for periods ranging from one to nine years. At the date of preparation of these consolidated financial statements, the Parent's directors did not intend to exercise the purchase options or to request or avail of the extensions considered in the aforementioned leases that would involve the use of the aircraft concerned for periods exceeding 16 years.

Operating lease expenses

The lease payments accrued in 2008 and 2007 for aircraft operating leases and wet leases amounted to EUR 357 million and EUR 393 million, respectively, and are included under "Other Operating Expenses - Recurring" in the accompanying consolidated income statements (see Note 15.3). The detail of the approximate total operating lease payments payable calculated on the basis of the interest rates and exchange rates prevailing at 31 December 2008 for these aircraft is as follows:

Year	Millions of Euros
2009	292
2010	267
2011	252
2012	239
2013 and subsequent years	778
	1,828(*)

(*) Equivalent to USD 2,544 million at the 2008 year-end exchange rate. The exchange rate and interest rate risks on these lease payments are partially hedged with derivatives (see Note 12).

Assets held under finance lease

At 31 December 2008 there were items of property, plant and equipment acquired under finance lease, mainly aircraft, for a total cost of EUR 408 million and accumulated depreciation of EUR 104 million (2007: cost of EUR 385 million and accumulated depreciation of EUR 88 million).

The lease payments outstanding at 31 December 2008, including the amount of the purchase options, fall due as detailed in Note 10.

6.2 Other items of property, plant and equipment

The carrying amount of the buildings and facilities built on state-owned land, mainly at Spanish airports, amounted to EUR 32 million and EUR 34 million, respectively, at 31 December 2008 and 2007. The Parent's directors do not expect any material losses to arise as a result of the reversion process since the maintenance programmes ensure that the items are always in good operating condition.

6.3 Fully depreciated items

At 31 December 2007 and 2008, the cost of the Group's fully depreciated items of property, plant and equipment amounted to EUR 349 million and EUR 356 million, respectively, the detail being as follows:

	Millions of Euros	
	2007	2008
Buildings	60	59
Machinery, fixtures and tools	198	196
Furniture and fixtures	7	8
Computer hardware	40	57
Transport equipment and other items of property, plant and equipment	15	12
Aircraft	29	24
	349	**356**

6.4 Insurance coverage

The Group companies have taken out insurance policies for their property, plant and equipment and intangible assets which provide adequate cover for their carrying amount at 31 December 2008. Also, the Group has taken out insurance policies to cover aircraft leased to third parties.

6.5 Non-current assets not in service

The Group maintains certain assets in the consolidated balance sheet, basically aircraft and engines, which are not in service. The cost of these assets, EUR 204 million, is covered by the related depreciation and the impairment losses and provisions recognised.

6.6 Non-current assets classified as held for sale

All balance recognised under this heading in the accompanying consolidated balance sheet relates to the Parent's MD aircraft to be sold foreseeably in 2009 under the sale contracts for this fleet in force at year-end.

At 31 December 2008 these aircraft were not in service.

7. Financial assets

7.1 Non-current financial assets

The detail of “Non-Current Financial Assets” in 2007 and 2008 is as follows:

2007	Non-Current Financial Instruments (Millions of Euros)				
	Equity Instruments	Loans and Receivables	Derivatives (Note 12)	Other Financial Assets	Total
Held-to-maturity investments	25	-	-	217	242
Loans and receivables	-	116	-	-	116
Available-for-sale financial assets					
- At fair value	1	-	-	-	1
- At cost	16	-	-	-	16
Derivatives	-	-	26	3	29
Total	42	116	26	220	404

2008	Non-Current Financial Instruments (Millions of Euros)				
	Equity Instruments	Loans and Receivables	Derivatives (Note 12)	Other Financial Assets	Total
Held-to-maturity investments	12	-	-	238	250
Loans and receivables	-	123	-	-	123
Available-for-sale financial assets					
- At fair value	219	-	-	-	219
- At cost	16	-	-	-	16
Derivatives	-	-	70	(6)	64
Total	**247**	**123**	**70**	**232**	**672**

7.1.1 Equity instruments

The changes in “Equity Instruments” in the 2007 and 2008 consolidated balance sheets, together with the related impairment losses were as follows:

2007	Millions of Euros			
	% of Ownership at 31/12/07	Balance at 31/12/06	Disposals	Balance at 31/12/07
Held-to-maturity investments:				
Iberbus companies	40.00-45.00	25	-	25
Available-for-sale financial assets:				
- **At fair value**				
Venezolana Internacional de Aviación, S.A.	45.00	88	-	88
Interinvest, S.A.	0.1438	30	-	30
Opodo, Ltd.	2.38	19	-	19
Other		6	(2)	4
- **At cost**				
Servicios de Instrucción de Vuelo, S.L.	19.9	9	-	9
Wam Acquisition, S.A.	11.57	14	(7)	7
Total cost		**191**	**(9)**	**182**
Provisions		**(142)**	**2**	**(140)**

2008	Millions of Euros					
	% of Ownership at 31/12/08	Balance at 31/12/07	Additions	Disposals	Exchange Differences	Balance at 31/12/08
Held-to-maturity investments:						
Iberbus companies	40.00-45.00	25	-	(9)	(4)	12
Available-for-sale financial assets:						
- **At fair value**						
Venezolana Internacional de Aviación, S.A.	45.00	88	-	-	-	88
Interinvest, S.A.	0.1438	30	-	-	-	30
Opodo, Ltd.	2.38	19	-	-	-	19
British Airways	9.99	-	331	-	-	331
Other		4	-	-	-	4
- **At cost**						
Servicios de Instrucción de Vuelo, S.L.	19.9	9	-	-	-	9
Wam Acquisition, S.A.	11.57	7	-	-	-	7
Total cost		**182**	**331**	**(9)**	**(4)**	**500**
Provisions		**(140)**	**(114)**	**1**	**-**	**(253)**

The majority shareholder of the Iberbus companies, Airbus, has guaranteed Iberia, Líneas Aéreas de España, S.A. the recovery of the full amount of its investments in and loans to the aforementioned companies, and, accordingly, the value of the Group's ownership interest in these companies is the same as their acquisition cost and they are not included in the scope of consolidation.

The ownership interests in Venezolana Internacional de Aviación, S.A. and Interinvest, S.A. are fully provided for. Approximately EUR 18 million of the ownership interest in Opodo, Ltd. has been provided for.

In 2008 the Parent acquired shares representing 9.9% of the share capital of British Airways plc. for EUR 331 million. At 31 December 2008, a provision of EUR 114 million was charged to “Equity – Reserves of the Parent” in the accompanying consolidated balance sheet, to recognise this investment at its fair value, calculated on the basis of its market value at that date.

The investment in Wam Acquisition, S.A. was acquired as partial consideration for the sale of Amadeus, S.A. and is instrumented in ordinary shares and preference shares. The preference shares grant the right to receive a fixed and cumulative dividend of 13.75% on the par value. “Finance Income” in the accompanying 2007 and 2008 consolidated income statements includes EUR 6 million and EUR 4 million, respectively, in this connection. These shares are convertible into ordinary shares in the event the investee is floated.

7.1.2 Loans and receivables

The changes in this heading in the consolidated balance sheet in 2007 and 2008 were as follows:

	Millions of Euros					
2007	Balance at 31/12/06	Additions	Exchange Differences (a)	Disposals	Transfers	Balance at 31/12/07
Loans to Venezolana Internacional de Aviación, S.A. (b)	26	-	-	-	-	26
Loans to Iberbús companies	150	-	(13)	-	(59)	78
Loans to Aerolíneas Argentinas, S.A. (c)	36	-	-	-	-	36
Loan to Wam Acquisition, S.A.	46	1	-	(47)	-	-
Clickair, S.A. - preference shares	14	9	-	-	-	23
Loans to Iberlease 2004 Ltd.	41	-	(5)	-	-	36
Other loans	4	-	-	-	(3)	1
Total cost	**317**	**10**	**(18)**	**(47)**	**(62)**	**200**
Provisions	**(61)**	**(23)**	-	-	-	**(84)**

	Millions of Euros				
2008	Balance at 31/12/07	Additions	Exchange Differences (a)	Transfers	Balance at 31/12/08
Loans to Venezolana Internacional de Aviación, S.A. (b)	26	-	-	-	26
Loans to Iberbús companies	78	-	4	(28)	54
Loans to Aerolíneas Argentinas, S.A. (c)	36	-	-	-	36
Clickair, S.A. – preference shares (d)	23	53			76
Loans to Iberlease 2004 Ltd.	36	-	2	-	38
Other loans	1	-	-	-	1
Total cost	**200**	**53**	**6**	**(28)**	**231**
Provisions	**(84)**	**(18)**	-	**(6)**	**(108)**

(a) Classified under “Exchange Differences (Gains and Losses)” in the consolidated income statements and hedged.

(b) The loans granted to Venezolana Internacional de Aviación, S.A. (VIASA) arose in prior years and had been provided for in full at 31 December 2007 and 2008.

(c) The loans of approximately EUR 36 million to Aerolíneas Argentinas, S.A. relate to the subrogation to a loan of USD 43 million granted by Banesto, S.A. secured by a mortgage on two B-747 aircraft, the repayment of which was guaranteed by Iberia, Líneas Aéreas de España, S.A. These loans have been provided for in full.

(d) Due to the preference shares of Clickair, S.A., “Provisions” includes a balance of approximately EUR 44 million.

Iberbus companies

Iberia, Líneas Aéreas de España, S.A. granted a loan to each of its Iberbús investees and entered into aircraft operating and finance leases with them. The principal ranges between USD 11 million and USD 22 million. These loans were granted for a period equal to the term of the operating or finance lease for the related A-340-300 aircraft and earn annual interest ranging from 4% to 6%. The loans are repayable in a one-off lump sum upon maturity, which will take place in the period from 2009 to 2012. The loans maturing in 2009 were reclassified to "Current Financial Assets – Loans and Receivables" (see Note 7.2).

The long-term outstanding amounts in this connection, by maturity, are as follows:

Maturing in	Millions of Euros
2010	29
2011	8
2012	17
	54

Wam Acquisition, S.A.

The full amount of the loan granted to Wam Acquisition, S.A. was collected in 2007.

Clickair, S.A.

At 31 December 2008, Iberia, Líneas Aéreas de España, S.A. owned ordinary shares in the share capital of Clickair, S.A. amounting to EUR 4 million, granting it a 20% ownership interest in the share capital of this investee, although, based on the agreements with the other shareholders, the dividend rights on this shareholding amount to 80%.

The investment in Clickair, S.A. is instrumented in, besides the aforementioned ordinary shares, preference shares, the cost of which at 31 December 2008 was EUR 76 million (of which EUR 53 million were paid in 2008). The impairment losses recognised to present this investment at the fair value estimated by the Parent's directors total EUR 46 million (of which EUR 23 million were recognised in 2008).

The directors of Clickair S.A. and of Vueling Airlines, S.A. have initiated the process for the merger of the two companies. At the date of preparation of the accompanying consolidated financial statements, the merger plan had been approved by the European Commission and approval of the issue prospectus was awaited from the shareholders at the respective Annual General Meetings and from the Spanish National Securities Market Commission. The Parent's directors consider that the merger process will be completed before September 2009. If the merger ultimately takes place, Iberia, Líneas Aéreas de España, S.A. would acquire the ownership interests of three of the other four shareholders of Clickair, S.A. for the amounts paid by them.

Iberlease 2004 Ltd.

Iberlease 2004 Ltd., the lessor of four aircraft held by the Parent under finance leases, is in turn the recipient of four loans granted by Iberia, Líneas Aéreas de España, S.A. for a term identical to that established in the finance leases, which are repayable in a single payment in December 2014. The principal of these loans amounts to USD 54 million and the interest is earned at a annual rate of between 6% and 6.5% payable quarterly.

7.1.3 Other non-current financial assets

The changes in the accounts under this heading in 2007 and 2008 were as follows:

2007	Millions of Euros					
	Balance at 31/12/06	Additions	Disposals and Recoveries	Transfers	Exchange Differences	Balance at 31/12/07
Deposits for acquisition of aircraft	289	133	(108)	(92)	(21)	201
Measurement of the hedging transactions	(7)	-	(1)	-	11	3
Other	24	3	(8)	(1)	(2)	16
	306	**136**	**(117)**	**(93)**	**(12)**	**220**

2008	Millions of Euros					
	Balance at 31/12/07	Additions	Disposals and Recoveries	Transfers	Exchange Differences	Balance at 31/12/08
Deposits for acquisition of aircraft	201	81	(31)	(50)	15	216
Measurement of the hedging transactions	3	4	-	-	(13)	(6)
Other	16	7	-	(1)	-	22
	220	**92**	**(31)**	**(51)**	**2**	**232**

Deposits

The amounts included in "Deposits for Acquisition of Aircraft" relate to the reimbursable advances paid for the acquisition of aircraft and engines, the detail being as follows:

	Millions of Euros			
	2007		2008	
	Outright Purchase	Option/ Right	Outright Purchase	Option/ Right
A-320 Family	115	3	71	3
A-340 Family	75	1	136	-
Engines	7	-	6	-
	197	**4**	**213**	**3**

Based on scheduled aircraft deliveries, the Group considers that deposits amounting to EUR 128 million will be taken to income in 2009.

7.2 Current financial assets

The detail of this heading in the accompanying consolidated balance sheets at 31 December 2007 and 2008 is as follows:

2007	Current Financial Instruments (Millions of Euros)			
	Loans and Receivables	Derivatives (Note 12)	Other Financial Assets	Total
Held-to-maturity investments	-	-	708	708
Loans and receivables	60	-	57	117
Derivatives	-	35	-	35
Total	**60**	**35**	**765**	**860**

2008	Current Financial Instruments (Millions of Euros)			
	Loans and Receivables	Derivatives (Note 12)	Other Financial Assets	Total
Held-to-maturity investments	-	-	1,582	1,582
Loans and receivables	34	-	56	90
Derivatives	-	79	-	79
Total	**34**	**79**	**1,638**	**1,751**

The average return on the amounts placed in current financial assets, mainly deposits, eurodeposits, euronotes and fixed-term deposits and promissory notes was 3.93% in 2007 and 4.74% in 2008.

The return on the investments recognised under "Other Cash Equivalents" in the consolidated balance sheet was 4.50% in 2007 and 4.70% in 2008.

8. Accounts receivable

This heading in the accompanying consolidated balance sheets at 31 December 2007 and 2008 includes mainly receivables from customers for sales performed directly by the Parent and from passenger and cargo agents marketing the services rendered by the Parent. This heading also includes receivables from airlines, mainly for services provided by the Parent in relation to tickets sold originally by other airlines, and tax receivables (see Note 13.1.).

The collection periods established by the Group companies range between 20 to 45 days.

The allowances recognised by the Group on the basis of its analysis of the recoverability of accounts receivable, based on an ageing and a case-by-case analysis, form part of the balance of this heading.

9. Equity

9.1 Share capital

The changes in 2007 and 2008 in the Parent's share capital were as follows:

	Number of Shares	Par Value (Euros)
Number of shares and par value of the share capital at 1 January 2007	948,066,632	0.78
Capital increase	4,842,183	0.78
Number of shares and par value of the share capital at 31 December 2007	952,908,815	0.78
Capital increase	194,193	0.78
Number of shares and par value of the share capital at 31 December 2008	953,103,008	0.78

In 2007 the Parent increased capital by EUR 3,776,903 by issuing 4,842,183 ordinary shares of EUR 0.78 par value each, with a share premium of the same amount per share. This capital increase was performed to cater for the conversion into shares of the same number of convertible debentures issued to cover the share option plan approved by the shareholders at the Annual General Meeting in 2003 and aimed at certain executive directors, executives and other employees. In this connection, in 2008 capital was increased by EUR 151,471, relating to 194,193 ordinary shares of EUR 0.78 par value each, with a share premium of EUR 0.84 per share.

At 31 December 2007 and 2008, the shareholders of the Parent were as follows:

	2007		2008	
	Number of Shares	Percentage of Ownership	Number of Shares	Percentage of Ownership
Caja de Ahorros y Monte de Piedad de Madrid	219,098,519	22.99	219,098,519	22.99
British Airways Holdings B.V.	94,309,090	9.90	125,321,425	13.15
Sociedad Estatal de Participaciones Industriales	49,212,526	5.16	49,212,526	5.16
State Street Bank	43,512,185	4.57	-	-
El Corte Inglés, S.A.	27,387,215	2.87	32,151,759	3.37
B. Metzler seel. Sohn & Co	-	-	28,458,106	2.99
Other	519,389,280	54.51	498,860,673	52.34
	952,908,815	**100.00**	**953,103,008**	**100.00**

At 31 December 2008, all the shares were of the same class, were fully subscribed and paid and were traded by the book-entry system. The shares of the Parent are listed on the Continuous Market of the Spanish stock exchanges and all carry the same voting and dividend rights.

9.2 Treasury shares of the Parent

The changes in “Treasury Shares” in 2007 and 2008 were as follows:

	2007		2008	
	Number of Shares	Millions of Euros	Number of Shares	Millions of Euros
At beginning of year	6,702,368	14	8,050,000	19
Additions	2,559,890	8	20,255,916	46
Disposals	(1,212,258)	(3)	(407,645)	(1)
At end of year	**8,050,000**	**19**	**27,898,271**	**64**

The treasury shares held by Iberia, Líneas Aéreas de España, S.A. at 31 December 2008 and 2007 represent respectively, 2.93% and 0.84% of the share capital, with an aggregate par value of EUR 22 million and EUR 6 million. The average acquisition price of the shares of the Parent held by the Group at 2008 and 2007 year-end was EUR 2.31 and EUR 2.37, respectively, per share. The average selling price of the shares of the Parent in 2008 and 2007 was EUR 2.69 and EUR 2.68, respectively, per share.

At 31 December 2008, the treasury shares of the Parent held by the Group were intended for trading on the market.

9.3 Earnings per share

Basic earnings per share

The basic earnings per share for 2007 and 2008 were as follows:

	2007	2008
Profit for the year attributable to the Parent (millions of euros)	327	32
Weighted average number of shares outstanding (millions of shares)	945	929
Basic earnings per share (euros)	0.346	0.034

9.4 Share premium

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

9.5 Legal reserve

Under the Consolidated Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

9.6 Reserves at fully consolidated companies

The detail, by company, of the balance of "Reserves at Fully Consolidated Companies" in the consolidated balance sheets at 31 December 2007 and 2008 is as follows:

Entity	Millions of Euros	
	2007	2008
Iberia, Líneas Aéreas de España, S.A.	74	80
Compañía Auxiliar al Cargo Exprés, S.A.	3	3
VIVA, Vuelos Internacionales de Vacaciones, S.A.	2	3
Total	79	86
Adjustments due to application of IFRSs	(91)	(91)
	(12)	**(5)**

9.7 Reserves at companies accounting for using the equity method

The detail, by company, of the balance of "Reserves at Companies Accounted for Using the Equity Method" in the consolidated balance sheets at 31 December 2007 and 2008 is as follows:

Entity	Millions of Euros	
	2007	2008
Clickair, S.A.	-	(31)
Multiservicios Aeroportuarios, S.A.	2	1
Empresa Logística de Carga Aérea, S.A.	1	1
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A.	1	1
Handling Guinea Ecuatorial, S.A.	1	-
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	2	3
Serpista, S.A.	1	1
Air Miles Group	-	1
Total	8	(23)
Adjustments due to application of IFRSs	2	2
Total	**10**	**(21)**

9.8 Valuation adjustments

"Valuation Adjustments" in the consolidated statement of changes in equity includes mainly the changes in the value of hedging derivatives and the provisions recorded to recognise at fair value the financial assets available for sale.

9.9 Capital management

The Group manages its capital to ensure that the Group companies are able to continue operating as profitable businesses whilst maximising shareholders' returns. The policy implemented by the Group to meet the objectives established is supported by, among other instruments, the maintenance of a correct balance between debt and equity. This policy makes it possible to reconcile the creation of value for shareholders with access to financial markets at a competitive cost for the purpose of covering the borrowing requirements of the investment plan which are not covered by the funds generated by its business activities.

The Group's capital management operates on the basis of three financial aggregates: equity and debt, as reported in the balance sheet and adjusted or equivalent net debt, the last of which takes into account the commitments acquired under leases:

- Equity includes share capital, reserves and profit.

-Net debt reported in the balance sheet includes bank borrowings less cash and cash equivalents, excluding the measurements of derivatives.

-Adjusted or equivalent net debt includes in net debt the capitalised aircraft leases, excluding the impact of derivatives, and eliminates capitalised interest on loans to Iberbus companies.

The description of these parameters and the corresponding amounts are as follows:

	Millions of Euros	
	2007	2008
Consolidated profit	328	32
Equity	2,006	1,564
Net debt	(2,500)	(1,803)
- Interest-bearing debt	467	469
- Liquidity available	(2,967)	(2,272)
Adjusted debt	532	1,012
Gearing	**26.5%**	**64.7%**
ROE	**16.3%**	**2.1%**

10. Non-current and current liabilities

The detail, by maturity, of the bank borrowings at 31 December 2007 and 2008 is as follows:

2007	Financial Liabilities (Millions of Euros)				
	Bank Borrowings	Finance Leases	Derivatives (Note 12)	Other Financial Liabilities	Total
Non-current liabilities	77	227	114	3	421
Current liabilities	121	42	83	23	269
Total	**198**	**269**	**197**	**26**	**690**

2008	Financial Liabilities (Millions of Euros)				
	Bank Borrowings	Finance Leases	Derivatives (Note 12)	Other Financial Liabilities	Total
Non-current liabilities	76	223	103	1	403
Current liabilities	115	55	448	22	640
Total	**191**	**278**	**551**	**23**	**1,043**

10.1 Bank borrowings and other financial liabilities

The detail, by maturity, of the bank borrowings at 31 December 2008 relating to loans and credit facilities is as follows:

Due in	Millions of Euros 2007 Euros	US Dollar	Total	2008 Due in	Euros	US Dollar	Total
Principal:				**Principal:**			
2008	10	110	120				
2009	7	8	15	2009	57	58	115
2010	3	49	52	2010	3	53	56
2011	3	-	3	2011	4	-	4
Subsequent years	7	-	7	Subsequent years	16	-	16
Interest:				**Interest:**			
2008	1	-	1	2009	-	-	-

These loans and credit facilities bore weighted average annual interest of 5.74% in 2007 and 4.86% in 2008.

The Group arranged credit lines with limits of EUR 190 million in 2007 and EUR 201 million in 2008 against which EUR 200 million had not been drawn down at 31 December 2008.

10.2 Obligations under finance leases

The detail of the Group's finance leases at 31 December 2007 and 2008 is as follows:

	Millions of Euros			
	Obligations Denominated in Euros		Obligations Denominated in US Dollars	
	2007	2008	2007	2008
Amounts payable under finance leases:				
Within one year	29	38	13	17
Between two and five years	90	90	30	124
After five years	26	3	81	6
Present value of finance lease obligations	**145**	**131**	**124**	**147**

The Group's most important finance leases relate to aircraft (see Note 6).

The terms of the finance leases on aircraft range from 7 to 16 years.

11. Long-term provisions

The changes in 2008 in the balance of this heading in the consolidated balance sheet were as follows:

	Millions of Euros					
	Balance at 31/12/07	Additions	Amounts Used	Transfers	Reversals	Balance at 31/12/08
Provisions for obligations to employees (Note 5.13)	641	67	(26)	(13)	-	669
Provision for major repairs (Note 5.2)	64	25	(14)	(1)	-	74
Provisions for restructuring costs (Note 5.12)	525	1	(106)	13	-	433
Other provisions (Note 5.15)	147	-	(4)	(6)	(30)	107
	1,377	**93**	**(150)**	**(7)**	**(30)**	**1,283**

11.1 Provisions for obligations to employees

The additions to “Provisions for Obligations to Employees” include the period provision for the normal cost and for the amounts relating to the interest income from the provision already recognised, which is classified under “Staff Costs” (EUR 42 million) and under “Finance Costs” (EUR 25 million) in the consolidated income statement for 2008. The disbursements in this connection are amortised on an approximately straight-line basis.

11.2 Provisions for restructuring costs

The balance of “Provisions for Restructuring Costs” relates to the present value of the liabilities arising from the voluntary collective redundancy procedure (see Note 5.12) approved in 2001 and extended until 2010 for ground personnel (3,968 employees at 31 December 2008). Additionally, the Group recognised a provision of EUR 19 million for the estimated cost of the group of employees who are expected to avail themselves of these measures, based on the cost commitments approved by the directors of the Parent.

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

11.3 Other provisions

“Other Provisions” includes the estimated amount required for probable liabilities of a diverse nature related mainly to litigation and unresolved tax assessments (see Note 5.15).

12. Derivative financial instruments

In line with the risk management policy described in Note 5.22, the Iberia Group arranges derivative transactions, mainly foreign exchange, interest rate and aviation fuel hedges.

The most frequently used foreign exchange derivatives are cross currency swaps, forwards and options. The most commonly used interest rate derivatives are interest rate swaps. The fuel price derivatives are mainly swaps and options.

The Group classifies its derivatives into three types pursuant to International Financial Reporting Standards (IFRSs):

1. Derivatives designated as cash-flow hedges: derivatives that mainly enable the cash flows from operating leases, ticket sales in currencies other than the euro and fuel purchases to be hedged.

2. Derivatives designated as fair value hedges: derivatives that enable the fair value of balance-sheet assets and liabilities to be hedged.

3. Other derivatives: those which have not been designated as hedges or do not meet the requirements established in IFRSs.

Foreign exchange hedges

At 31 December 2008, the derivatives hedging exchange rate fluctuations which were not specifically designated as hedges under IFRSs (since they are naturally offset in the income statement) were as follows:

Underlying	Currency	Amount (Millions of USD)	Derivative	Nominal Amount (Millions of USD)
Loans to IBERBUS companies	USD	115	Cross currency swaps	20
Advances on aircraft and engines	USD	300	Fx swaps	178
Guarantees	USD	52		
A-320 equities	USD	54		
4 A-320/321 debt	USD	(164)		
5 A-340 debt	USD	(185)		
Total		**172**		**198**

The fair value of these derivatives at 31 December 2008 was EUR -6 million and the EUR 9 million change in value as compared to 31 December 2007 was recognised in loss for the year, having offset the valuation gains on asset items.

At the date of the consolidated balance sheet, the total notional amount, by foreign exchange risk, of cash flow hedges was as follows:

Underlying	Millions of USD	Type of Hedge	Forecast Cash Flows (Millions of USD)				
			2009	2010	2011	2012	2013
Foreign currency expenses	1,367	Cross currency swaps	292	187	150	57	36
		Options:					
		USD four ways	885	435	-	-	-
		USD tunnels	22	-	-	-	-
		Fx forwards	70	65	-	-	-
New aircraft	80	Options:					
		Fx forwards	15	-	-	-	-

The market value at 31 December 2008 of the exchange rate derivatives (FX forwards and options) was positive and amounted to EUR 23 million (2007: EUR –45 million). The 2008 net balance was made up of EUR 124 million recognised in the asset accounts “Non-Current Financial Assets – Derivatives” and “Current Financial Assets – Derivatives”, and EUR 101 million recognised under “Non-Current Liabilities” and “Current Liabilities” on the liability side of the accompanying consolidated balance sheet. These hedges are linked to cash flows that will arise in 2009 and 2010.

Changes in the fair value of exchange rate derivatives that are effective as cash flow hedges amounted to EUR 67 million net of the tax effect and were deferred in equity, net of their tax effect.

Changes in the fair value of the ineffective portion of forwards, amounting to EUR 1 million, were charged to income in 2008.

The exchange rate and interest rate risks related to aircraft leases were hedged with cross currency swaps (CCS) which convert payments originally in US dollars to euros.

The effect of a change in the EUR/USD exchange rates of more than 10% of the value of the hedges at 31 December 2008 would be approximately EUR –100 million. If the change in exchange rates were less than 10%, the change in value of the hedged position at 31 December 2008 would be positive at approximately EUR 105 million.

Cash flow hedges at 31 December 2008

			Amount (Currency in Millions) (*)				
Instrument	Parent	Parent	Nominal Amount at 31/12/08	Nominal Amount at 31/12/09	Nominal Amount at 31/12/10	Nominal Amount at 31/12/11	Nominal Amount at 31/12/12
Cross currency swaps:							
Floating to fixed	Receives USD	Pays EUR	417	208	173	127	88
Floating to floating	Receives USD	Pays EUR	683	435	190	-	-
Floating to floating	Receives EUR	Pays USD	599	296	77	-	-
Fixed to fixed	Receives USD	Pays EUR	307	187	74	75	50

(*) The amounts are recorded in the currency in which the Parent pays.

Interest rate hedges

The Parent uses cross currency swaps and interest rate swaps to manage its exposure to interest rate fluctuations on its aircraft financing transactions.

		Nominal Amount in Millions				
Instrument	Currency	31/12/08	31/12/09	31/12/10	31/12/11	31/12/12
Interest rate swaps						
Floating to floating (1)	USD	277	256	235	212	63

(1) The Parent pays a floating interest rate with a cap and floor and receives a floating interest rate.

The fair value of the cross currency swaps and interest rate swaps arranged at 31 December 2008 amounted to EUR –52 million (2007: EUR –101 million). The 2008 amount is made up of assets of EUR 25 million and liabilities of EUR 77 million. These hedges are linked to flows which will arise in 2009, 2010, 2011, 2012 and 2013.

The changes in value accumulated by the effective portion of the swaps in the cash-flow hedges amounted to EUR 44 million, net of their related tax effect, and were recognised in equity, net of their tax effect. The changes in value accumulated by the ineffective portion (EUR -4 million) were allocated to profit for the year.

The effect of a change of more than 50 basis points in the euro interest rate curve on the value of the hedges at 31 December 2008 is approximately EUR 6 million. A change of less than 50 basis points would change the value of the hedged position at 31 December 2008 by approximately EUR -6 million.

A change of +/- 50 basis points in the USD interest rate curve would have the following effects: more than 50 basis points would affect the value of the hedges by approximately EUR -2 million. Conversely, a change of less than 50 basis points would have an effect of approximately EUR 2 million.

For the purposes of these calculations, the Parent considers a change of this magnitude in the interest rate curves to be the most likely scenario during 2009. However, in order to simplify this analysis, it was considered that the change in interest rates would take place at 2008 year-end and would then remain stable in 2009.

Fuel price hedges

Underlying	Commodity	(mT)	Type of Hedge	2009 Nominal (mT)
Fuel purchases - JET Kerosene	JET Kero CIF-NEW	1.95 million	SWAPS	348,000
			Options: four ways	660,000

Fuel price risk is hedged through swaps and options structures that hedge cash-flow fluctuations due to changes in fuel prices within a certain range.

The market value of the fuel derivatives amounted to EUR -373 million at 31 December 2008 (2007: EUR 9 million), which was recognised in full as a liability under “Current Liabilities” in the accompanying consolidated balance sheet.

The changes in value accumulated by the effective portion of the fuel derivatives amounted to EUR –380 million, net of the tax effect, and were recognised in equity, net of their tax effect. The changes in value accumulated by the ineffective portion amounted to EUR –2 million and were allocated to profit for the year. In 2008 settlements of excessive hedges amounting to EUR 23 million were recognised under “Other Income and Expenses” in the accompanying income statement.

The effect of a change in fuel prices of more than 50% of the value of the hedges at 31 December 2008 amounts to EUR 150 million. If a change in fuel prices of less than 50% were considered, the change in the value of the hedging position at 31 December 2008 would amount to EUR –119 million.

13. Tax matters

The corporation tax for each fully consolidated company is calculated on the basis of accounting profit, which does not necessarily coincide with taxable profit.

Since 1 January 2002 Iberia, Líneas Aéreas de España, S.A. and certain subsidiaries file consolidated tax returns under the tax system provided for by Title VII, Chapter VII of the Consolidated Spanish Corporation Tax Law (Legislative Royal Decree 4/2004, of 5 March) as part of Tax Group 148/02, of which Iberia, Líneas Aéreas de España, S.A: is the Parent. The companies composing the Consolidated Tax Group are the fully consolidated companies, except for Binter Finance, BV and Iberia México, S.A., which do not meet the legally established requirements for forming part of the Group.

13.1. Tax receivables and payables

The detail of the tax receivables at 31 December 2007 and 2008 is as follows:

	Millions of Euros	
	2007	2008
Deferred tax assets	**481**	**591**
Current tax receivables:		
Foreign tax receivables	7	7
VAT	12	21
Other tax receivables	-	2
	19	**30**

The source of the deferred tax assets is described in Note 13.6 below.

The detail of the tax payables at 31 December 2007 and 2008 is as follows:

	Millions of Euros	
	2007	2008
Deferred tax liabilities	**1**	**1**
Current tax payables:		
Take-off and security charges at airports	38	35
Foreign tax payables	38	35
Social security taxes	22	21
Personal income tax withholdings	29	29
Income tax payable	34	-
Other tax receivables	1	5
	162	**125**

13.2. Reconciliation of the accounting profit to the taxable profit

The reconciliation of consolidated accounting profit for 2007 and 2008 of the Consolidable Group companies to the taxable profit for income tax purposes is as follows:

	Millions of Euros					
	2007			2008		
	Increase	Decrease	Amount	Increase	Decrease	Amount
Accounting profit for the year (before tax)			447			36
Permanent differences	1	(1)	-	2	(10)	(8)
Temporary differences:						
Arising in the year	227 (a)	-	227	117 (a)	-	117
Arising in prior years	1	(167) (b)	(166)	-	(210) (b)	(210)
Consolidation adjustments:						
Permanent differences	11	(6)	5	-	-	-
Offset of prior years' tax losses	-	-	(1)	-	-	-
Taxable profit (loss)			**512**			**(65)**

(a) Relating mainly to period provisions for obligations to employees and other provisions for contingencies and charges and amounts received in 2007 in relation to memorandum credits and other deferred incentives.

(b) Relating basically to amounts used of provisions recorded in prior years for obligations to employees and income recognised in 2007 in relation to credit memorandums and other incentives received in prior years.

13.3. Tax recognised in equity

The detail of the taxes recognised with a direct impact on equity in 2007 and 2008 is as follows:

	Millions of Euros					
	2007			2008		
	Increases	Decreases	Total	Increases	Decreases	Total
Total current tax						
Due to deferred tax:						
Available-for-sale assets	-	-	-	34	-	34
Measurement of other financial assets	24	(12)	12	101	(20)	81
Total deferred tax	24	(12)	12	135	(20)	115
Total tax recognised directly in equity			**12**			**115**

13.4. Income tax expense

The detail of the balance of "Income Tax" in the accompanying consolidated income statements for 2007 and 2008 relates to the sum of the income tax expenses recognised by each fully consolidated company, the detail being as follows:

	Millions of Euros	
	2007	2008
Application of the tax rate to accounting profit adjusted by permanent differences	146	8
Add/(Less):		
Tax credits	(24)	(6)
Adjustment of prior years' income tax	-	(1)
Other	6	3
Tax effect of IFRS adjustments	(9)	-
Income tax	**119**	**4**

Current Spanish corporation tax regulations provide certain tax incentives to encourage investments and contributions to employees' mutual funds. The consolidated companies availed themselves of certain tax benefits in this connection and used tax credits amounting to EUR 4 million in the income tax return for 2007 and intend to use tax credits of EUR 3 million in the income tax return for 2008.

The Iberia Group took domestic and international double taxation relief amounting to EUR 4 million in the income tax return for 2007 and intends to use tax credits amounting to EUR 3 million in this connection in 2008.

In 2007 the Group reinvested EUR 123 million arising from the sale of assets, which gave rise to tax credits of EUR 16 million. The amounts reinvested in recent years and the related tax credits are as follows:

	Millions of Euros	
	Reinvestment	Tax Credits
2004	125	17
2005	825	129
2006	1	-
2007	123	16
2008	-	-

The effective income tax rate for 2007 and 2008 was 27% and 11% respectively.

13.5. Detail of the income tax expense

The detail of the income tax expense for 2007 and 2008 is as follows (in millions of euros):

	2007	**2008**
Current tax:		
Continuing operations	142	5
Deferred tax:		
Continuing operations	(14)	
Prior years' tax:		
Continuing operations	(9)	(1)
Other		
Total tax expense	**119**	**4**

13.6. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised in the consolidated balance sheet under "Deferred Tax Assets" and "Deferred Tax Liabilities", respectively, as follows:

	Millions of Euros			
	2007		2008	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Temporary differences arising in the period	82	-	150	-
Temporary differences arising in prior years	399	1	415	1
Tax loss carryforward	-	-	20	-
Tax credits	-	-	6	-
	481	**1**	**591**	**1**

The deferred tax assets arose mainly from the provisions made for obligations to employees and other provisions which will become tax deductible in coming years and from income received in relation to memorandum credits and other deferred aircraft-related incentives. Also included are the taxes recognised with a direct impact on equity.

The changes in the balance of deferred tax assets in 2007 and 2008 were as follows:

	Millions of Euros							
	Balance at 31/12/06	Additions	Disposals	Balance at 31/12/07	Additions	Disposals	Other	Balance at 31/12/08
Deferred tax assets	445	82	(46)	481	178	(66)	(2)	591

The deferred tax assets at 31 December 2008 are expected to be utilised as follows:

Year of Recovery	Millions of Euros
2009	216
2010	40
2011 and subsequent years	335
	591

13.7. Tax audits

As a result of various tax audits, the tax authorities issued certain assessments for 1993 to 1997 (relating mainly to personal income tax withholdings), which were signed on a contested basis and appealed against by the Parent.

Also, the Parent filed an appeal against the assessments issued in connection with customs duties for 1998 (second half), 1999 and 2000 (first five months).

During the audit performed in 2007 and 2008, the authorities issued assessments in relation to income tax for the period 2002 to 2004, and VAT and non-resident tax for 2003 and 2004. The Parent appealed against the latter two assessments.

The directors of Iberia, Líneas Aéreas de España, S.A. consider that no tax liabilities additional to those recognised under “Other Provisions” will arise from the resolution of the various appeals described above (see Note 11).

The Parent is currently undergoing a tax audit in relation to personal income tax for 2003 and 2004.

In relation to the tax periods for which the limitation period has not expired, from 2005 to 2008 for all the taxes applicable to the Group's operations, the directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities to arise in addition to those recognised which might have a material effect on the consolidated financial statements.

14. Revenue

14.1 Revenue

The breakdown of the Consolidable Group's revenue in 2007 and 2008 is as follows:

By Activity	Millions of Euros	
	2007	2008
Passenger ticket revenue (a)	4,325	4,218
Cargo revenue	343	347
Handling (aircraft dispatching and airport services)	280	275
Technical assistance to airlines	273	297
Other income	83	86
	5,304	**5,223**

(a) Including other income (recovery of unused tickets, commercial agreements, etc.) amounting to EUR 291 million and EUR 327 million in 2007 and 2008, respectively.

The breakdown of passenger ticket revenue excluding "Other Income", by network, is as follows:

	Millions of Euros	
	2007	2008
Domestic	1,113	929
Medium-haul	1,119	1,124
Long-haul	1,802	1,838
	4,034	**3,891**

14.2 Other operating income

The detail of "Other Operating Income" in the accompanying consolidated income statements is as follows:

Description	Millions of Euros	
	2007	2008
Recurring:		
Commissions	85	80
Rental income	24	18
Other sundry income	108	129
Non-recurring:		
Overprovisions (Note 11)	1	30
Other non-recurring operating income	13	35
	231	**292**

The income from commissions relates basically to the commissions on the sale of tickets for other airlines, the commissions arising from the franchise agreement with Air Nostrum and the sale of tickets for Clickair, S.A. under Iberia's code.

"Other Non-Recurring Operating Income" for 2008 includes mainly EUR 15 million of the settlement received from an insurance company.

14.3 Net gains on disposal of non-current assets

The detail of the balance of "Net Gains on Disposal of Non-Current Assets" in the accompanying consolidated income statements for 2007 and 2008 is as follows:

	Millions of Euros	
	2007	2008
WAM Acquisition, S.A.	94	-
Disposal of aircraft and engines (Note 6)	73	24
Compulsory purchase of land and disposal of buildings	28	-
Other	1	1
	196	**25**

The gain obtained in 2007 by Wam Acquisition, S.A. relates to shares of this company which were sold for EUR 101 million.

14.4 Finance income

The detail of the balance of "Finance Income" in the accompanying consolidated income statements is as follows:

	Millions of Euros	
	2007	2008
Interest on short-term deposits	104	122
Interest on loans to associates	6	4
Other finance income	16	11
	126	**137**

15. Expenses

15.1 Procurements

The detail of "Procurements" in the accompanying consolidated income statements for 2007 and 2008 is as follows:

	Millions of Euros	
	2007	2008
Recurring:		
Aircraft fuel	1,145	1,666
Aircraft spare parts	169	160
Catering materials	23	21
Other purchases	17	17
	1,354	**1,864**

15.2 Headcount and other staff costs

The detail of "Staff Costs" in the accompanying consolidated income statements for 2007 and 2008 is as follows:

	Millions of Euros	
	2007	2008
Wages, salaries and similar expenses	1,044	1,001
Employee welfare costs	336	319
Non-recurring staff costs:		
Provisions for extension of collective redundancy procedure (Note 11.2)	64	1
	1,444	**1,321**

The average number of employees at the Group companies, measured in terms of equivalent average headcount, by professional category, in 2007 and 2008 was as follows:

	Number of Employees	
	2007	2008
Senior executives:	**10**	**10**
Ground personnel:		
Senior managers and other line personnel	1,118	1,121
Clerical staff	6,095	5,694
Ancillary services	5,495	5,104
Aircraft maintenance technicians	2,895	2,875
Other	1,264	1,207
	16,867	**16,001**
Flight personnel:		
Pilots	1,707	1,644
Cabin crew	3,931	3,923
	5,638	**5,567**
	22,515	**21,578**

At 31 December 2008, the distribution of the workforce, by gender and by professional category, was as follows:

	2007		2008	
	Women	Men	Women	Men
Senior executives	**1**	**9**	**1**	**9**
Ground personnel:				
Senior managers and other line personnel	414	692	433	719
Clerical staff	4,341	2,214	4,032	2,026
Ancillary services	552	5,465	479	5,071
Aircraft maintenance technicians	30	2,795	31	2,894
Other	567	691	552	679
	5,904	**11,857**	**5,527**	**11,389**
Flight personnel:				
Pilots	61	1,675	60	1,608
Cabin crew	3,167	1,131	3,084	1,070
	3,228	**2,806**	**3,144**	**2,678**
	9,133	**14,672**	**8,672**	**14,076**

15.3 Other operating expenses

The detail of “Other Operating Expenses” in the accompanying consolidated income statements for 2007 and 2008 is as follows:

	Millions of Euros	
	2007	2008
Air traffic services	389	362
Aircraft lease payments:		
Dry lease	347	324
Wet lease	46	33
Cargo	15	16
Cash-flow derivative transactions	13	-
Other	12	13
Navigation charges	274	258
Aircraft maintenance	236	228
Commercial expenses	243	200
Booking system expenses	144	137
Other rent	76	76
In-flight services	72	72
Other types of maintenance	44	49
Stopover expenses	41	37
Indemnities for passengers, luggage and cargo	37	33
Other recurring expenses	299	314
Non-recurring expenses	17	5
	2,305	**2,157**

“Aircraft Maintenance” includes the expenses for subcontracted maintenance work and the provision for major repairs of aircraft operated under operating leases.

The fees for financial audit services provided to Iberia, Líneas Aéreas de España, S.A. and its subsidiaries by the principal auditor and by other entities related to the auditor amounted to EUR 611,500 in 2008 (2007: EUR 497,000).

Also, the fees for other professional services provided to Iberia, Líneas Aéreas de España, S.A. and its subsidiaries by the principal auditor and by other entities related thereto amounted to EUR 428,000 in 2008 (2007: EUR 118,500).

15.4 Finance costs

The detail of "Finance Costs" in the accompanying consolidated income statements is as follows:

	Millions of Euros	
	2007	2008
Interest on loans	12	6
Interest on finance leases	19	15
Interest on employee liabilities	25	25
Other finance costs	4	6
	60	**52**

16. Contribution of subsidiaries and associates to consolidated profit

The contribution of subsidiaries and associates to the consolidated profit in 2007 and 2008 is as follows:

	Profit/(Loss) Millions of Euros	
Company	2007	2008
Iberia, Líneas Aéreas de España, S.A.	356	48
Compañía Auxiliar al Cargo Exprés, S.A.	1	1
Iberia México, S.A.	-	1
Other subsidiaries	(1)	-
Handling Guinea Ecuatorial, S.A.	-	1
Sociedad Conjunta para la Emisión y gestión de Medios de Pago EFC, S.A.	1	1
Clickair, S.A.	(31)	(19)
Internacional Supply Management, S.L.	(1)	-
Other	2	(1)
Profit attributable to the Parent	**327**	**32**

17. Business and geographical segments

Basis of segmentation

Segment reporting is structured on a primary basis by business segment and on a secondary basis by geographical segment.

Primary segments - business segments

The business lines described below were established on the basis of the Iberia Group's organisational structure at 2008 year-end and take into account the nature of the services provided and the customer segments at which they are targeted.

In 2008 the Iberia Group engaged mainly in the following major lines of business, which provides the basis for the Group's primary segment reporting:

1. Transport business (including passenger and cargo transport)

2. Airports business (including handling).

3. Maintenance and engineering business

4. Other business activities

Income and expenses that cannot be specifically attributed to any operating line or that are the result of decisions affecting the Group as a whole -including expenses incurred in projects or activities affecting several lines of business, or income from strategic investments, income tax expenses, etc.- are attributed to a “Corporate Unit” to which the reconciling items arising from the reconciliation of the result of integrating the financial statements of the various lines of business (prepared using a management approach) into the Group's consolidated financial statements are also allocated.

The costs incurred by the Corporate Unit are allocated among the various lines of business using an internal cost allocation system.

Secondary segments - geographical segments

The Group's activities are also classified into geographical segments: Domestic (Spain), Short- and Medium-Haul International (Europe, Africa excluding South Africa, and the Middle East) and Long-Haul markets.

Basis and methodology for segment reporting

The segment reporting below is based on monthly reports prepared by the Iberia Group which are generated on the basis of the Group's cost accounting system which classifies transactions carried out by the Group by business line and geographical segment.

Segment revenue relates to the external and internal revenue directly attributable to the segment and excludes finance income, dividends or proceeds from the disposal of investments.

The expenses of each segment are determined by the directly allocable expenses incurred in the operating activities of the segment plus the corresponding proportion of the corporate expenses which can be allocated to the segment using reasonable allocation bases. The expenses thus allocated do not include interest, losses arising from the disposal of investments or the income tax expense that are not related to the segments' operating activities and, therefore, that cannot be allocated using reasonable allocation bases.

Segment assets and liabilities are those directly related to each segment's operations, plus the assets and liabilities that can be directly attributed thereto using the aforementioned allocation bases. Segment liabilities do not include income tax debts.

Segment information about these businesses is presented below.

	Millions of Euros									
	Transport		Airports		Maintenance		Corporate Unit and Other Businesses		Total Group	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Operating income:										
External	4,904	4,813	295	289	289	309	33	39	5,521	5,450
Inter-segment	7	5	278	202	401	387	174	381	-	-
Operating expenses:										
External	3,875	4,239	566	480	617	616	179	194	5,237	5,529
Inter-segment	776	694	33	31	29	31	22	219	-	-
Operating profit	**260**	**(115)**	**(26)**	**(20)**	**44**	**49**	**6**	**6**	**284**	**(80)**
E.B.I.T.D.A.R.	856	413	(10)	(4)	68	73	18	17	932	499
Aircraft lease payments	(433)	(386)	-	-	-	-	-	-	(433)	(386)
E.B.I.T.D.A.	423	27	(10)	(4)	68	73	18	17	499	113
Depreciation and amortisation charge	(163)	(142)	(16)	(16)	(24)	(24)	(12)	(11)	(215)	(193)
Non-recurring profit							129	85	129	85
Financial profit							63	49	63	49
Investments in companies accounted for using the equity method							(29)	(18)	(29)	(18)
Profit before tax									447	36
Income tax							(119)	(4)	(119)	(4)
Net profit									**328**	**32**
Equivalent headcount	8,942	8,776	8,493	7,769	3,806	3,767	1,274	1,266	22,515	21,578
Investments	198	231	21	5	30	27	16	22	265	285
Property, plant and equipment	853	829	89	74	155	172	36	43	1,133	1,118
Inventories	42	39	-	-	153	179	2	6	197	224
Other assets	-	-	-	-	-	-	4,687	4,292	4,687	4,292
Total assets									**6,017**	**5,634**
Customer advances	455	394	-	-	-	-	-	-	455	394
Remuneration payable	122	91	44	37	25	21	11	10	202	159
Other liabilities	-	-	-	-	-	-	3,369	3,517	3,384	3,517

Inter-segment sales are made applying an internal transfer pricing system based on market prices on the basis of equivalent areas and volumes.

The following table shows the geographical breakdown of the Group's revenue:

	Revenue	
Secondary Segment	2007	2008
Domestic	2,351	2,076
Short- and Medium-Haul International	1,198	1,272
Long-Haul	1,972	2,102
	5,521	**5,450**

All the Group's assets would be allocable to the domestic market except for the aircraft, which do not have defined geographical location. The percentages of use of the aircraft in each geographical market, measured in terms of total block hours, are as follows:

Secondary Segment	Percentage of Use 2007	2008
Domestic	30.13%	25.07%
Short- and Medium-Haul International	37.82%	39.36%
Long-Haul	32.05%	35.57%
	100.00%	**100.00%**

18. Related party transactions

Balances and transactions with other related parties

The following transactions were performed with related companies in 2007 and 2008:

Significant Shareholders	Millions of Euros 2007 Collected from Iberia Group	2007 Paid to Iberia Group	2008 Collected from Iberia Group	2008 Paid to Iberia Group
British Airways	7	19	8	37
El Corte Inglés Group	22	-	29	-
BBVA	4	1	-	-
Caja Madrid	7	-	4	1
	40	**20**	**41**	**38**

The transactions with British Airways relate mainly to commissions on passenger tickets collected from and paid to this company, for tickets issued by one company with the related flight being flown by the other, collections and payments arising from loyalty building programmes, and collections and payments for handling services provided.

The main transactions with the El Corte Inglés Group relate to the supply of uniforms for flight personnel, commissions and incentives for passenger ticket sales under commercial agreements, technical advisory services and computer software and hardware maintenance and development.

Lastly, the transactions with Caja Madrid relate to the interest on aircraft financing transactions, guarantees given on aircraft and other items.

In addition, the accompanying consolidated balance sheets at 31 December 2007 and 2008 include the following balances with related parties arising in the normal course of business:

Related Parties	Millions of Euros 2007	2008
British Airways	6	9
Caja Madrid	18	13
El Corte Inglés Group	9	5

19. Remuneration of Directors and Senior Executives

The detail of the remuneration received in 2007 and 2008 by the members of the Board of Directors in their capacity as directors of the Parent is as follows:

Directors' Remuneration	Thousands of Euros	
	2007	2008
Fixed remuneration	753	780
Attendance fees	703	774
Compensation in kind	86	85
Total remuneration	**1,542**	**1,639**

In 2008 Iberia, Líneas Aéreas de España, S.A. incurred expenses relating to the performance of non-executive directors' functions amounting to EUR 5,000 (2007: EUR 8,000).

In addition, one of the directors occupies an executive position in the Parent for which he received the following remuneration in 2007 and 2008:

Executive Directors	Thousands of Euros	
	2007	2008
Fixed remuneration	630	693
Variable remuneration	448	503
Compensation in kind	8	11
Share options	310	-
	1,396	**1,207**

The social security, insurance and other costs recognised by Iberia, Líneas Aéreas de España, S.A. in relation to the activities performed by the executive directors amounted to EUR 128,000 in 2008 (2007: EUR 154,000).

In 2008 no advances or loans were granted to the directors of Iberia, Líneas Aéreas de España, S.A., and there are no pension commitments to them.

Remuneration of Senior Executives

The remuneration of the Parent's senior executives -excluding those who are simultaneously directors (whose remuneration is disclosed above)- in 2007 and 2008 is summarised as follows:

Description	Thousands of Euros	
	2007	2008
Salary (fixed and variable)	2,544	3,010
Compensation in kind	111	112
Share-option-based payments	954	-
Other	135	151
	3,744	**3,273**

In 2007 senior executives exercised all the share options previously unexercised (1,000,840 shares).

In 2007 and 2008 no advances or loans were granted to the members of the Management Committee of Iberia, Líneas Aéreas de España, S.A., and there are no pension obligations to them.

20. Detail of the investments in companies engaging in similar activities and of the performance, by the directors, as independent professionals or as employees, of similar activities

Pursuant to Article 127 ter.4 of the Spanish Companies Law, introduced by Law 26/2003, of 17 July, which amends Securities Market Law 24/1988, of 28 July, and the Consolidated Spanish Companies Law, in order to reinforce the transparency of listed corporations, following is a detail of the activities carried on in 2008 by directors that are identical, similar or complementary to the activity that constitutes the company object of Iberia, Líneas Aéreas de España, S.A. and subsidiaries:

Name	Line of Business	Type of Arrangement	Company	Position/Function
Don Miguel Blesa de la Parra	Handling	Employee	Flightcare (FCC)	FCC Board Member
Roger Maynard	Air transport	Employee	British Airways	Director of Alliances and Investments
	Air transport	Employee	BA Citiflyer and BA European	Executive/Director
Lord Garel-Jones	Handling	Employee	Acciona	Board Member

Fernando Conte is also a member of the Board of IATA.

Also, pursuant to the aforementioned Law, it is hereby stated that the only directors who own any equity interests in companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of Iberia, Líneas Aéreas de España, S.A. and subsidiaries are Miguel Blesa de la Parra, who has a 0.004% ownership interest in Flightcare indirectly through FCC, and Roger Maynard, who has a 0.0004994% ownership interest in British Airways.

Lastly, directors (or persons acting on their behalf) have not entered into transactions other than ordinary business transactions or in conditions other than normal market conditions with Iberia, Líneas Aéreas de España, S.A. or with other Iberia Group companies.

21. Information on the environment

Within the framework of its environmental policy, the Group continued to undertake various activities and projects in 2008 in order to guarantee the proper management of the main environmental impacts of the air transport business as a whole.

In 2008 the Group incurred environmental expenses of EUR 4 million (2007: EUR 3 million), the detail being as follows:

	Millions of Euros	
	2007	2008
Environmental repair and maintenance	1	1
Staff costs relating to environmental management	1	1
Environmental taxes and other	1	2
	3	**4**

At 31 December 2008, the acquisition cost and accumulated depreciation of the environmental assets, which include, inter alia, water-treatment plants, hazardous waste storage facilities, gas recharge and filter systems and water recycling infrastructure, amounted to EUR 77 million and EUR 52 million, respectively (2007: EUR 63 million and EUR 33 million, respectively).

With respect to its aircraft, the Group has a renewal policy in which the environment (minimising the impact of noise and air emissions) is an important factor to be borne in mind. Accordingly, the Group is continuing to add new aircraft models that reduce fuel consumption by approximately 20% compared to earlier generation aircraft. Therefore, in 2007 9 A-320 aircraft were added and 3 B-757, 11 A-320 and 7 MD aircraft were retired. In 2008 3 A-320 aircraft were added and 3 B-757 and 23 MD aircraft were retired.

In the area of ground operations, the Parent achieved certification under the ISO 14001/AENOR Environmental Management System including the Parent's aircraft maintenance facilities at Barajas airport in Madrid. As a result of this certification, together with the existing ones in handling and the Parent's other maintenance facilities, all of the Parent's significant environmental issues are covered by external certification.

The Parent considers that any possible environmental contingencies that might arise are covered sufficiently by its third-party liability insurance policies and by the provisions relating to probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount.

Lastly, the environmental investments made in 2008 amounted to EUR 1 million.

22. Cash flow statement

In preparing the cash flow statement the Company considered "Cash and Cash Equivalents" to be the balances included under "Cash and Cash Equivalents" and under "Other Financial Assets - Held-To-Maturity Investments" (see Note 7.2) since the latter met the conditions to be considered as highly liquid investments that are subject to an insignificant risk of changes in value.

The main items in the cash flow statement relate to: payments for investments arising from aircraft acquisitions (see Note 6) and other financial assets (see Note 7).

The payments made to employees arising from the provisions for restructuring and from the obligations to personnel (see Note 11) are included under "Other Cash Flows from Operating Activities - Other Collections (Payments)" in the cash flow statement.

23. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.