INTERIM MANAGEMENT REPORT
JANUARY-MARCH 2009

Main figures (not audited)

Financial Data (€ million)	1st Quarter		
	2009	2008	%
Operating revenues (a)	1,098.1	1,300.5	-15.6
Operating costs (a)	1,245.3	1,328.8	-6.3
EBITDAR (a)	-7.2	124.0	n.m.
Recurring EBIT (a)	-147.3	-28.3	n.m.
Adjusted EBIT (b)	-117.7	3.7	n.m.
Profit/loss from operations (c)	-147.3	-6.6	n.m.
Consolidated income before taxes	-128.4	-1.1	n.m.
Consolidated income after taxes	-92.6	-0.4	n.m.
Non-current assets (d)	2,513.9	2,450.2	2.6
Current financial investments, cash & cash equivalents (d) (e)	2,252.3	2,271.6	-0.8
Equity (d)	1,510.7	1,563.9	-3.4
In-balance sheet net debt (d) (f)	-1,672.4	-1,803.3	-7.3
Adjusted net debt x 8 (d) (g)	1,139.1	1,012.4	12.5
Cash flow from operating activities	-77.8	94.4	n.m.
EBITDAR margin (%) (a)	-0.7	9.5	-10.2 p.
EBIT margin (%) (a)	-13.4	-2.2	-11.2 p.
Operating revenue/ASK (€ cent) (a)	7.14	7.95	-10.1
Operating expense/ASK (€ cent) (a)	8.10	8.12	-0.2
Operating Figures			
ASK (million)	15,369	16,360	-6.1
RPK (million)	11,752	12,990	-9.5
Load factor (%)	76.5	79.4	-2.9 p.
Yield (h)	6.43	7.06	-9.0
Passenger revenue / ASK (€ cent) (h)	4.92	5.61	-12.3
Annual average headcount	20,715	21,574	-4.0
ASK / Employee (thousand)	742	758	-2.2
No. of aircraft end of period	120	132	-9.1
Average fleet utilization (block hours/aircraft/day)	10.0	9.7	3.4

n.m.: not meaningful.
(a) Only recurring items.
(b) Excluding 33% of operating leases (100% of dry leases + 50% of wet lease) equivalent to the implicit financial interest of the aircraft rentals.
(c) Includes non-recurring items.
(d) March 2009 vs. December 2008.
(e) Current financial investments (excluding the value of hedging instruments) plus cash and other cash equivalents.
(f) In balance sheet net debt: (Bank borrowings and obligations under finance leases) – (Current financial investments + cash and cash equivalents).
(g) Adjusted net debt: In balance sheet net debt + Aircraft rentals (dry lease at 100% and the rest at 50%) annualised and capitalised (x8) (2,829.6 millions in 2009 and 2,841.6 millions in 2008) – Interests (at 4% since 2009, at 6% previously) of Iberbus laons capitalised (18.1 millions in 2009 and 25.9 millions in 2008).
(h) Calculated with passenger revenues generated during the period, excluding revenues from the cancellation of customer advances as well as other minor accounting regularizations.

Highligths

- In the first three months of 2009 the Iberia Group recorded a consolidated loss of €92.6 million, driven primarily by the negative impact that the global economic crisis is having on the airline sector.

- Operating revenues narrowed 15.6% due to: weak air traffic in most international markets, most notably in Spain, the collapse in business travel and intense pressure on fares. Operating revenue per ASK fell 10.1% year-on-year.

- One-off events such as flight interruptions triggered by the pilots' work-to-rule action and the heavy snowfalls of January also undermined revenues this quarter.

- The slump in demand (-9.5%) outpaced the reduction in capacity (-6.1%). The load factor decreased 2.9 points year-on-year to 76.5%, albeit highest reading for the quarter among comparable European carriers.

- Operating costs narrowed 6.3% on 1Q08, with most headings posting year-on-year declines, cushioning the impact from falling revenues.

- Headcount was reduced by 4%, while average fleet utilisation rose 3.4%, remaining at the highest level in the company's history (ten block hours/aircraft/day).

- Revenue from technical assistance to airlines continued to increase (by 6.3% year-on-year), accounting for 7.2% of total first quarter operating revenues.

- The company's balance sheet remains solid, with liquidity (current financial investments, cash and cash equivalents) of €2,252.3 million at 31 March 2009.

- On 20 April, Iberia's management and representatives at the company from pilot union SEPLA signed the VII collective bargaining agreement for technical crew. The agreement, effective from 2005 to 2009, contemplates a wage freeze for 2005 and 2006 and wage increases of 2.36%, 3.5% and 0.62% for 2007, 2008 and 2009, respectively. In addition, it includes a range of measures designed to boost productivity, endows customer service with greater flexibility and provides pilots with the choice of continuing to fly until the age of 65 (from 60), among other initiatives.

- To cushion the impact of an extraordinarily difficult operating environment, the company has launched a contingency plan comprising a raft of initiatives: capacity reduction, fleet downsizing, cost cutting and scaled back capex.

- The exceptionally challenging operating environment affecting the airline sector reduces visibility for the coming quarters. However, if the current conditions persist for the full year, it is unlikely that the company will post a profit in 2009.

Traffic and Passenger Revenues

The global economic crisis is having a very significant impact on the **entire airline sector**: demand, which had weakened throughout 2008, slumped more notably in 1Q09. Aggregate traffic across the airlines belonging to the Association of European Airlines (AEA) fell 7.3% in 1Q09, capacity was reduced by 3.7% and load factor went down 2.7 percentage points year-on-year. This effect was compounded by the disproportionate drop in business class traffic in nearly all markets worldwide, exacerbating the decline in carriers' revenues. According to International Air Transport Association (IATA) data, travel on economy class tickets fell 6.3% in January and February 2009, while first/business class ticket passengers plummeted 19.1% year-on-year over the same two month period.

The **Spanish airline sector** is faced with an extraordinarily challenging set of circumstances. The recession is taking a toll on domestic flights (Spanish GDP is expected to shrink by 3.0% in 2009 according to International Monetary Fund estimates). This segment is also affected by the intense competition from high speed rail connections on core domestic routes: on the Madrid-Malaga route since December 2007 and on the Madrid-Barcelona route since 20 February 2008. According to AENA (the Spanish airport management authority) data, the number of passengers on commercial domestic flights in 1Q09 across all carriers declined 20.5% year-on-year, with the drop in passenger traffic on the Barcelona-Madrid route reaching 35%. In addition, the adverse international economic backdrop has taken a toll in inbound traffic from the main European tourist markets, and has also undermined immigrant travel to and from Latin America. According to AENA passenger traffic statistics, international traffic at Spain's airports narrowed 16.3% on 1Q08.

Overall, across its network, **Iberia's capacity**, measured in available seat-kilometres (ASK), narrowed 6.1% year-on-year, while revenue passenger kilometres (RPK) fell 9.5%. The impact from the adverse economic environment was compounded by other circumstances shaping the company's performance during 1Q09: the timing of the Easter holidays (which fell in March in 2008 and in April this year), operational difficulties during the first three weeks of January, due to heavy snowfall at Madrid-Barajas and the work-to-rule action by pilots, forcing the cancellation of hundreds of flights and prompting widespread flight delays and disruptions, and, to a lesser extent, the fact that 2008 was a leap year, with one more day. As a result of all these drivers, capacity streamlining efforts taken to offset slumping demand were higher than initially forecast. The load factor narrowed 2.9 points on 1Q08 to 76.5%. Nonetheless, Iberia continues to boast the highest load factor among the main European network carriers.

In the first three months yields narrowed 9.0% year-on-year, driven by the significant decline in business traffic, price pressure in most markets and the impact of the increase in the average stage length (12.4%), mainly the result of the growing contribution by long haul traffic, which represented 66.5% of total PKT (2.6 points higher than in 1Q08). All this, combined with the aforementioned decline in the load factor, drove passenger revenue per ASK 12.3% lower.

In the **long haul** segment the company trimmed capacity (by 0.9%) on 1Q08; traffic fell 5.8% to leave the load factor at 82.9% (down 4.3 points). The yield narrowed 5.5%, driven especially by the decline in business traffic (-19.4%) and in revenue per ASK (-10.2%) affected by the negative performance of the routes to United States. Revenue per ASK on Latin American routes fell 8.1% in 1Q09.

Available seat-kilometres in the international **medium-haul segment** narrowed 8.4% on 1Q08, as result of a 10.7% drop in demand, to put the load factor at 66.3% (down 1.7 points). Traffic on international medium haul flights taking off or arriving at the Madrid-Barajas hub declined 6.1% year-on-year; capacity was trimmed by 3.2% to leave the load factor at 66.9%. The yield fell by 10.9% due to the increase in the average stage length in this segment (3.4%) and intense pricing pressure on European routes, so that revenue per ASK narrowed 13.1%.

The company continued to reduce capacity on **domestic** routes, bringing it down 20.9% year-on-year, putting the load factor at 65.9%, 3.3 points below the year earlier figure. Capacity was taken out most aggressively (-36.5%) on the Barcelona-Madrid route (both the shuttle and regular scheduled flights), reflecting the fact that the company began to rationalise capacity on this route in April 2008. The yield fell by 3.3%, in part due to the increase in the average stage length in this segment (5.9%). Revenue per ASK narrowed 7.9%.

Consolidated Statements of Income (not audited)

IBERIA GROUP € Million	1st Quarter (Jan – Mar) 2009	 2008	 %
Profit/loss from operations (a)	**-147.3**	**-6.6**	**n.m.**
Revenues from operations	**1,098.9**	**1,304.5**	**-15.8**
Net sales	**1,049.6**	**1,250.0**	**-16.0**
Passenger revenue (b)	829.8	1,003.2	-17.3
Cargo revenue	63.8	86.4	-26.1
Handling	54.2	60.0	-9.7
Technical assistance to airlines	79.5	74.8	6.3
Other revenues	22.2	25.6	-13.4
Other operating revenues	**49.3**	**54.5**	**-9.5**
Recurring	48.5	50.4	-3.8
Non-recurring	0.8	4.1	-80.1
Costs from operations	**1,245.7**	**1,332.8**	**-6.5**
Procurements	**345.9**	**378.7**	**-8.7**
Aircraft fuel	289.0	327.5	-11.7
Aircraft spare parts	48.2	42.2	14.2
Catering materials	4.4	4.8	-8.8
Other purchases	4.3	4.3	0.9
Personnel expenses	**326.7**	**339.6**	**-3.8**
Depreciation and amortization	**44.8**	**49.3**	**-9.1**
Other operating costs	**528.3**	**565.2**	**-6.5**
Aircraft leases	95.2	103.0	-7.6
Other rentals	18.1	19.7	-7.8
Fleet maintenance (subcontracts)	57.7	56.0	3.0
Commercial costs	44.8	54.6	-18.0
Traffic services	99.6	105.1	-5.2
Navigation charges	61.5	66.7	-7.8
In-flight services	16.3	17.1	-4.7
Booking systems	40.9	42.0	-2.6
Other costs	94.2	101.0	-6.7
of which: Non-recurring	0.3	4.1	-91.8
Net gains on disposals of non-current assets	**-0.5**	**21.7**	**n.m.**

n.m.: not meaningful.

(a) Profit/loss from operations includes operating income, non recurring revenues and costs, as well as net gains on disposals of non-current assets and impairment losses.

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

IBERIA GROUP	1st Quarter (Jan – Mar)		
€ Million	2009	2008	%
Financial results	**18.8**	**13.1**	**43.6**
Financial revenues	24.7	32.6	-24.0
Financial expenses	11.4	13.0	-11.6
Exchange gains/losses (c)	4.2	-2.6	n.m.
Other revenues and expenses (c)	1.3	-3.9	n.m.
Share of results of associates (c)	**0.1**	**-7.5**	**100.9**
Profit before taxes	**-128.4**	**-1.1**	**n.m.**
Taxes	35.8	0.6	n.m.
Profit after taxes	**-92.6**	**-0.4**	**n.m.**
Atributable to shareholders of the parent company	-92.6	-0.5	n.m.
Atributable to minority interests	0.0	0.1	n.m.
Basic earnings per share (euros)	-0.100	-0.001	n.m.
Diluted earnings per share (euros)	-0.100	-0.001	n.m.

n.m.: not meaningful.

Average weighted nº of shares in the first quarter were 925,204.737 in 2009 and 935,432.616 in 2008.
(c) In the first quarter of 2008 an amount of 53 miles of euros which was initially included in "Other revenues and expenses" was reclassified in "Exchange gains/losses".

Revenues from operations

Revenues from operations were €1,098.9 million in the first three months of the year, a year-on-year decline of 15.8% (15.6% excluding non-recurring items), above all due to very weak demand in the airline sector as a result of the global economic crisis.

Passenger revenue totalled €829.8 million, €173.4 million, or 17.3%, less than in 1Q08. The drop in traffic, driven by reduced capacity and the lower load factor, accounted to €109.3 million of this reduction, and was compounded by the lower yield (accounting for €52.7 million of the reduction in passenger revenue) due to the difficult market environment. Revenue from unused tickets also fell. Currency movements did not have a significant impact on passenger revenues this quarter.

Cargo revenues narrowed by €22.5 million, or 26.1%, on 1Q08, hit by the sharp reduction in cargo traffic (down 22.5%) and a 9% drop in revenue per RTK. The slowdown in global trade is having a very significant knock-on effect in the air freight segment. According to IATA statistics, total freight traffic at member airlines plummeted 22.8% compared to 1Q08.

Revenues from **handling** fell 9.7% due to lower volumes in third-party handling (down 12.9%, measured by aircraft handled), although revenue per aircraft handled climbed 4.8%.

Revenue from **technical assistance to airlines** increased 6.3%, thanks mainly to growth in engine inspections for third party airlines (by volume and value), with a notable increase in inspections of CFM56 engines.

"**Other revenues**" narrowed 13.4% year-on-year, due to lower revenue from reservations and from cargo terminals, the latter being highly correlated to freight traffic. "**Other operating revenues - recurring**" (commissions, deferred income, revenues from the provision of staff to the JVs and other sundry revenue items) declined 3.8% on 1Q08, mainly due to the drop in passenger commissions.

Costs from operations

In 1Q09, **costs from operations** went down €87.2 million, or 6.5%, to €1,245.7 million, and **operating expenses** (excluding non-recurring items) fell by a similar amount, namely 6.3%. Almost all the cost headings narrowed year-on-year, driven primarily by lower business volumes (6.1% measured in terms of ASKs) but also thanks to specific cost cutting measures taken by the company. Aircraft fuel registered the biggest year-on-year decline (€38.4 million).

Aircraft fuel expense decreased 11.7% on 1Q08 to €289 million, driven mainly by lower consumption (down 8.5% measured in litres) on the back of lower business volumes and increased fleet efficiency. Unit fuel costs narrowed 6% to €1.88 per ASK.

Iberia follows a global financial risk management program designed to control and diminish the potential impact of swings in fuel prices, exchange rates and interest rates on its income statement. The market price for kerosene oscillated between $400 and $500/tonne for the most part of 1Q09, around 50% lower on average than the year before. The company benefited only partially from lower prices due to hedges arranged mid-2008, which increased fuel costs by €117.8 million in 1Q09.

Personnel expenses, which account for 26.2% of the Group's total operating costs, were 3.8% lower in 1Q09 thanks to reductions in all three employee categories, driven in turn by a 4% reduction in average headcount (measured in FTEs). There was 4.3% fewer ground staff, driven by a significant decrease in headcount in the handling division (10.3%). The average in-flight staff headcount narrowed 3.0% year-on-year.

Depreciation and amortisation charges were 9.1% lower, reflecting mainly fewer on-balance sheet aircraft (11 fewer at the end of March 2009 than one year earlier), due to the gradual withdrawal of the MD-87/88 fleet, a process that culminated in 4Q08. **Aircraft Rentals** fell 7.6% year-on-year: passenger aircraft operating lease expense fell 7.1% due to lower interest rates, wet lease expense also decreased, due to a reduced number of aircraft, and by extension the reduced number of block hours, operated under this regime (four fewer aircraft vs. March 2008). Cargo aircraft lease expense, which accounts for a relatively small portion of lease expense, declined 20.3% on the back of a 24% reduction in block hours leased, driven by the sharp drop in global freight traffic. In unit terms, the aggregate of fleet lease expense and depreciation charges narrowed 2.1% on 1Q08 to €0.91.

Operating fleet at 31-Mar-2009	Long haul	Medium haul	Total
Owned	6	10	16
Financial Lease	1	10	11
Operating Lease	24	67	91
Wet lease	2	0	2
Total	**33**	**87**	**120**

Total **fleet maintenance** expense (including subcontracts and consumption of spare parts) climbed 7.8% on 1Q08 to €105.9 million, due in part to the appreciation of the dollar against the euro and growth in technical assistance to third party airlines.

Commercial costs fell a noteworthy 18.0% year-on-year to €44.8 million. Commissions, promotional expenses and development expenditure on aggregate fell 16.6% to €39 million, while advertising expense was slashed by 26.8% to €5.8 million. The ratio of net commercial expenses to passenger revenue narrowed 0.2 percentage points to 3.0% in 1Q09.

Traffic service costs and **navigation charges** went down 5.2% and 7.8%, respectively, due mainly to the drop in the number of flights operated. Among the items included under "traffic services", there were significant reductions in landing fees (down 9.5%), in-flight staff accommodation expenses (-11.9%) and in aircraft cleaning, handling and catering equipment, which fell by 10.6% year-on-year, among others.

"**Other rentals**" were 7.8% lower, with reductions in most of the items comprising this expense heading. Other expense headings that registered year-on-year reductions include **catering materials** (down 8.8%), **in-flight services** (-4.7%) and **booking systems** (-2.6%) due in part to lower passenger traffic.

Other recurring costs amounted to €93.9 million in 1Q08, down 3.2%, thanks to reductions in all the main items, especially crew transportation, maintenance of ground equipment, severance payments, other communications expenses, other machining expenses and sundry services.

Other results

"Net gains on disposals of non-current assets" presented net losses of €0.5 million in 1Q09, mainly due to the write off of of rotable sapare parts, compared to a net gain of €21.7 million in 1Q08, due in large part to a series of fleet-related transactions.

Financial results rose 43.6% (€5.7 million) year-on-year to €18.8 million, thanks to net exchange gains (an €6.7 million year-on-year improvement) and an increase in the fair value of hedges not deemed effective for hedge accounting purposes (+€5.3 million on 1Q08), which are recognised under "Other revenues and expenses". Narrower financial expenses - €1.5 million – also contributed, largely thanks to lower interest on outstanding loans. Financial revenues fell €7.8 million to €24.7 million due to lower interest rates and a lower balance of short-term investments.

Financial position

Current financial investments, cash and cash equivalents amounted to €2,307.2 million at the end of March 2009. Stripping out the fair value of hedge instruments recognised within current financial investments, which stood at €54.9 million at the end of 1Q09 (1Q08: €78.9 million), this measure of the company's liquidity is equivalent to €2,252.3 million, just 0.8% lower than the year-end 2008 figure.

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 €1,672.4 million at 31 March 2009, down 7.3% on the year-end 2008 balance of €1,803.3 million. At the close of the first quarter, bank borrowings and finance leases summed €579.9 million, €111.6 million higher than at year-end 2008.

Adjusted net debt, including the capitalisation of operating leases (by annualising lease payments and capitalising them over 8 years and adjusting for interest capitalised on the loans to the Iberbus companies), amounted to €1,139.1 million, €126.7 million more than the year-end 2008 balance.

The Iberia Group's **equity** stood at €1,510.7 million at 31 March 2009, down 3.4% on the year-end 2008 balance, due mainly to the losses incurred in the first quarter.

Outlook 2009

The financial crisis and ensuing global recession are taking a heavy toll on airlines' earnings worldwide, which are suffering from weak demand in most markets, the sharp reduction in business traffic and intense price pressure.

Against this backdrop, in its meeting on 23 April 2009, the board of directors of Iberia analysed the measures of the Contingency Plan that the company has set in motion with a view to mitigating the impact of the significant decline in revenues.

Currently Iberia's management has low visibility regarding 2009 full year results, which will depend on events on the macroeconomic front, as well as other exogenous factors such as fuel prices and the trend in the dollar. However, if the current extraordinarily difficult conditions persist for the full year, it is unlikely that the company will post a profit in 2009.

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