INTERIM MANAGEMENT REPORT
JANUARY-JUNE 2010

Main figures

Financial data (€ million)	2nd Quarter (Apr-Jun)			Acummulated (Jan-Jun)		
	2010	2009	% (*)	2010	2009	% (*)
Operating revenue (a)	1,177	1,068	10.2	2,227	2,167	2.8
Operating costs (a)	1,174	1,198	-2.0	2,299	2,444	-5.9
EBITDAR (a)	121	2	n.m.	168	-4	n.m.
Recurring EBIT (a)	3	-130	n.m.	-72	-277	74.0
Adjusted EBIT (a) (b)	27	-102	n.m.	-22	-220	90.1
Profit/ Loss from operations (c)	21	-126	n.m.	-50	-274	81.7
Consolidated income before taxes	42	-122	n.m.	-29	-250	88.3
Consolidated income after taxes	31	-73	n.m.	-21	-165	87.4
Non-current assets (d)	---	---	---	3,013	2,362	27.5
Current financial investments, cash & cash equivalents (d) (e)	---	---	---	2,029	1,919	5.8
Equity (d)	---	---	---	1,954	1,551	26.0
In-balance sheet net debt (d) (f)	---	---	---	-1,485	-1,417	4.8
Adjusted net debt x 8 (d) (g)	---	---	---	936	1,241	-24.6
Cash flows from operating activities	---	---	---	186	-111	n.m.
EBITDAR margin (%) (a)	10.2	0.2	10.0 p.	7.5	-0.2	7.8 p.
EBIT margin (%) (a)	0.3	-12.1	12.4 p.	-3.2	-12.8	9.6 p.
Operating revenue / ASK (€ cent) (a)	7.68	6.82	12.7	7.50	6.98	7.5
Operating expense / ASK (€ cent) (a)	7.66	7.65	0.2	7.74	7.87	-1.6

Operating figures						
ASK (million)	15,324	15,668	-2.2	29,684	31,037	-4.4
RPK (million)	12,648	12,733	-0.7	24,253	24,485	-0.9
Load factor (%)	82.5	81.3	1.3 p.	81.7	78.9	2.8 p.
Yield (h)	6.54	6.07	7.7	6.43	6.24	3.0
Passenger revenue / ASK (€ cent) (h)	5.40	4.93	9.4	5.25	4.93	6.7
Annual average headcount	20,045	20,760	-3.4	19,844	20,738	-4.3
No. of aircraft end of period	112	113	-0.9	112	113	-0.9
Average fleet utilization (block hours / aircraft / day)	10.57	10.45	1.1	10.51	10.24	2.6

n.m.: not meaningful.
(*) The percentage variations are calculated with complete numbers in euros.
(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) June 2010 vs. December 2009.
(e) Excluding the value of hedging instruments.
(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 annualised x 8.
(h) Calculated with passenger revenues generated during the period, excluding revenues from the cancellation of customer advances as well as other minor accounting regularizations.

Highlights

- Iberia reported a consolidated loss after taxes for the first half of 2010 of €21 million, marking a 87% decline from the loss posted in 1H09. Net profit for the second quarter was €31 million, while profit from operations was €21 million, a €147 million improvement from the year-earlier figure. The EBIT margin rose 9.6 percentage points in the first half and 12.4 percentage points in the second quarter.

- Operating revenues advanced 2.8% year-on-year after soaring 10.2% in the second quarter, thanks mainly to higher passenger and cargo revenues. The good performance of passenger revenues was driven by a 2.8 percentage point increase in load factor to 81.7% and the gradual improvement in yield (revenue per RPK) to 3.0%, partly fuelled by the recovery in business travel on international flights.

- Operating costs through June were down 5.9% year-on-year, due mostly to lower fuel costs and the positive impact of capacity cuts (-4.4%) and of the cost control measures implemented. Operating costs per ASK fell by 1.6% from 1H09.

- Average headcount decreased by 4.3% in the first half, while average fleet utilisation improved 2.6% year-on-year to 10.5 block hours per aircraft per day.

- Equity at 30 June 2010 stood at €1,954 million, up 26%, after the company unlocked the value of its stake in Amadeus and adjusted net debt was reduced by 24.6%.

- Iberia cancelled 883 flights in April and May as part of Europe's airspace was closed because of the volcanic ash cloud from Iceland, with an estimated economic impact of around €20 million.

- On 8 April 2010, Iberia and British Airways signed the definitive merger agreement, which elaborates on and specifies the terms of the transaction, following the principles established in the memorandum of understanding (MoU) signed between the two parties in November 2009. Each airline will maintain its own brand and operations and will be owned by a newly created holding company, International Consolidated Airlines Group, S.A. (IAG).

Operating Statistics (a)	2nd Quarter (Apr-Jun) 2010	2009	% (*)	Acummulated (Jan-Jun) 2010	2009	% (*)
Passenger						
ASK (millon)	**15,324**	**15,668**	**-2.2**	**29,684**	**31,037**	**-4.4**
Domestic	1,981	2,154	-8.0	3,909	4,225	-7.5
Medium haul	3,698	4,049	-8.7	7,212	7,925	-9.0
Europe	3,184	3,524	-9.7	6,202	6,912	-10.3
Africa and Middle East (b)	514	525	-2.3	1,010	1,013	-0.3
Long haul	9,645	9,465	1.9	18,563	18,887	-1.7
RPK (millon)	**12,648**	**12,733**	**-0.7**	**24,253**	**24,485**	**-0.9**
Domestic	1,489	1,643	-9.4	2,813	3,009	-6.5
Medium haul	2,886	3,221	-10.4	5,396	5,792	-6.8
Europe	2,502	2,843	-12.0	4,633	5,077	-8.7
Africa and Middle East (b)	384	378	1.8	763	715	6.8
Long haul	8,273	7,869	5.1	16,044	15,684	2.3
Load Factor (%)	**82.5**	**81.3**	**1.3 p.**	**81.7**	**78.9**	**2.8 p.**
Domestic	75.2	76.3	-1.1 p.	72.0	71.2	0.8 p.
Medium haul	78.1	79.5	-1.5 p.	74.8	73.1	1.7 p.
Europe	78.6	80.7	-2.1 p.	74.7	73.5	1.3 p.
Africa and Middle East (b)	74.8	71.8	3.0 p.	75.6	70.5	5.0 p.
Long haul	85.8	83.1	2.6 p.	86.4	83.0	3.4 p.
Cargo						
ATK (millon)	465	421	10.4	872	821	6.2
RTK (millon)	321	216	48.7	619	437	41.5
Load Factor (%)	69.1	51.3	17.8 p.	70.9	53.2	17.7 p.
Passenger Revenues (c)						
Passenger revenues (€ millon)	827	773	7.0	1,560	1,529	2.0
Passenger revenue / ASK (€ cent)	5.40	4.93	9.4	5.25	4.93	6.7
Passenger revenue / RPK (€ cent)	6.54	6.07	7.7	6.43	6.24	3.0

(*) The percentage variations are calculated with complete numbers in euros.
(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.

Consolidated statements of income

€ million	2nd quarter (Apr-Jun) 2010	2009	% (*)	Accumulated (Jan-Jun) 2010	2009	% (*)
Profit/ loss from operations (a)	**21**	**-126**	**n.m.**	**-50**	**-274**	**81.7**
Revenue from operations	**1,221**	**1,071**	**13.9**	**2,280**	**2,171**	**5.1**
Net sales	**1,131**	**1,024**	**10.4**	**2,135**	**2,074**	**2.9**
Passenger revenue (b) (c)	891	808	10.3	1,680	1,641	2.4
Cargo revenue (c)	75	51	45.6	139	111	24.9
Handling	69	67	2.5	123	122	1.4
Technical assistance to airlines	75	78	-2.9	151	158	-4.3
Other revenues	21	20	3.3	42	42	-1.1
Other operating revenues	**90**	**47**	**90.6**	**145**	**97**	**50.5**
Recurring	46	44	5.9	92	93	-0.8
Non-recurring	44	3	n.m.	53	4	n.m.
Costs from operations	**1,200**	**1,198**	**0.1**	**2,327**	**2,445**	**-4.8**
Procurements	**324**	**345**	**-5.9**	**614**	**691**	**-11.1**
Aircraft fuel	266	291	-8.5	495	580	-14.7
Aircraft spare parts	50	45	10.5	103	94	10.8
Catering materials	5	5	-8.2	9	9	-2.9
Other purchases	3	3	-3.4	7	8	-12.6
Personnel expenses	**323**	**324**	**-0.2**	**637**	**651**	**-2.0**
of which: Non-recurring (d)	1	0	n.m.	1	0	n.m.
Depreciation and amortization	**44**	**44**	**-1.0**	**86**	**89**	**-3.6**
Other operating costs	**509**	**486**	**4.7**	**990**	**1,014**	**-2.3**
Aicraft leases	74	88	-16.2	154	184	-15.7
Fleet maintenance (subcontracts)	52	53	-2.0	96	111	-13.8
Commercial costs	43	26	63.7	85	71	19.8
Traffic services	101	101	0.5	195	200	-3.0
Navigation charges	62	64	-3.2	122	126	-2.9
In-flight services	18	14	25.5	33	30	9.8
Booking systems	36	35	2.4	74	76	-1.7
Other costs (e)	123	104	18.0	231	216	6.6
of which: Non-recurring	25	0	n.m.	27	1	n.m.
Impairment losses and net gains on disposals of non current assets	**0**	**1**	**n.m.**	**-3**	**0**	**n.m.**

n.m.: not meaningful.
(*) The percentage variations are calculated with complete numbers in euros.

(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.
(c) As from January 2010 revenues from excess baggage are included in "passenger revenues" (previously in "cargo revenues"). The 2009 figure (4.2 million in the second quarter and 7.9 millon in the first half) has been reclassified according with the new criterion.
(d) In the report of the first quarter of 2010, 0.4 millon euros of costs related to severance payments were included in "recurring personnel espenses", which have been reclasified to "non recurring personnel expenses" in the figures of the first half of 2010.
(e) Includes "Other rent", "Indemnities", "Insurances" y "Other maintenance", among others.

€ million	2nd quarter (Apr-Jun) 2010	2009	% (*)	Accumulated (Jan-Jun) 2010	2009	% (*)
Financial results	**15**	**5**	**n.m.**	**17**	**24**	**-26.8**
Financial revenues	6	21	-71.1	11	46	-75.4
Financial expenses	9	9	-6.5	17	20	-19.4
Exchange gains/losses	14	-10	n.m.	19	-6	n.m.
Other revenues and expenses	4	3	35.7	4	4	3.7
Shares of results of associates	**6**	**-1**	**n.m.**	**4**	**0**	**n.m.**
Profit before taxes	**42**	**-122**	**n.m.**	**-29**	**-250**	**88.3**
Taxes	-11	49	n.m.	8	85	-90.1
Profit after taxes	**31**	**-73**	**n.m.**	**-21**	**-165**	**87.4**
Atributable to shareholders of the parent company	31	-73	n.m.	-21	-165	87.4
Atributable to minority interest	0	0	n.m.	0	0	n.m.
Basic earning per share (euros)	**0.034**	**-0.079**	**n.m.**	**-0.023**	**-0.179**	**87.4**

n.m.: not meaningful.
(*) The percentage variations are calculated with complete numbers in euros.
Average weighted nº of shares in the first half: 925.204.737 in 2010 and 2009.

Revenues from operations

Passenger revenues – Total passenger revenues in the first half increased by €39 million from the same period last year, with the bulk of the increase (€31 million) related to revenue from used tickets in the period. The €8 million increase in "Other passenger revenues" was driven mainly by higher revenues from commercial agreements with other companies (e.g. frequent flyer agreements) and the Iberia Plus programme.

Passenger revenues 1st Half (Jan-Jun)	Revenues (€ millon) 2010	2009	var.% (*)	Rev./RPK var.% (*)	Rev./ASK var.% (*)
Long haul	803	742	8.2	5.8	10.1
International medium haul	423	432	-2.2	5.0	7.5
Domestic	334	355	-5.8	0.8	1.8
Total network (a)	**1,560**	**1,529**	**2.0**	**3.0**	**6.7**
Other passenger revenues (b)	120	112	7.1	n.a.	n.a.
Total (b)	**1,680**	**1,641**	**2.4**	**n.a.**	**n.a.**

n.a.: not applicable.
(*) The percentage variations are calculated with complete numbers in euros.
(a) Corresponds to revenue generated from flights operated during the period.
(b) Includes revenues from issued but unused tickets, from frequent flyer agreements and other less significant accounting adjustments.

Passenger revenues from used tickets in 1H10 rose 2.0% year-on-year, above all due to the higher yield on international flights. The total network yield was 3.0% higher despite being held back by a 5.5% increase in average stage length caused mainly by the increasing contribution from the long-haul segment, which represented 66.2% of total traffic (measured in RTK) in 1H10, an increase of 2.1 points from 1H09.

Iberia scaled back **capacity** (measured in ASK) by 4.4% on 1H09, with a slight (1.7%) reduction in long-haul flights and a larger (8.5%) decrease in domestic and medium-haul flights. Efficient capacity management drove up the **load factors** of all segments, taking the load factor for the total network up by 2.8 percentage points to 81.7%, the highest of any European network carrier. The higher load factor led to a 6.7% increase in revenue per ASK for the total network, 10.1% in the long-haul segment.

Total passenger revenues climbed 10.3% year-on-year in **the second quarter** after falling 5.3% in the first, boosted mainly by an 18.6% increase in the long-haul segment on 2Q09.

The **load factor** for the total network in 2Q10 reached 82.5%, up 1.3 points from 2Q09, with a 2.2% capacity reduction; ASK for the long-haul segment increased by 1.9% (compared to a 5.4% decrease in 1Q10), but was 8.5% lower in domestic and medium-haul flights, partly because aircraft across Europe were grounded temporarily because of the volcanic ash cloud from Iceland.

Passenger revenue from used tickets in 2Q10 rose 7.0% thanks to a 7.7% increase in the yield, partly due to higher business traffic on long-haul and international medium-haul flights. **Revenue per ASK** improved in all three months of 2Q10 and was up 9.4% year-on-year for the quarter. The US dollar's appreciation against the euro led to a 1.3 percentage point increase in the passenger revenues in 2Q10. Conversely, the year-on-year trend in passenger revenue per ASK was affected by the (8.4% year-on-year) increase in average stage length.

Higher revenue from commercial agreements with other airlines, the cancellation of customer advances and other accounting adjustments drove a €29 million increase in "Other passenger revenue" in 2Q10 from 2Q09. The difference also includes higher revenue from frequent flyer programmes, in part caused by the first-time application of IFRIC 13 last year.

Cargo – Cargo revenues were 24.9% higher year-on-year in 1H10, thanks to a 41.5% jump in RTK. Of total cargo traffic, 94.5% was carried in Iberia passenger aircraft holds, with all international segments registering considerable increases. Prices have continued to pick up gradually over the past few months. Revenue per ATK increased by 19.9% with respect to the 1H09 thanks to a 17.7 point jump in the load factor.

Handling – Handling revenues inched up 1.4% in the first half of 2010 on the back of the (2.7%) increase in revenue from aircraft dispatch, which was partly offset by the (5.9%) fall in revenue from other third-party handling services. The number of average aircraft handled by Iberia Airport Services (excluding temporary JVs) through June rose by 2.7%, led by increased activity for Vueling. Adding in operations for Iberia itself, the total number of average aircraft handled in 1H10 reached 163,957 (-1.3% year-on-year), while and the number of passengers handled amounted to 34.4 million (+1.5%).

Maintenance – Revenue from third party maintenance decreased by €7 million or 4.3% from 1H09, above all because of the decline in CFM56 and RB211 engine revisions and the elimination of revenues that were coming from services to aircraft operated under wet lease until the summer of 2009.

Other revenues – This heading, which includes revenue from the use of booking systems, revenue generated at cargo terminals and revenue for miscellaneous and training services fell 1.1% from 1H09.

Other operating revenues – The **recurring** portion of this heading (commissions, deferred income, revenue from supplying staff to the JVs and other miscellaneous revenue) fell by 0.8%. The largest differences were a (€3 million) decline in passenger commissions, a (€2 million) reduction in work done by the company on its fixed assets, and a (€8 million) increase in the release of provisions for major repair work. The **non-recurring** portion in the first half of 2010 amounted to €53 million, including €20 million for the estimated partial recovery of pilot pension fund provisions and €33 million from the recovery of provisions in the wake of four Supreme Court rulings accepting Iberia's appeals and absolving the company from paying several settlements of customs duties for the period from 1998 to 2000.

Costs froms operations

Fuel – Fuel costs diminished by 14.7% year-on-year in 1H10, due primarily to the drop in average prices after hedging, though this was partly offset by a 2.7% increase caused by the euro's depreciation against the US dollar. Fuel costs per ASK fell by 10.8% in the half and by 6.4% in the second quarter compared to last year. Aviation fuel prices (JET CIF NWE) were slightly under $700 per tonne at end of June, similar to levels at the end of 2009. Prices in the first half this year ranged from $630 to $780 per tonne, remaining above last year's levels throughout the period.

Personnel – Recurring costs were 2.2% lower in 1H10, thanks mainly to a 4.3% reduction in the Group's average equivalent headcount to 19,844 employees. Average technical and cabin crew headcount declined by 2.9% and 8.3%, respectively.

Equivalent headcount (a)	Second quarter (Apr-Jun)			First half (Jan-Jun)		
	2010	2009	%	2010	2009	%
Ground	15,016	15,362	-2.3	14,762	15,293	-3.5
Flight	5,029	5,398	-6.8	5,082	5,445	-6.7
Total	**20,045**	**20,760**	**-3.4**	**19,844**	**20,738**	**-4.3**

(a) Sum of average headcount, measured in terms of full-time equivalents at Iberia, L.A.E (including the personnel transferred to the JVs), CACESA, ALAER and Binter Finance.

The 19th Collective Bargaining Agreement covering ground staff signed in April put a freeze on wages in 2010 and included a single unconsolidated payment this year equivalent to 1.2% of total wages. In addition, non-recurring costs for termination benefits in 1H10 totalled €1.2 million.

Aircraft leases – Lease expense in 1H10 dropped by 15.7% from 1H09, €13 million of less cost in this heading is linked to the discontinuation of wet lease (an average of 2.3 A340 aircraft in 1H09) that Iberia has not operated since August 2009. The rest of the savings (€12 million) are mainly due to the fall in interest rates.

Depreciation and amortisation – 3.6% lower in the year's first half, mostly due to lower depreciation of aircraft, IT equipment and airport equipment. The aggregate of aircraft leases and depreciation charges per ASK was down 7.8% on 1H09 at €0.81.

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

OPERATING FLEET (a)	June 2010	December 2009	June 2009
Long Haul	**34**	**32**	**33**
Owned	6	6	6
Financial lease	2	1	1
Operating lease	26	25	25
Wet lease	0	0	1
Short and Medium Haul	**78**	**77**	**81**
Owned	3	2	5
Financial lease	10	10	10
Operating lease	65	65	66
Wet lease	0	0	0
Total	**112**	**109**	**114**
Owned	9	8	11
Financial lease	12	11	11
Operating lease	91	90	91
Wet lease	0	0	1

(a) Reflects the number of passenger aircraft in operation at Iberia, L.A.E. at each close, excluding grounded aircraft (either temporarily or because they are to be returned). Is not included one owned A320 which has been transferred to another company since the end of May.

In the first half of 2010, Iberia resumed its aircraft renewal programme, which had been on hold for over a year following the capacity reduction measure adopted to deal with the crisis. Two Airbus A340/300 aircraft operated under operating leases were returned and three A340/600 aircraft were added to the fleet (in March, April and June), two under operating leases and one under a finance lease. This enabled the company to raise its long-haul capacity, as the current A340/600 model has 342 seats, compared to the 254 seats of the A340/300.

As for domestic and medium-haul aircraft, in February an owned A320 aircraft that had been grounded since October 2009 was added, while two new A319 aircraft under operating leases were included in March, replacing an A319 and an A320 that had been returned to their owner at the end of the lease period.

Fleet maintenance - Subcontracts and consumption of spare parts diminished 2.5% on 1H09 to €199 million, due mainly to the decline in maintenance work.

Commercial Costs – This heading showed a €14 million increase on 1H09 and €17 million on 2Q09. Most of the increase has to do with the first-time application of IFRIC 13 that changes the base of 09 and distorts annual comparison (the effect in 2Q09 resulted in a €6 million decrease in commercial costs).
Commissions increased during the period also due to the increase in revenues and also because of a change in the point of sale mix. Sales are growing more in international markets, especially in Latin America, where commissions are higher.

Traffic services, layover and incident related expenses – This heading declined 3.0% from 1H09, on the back of capacity reductions. In 2Q10, this expense item rose 0.5% (with a 2.2% decrease in capacity), due to the increase in expenses for discontinued flights, missed connections and incidents mainly caused by the disruptions in the air traffic control in Spain and also by the volcanic ash cloud from Iceland.

Navigation charges - These costs declined by 2.9% in 1H10, as the positive impact via lower volumes was partially offset by higher prices. Total traffic services and navigation charges per ASK rose by 1.4% year-on-year.

In-flight services – These costs increased by €3.0 million or 9.8% from 1H09, mainly as a result of higher in-flight meal costs, the increasing weight of long-haul flights in the network mix and the higher number of Business Plan passengers.

Booking systems – The expense for 1H10 decreased by 1.7% due to the decline in traffic, although the net expense considering the (6.7%) increase in revenue from the use of booking systems was 6.8% lower. In 2Q10, with a larger increase in revenue from the use of booking systems (25.4%), the net expense was 8.8% lower.

Other costs – The **recurring** component of other costs dropped of 5.7% in 1H10 from the year-earlier figure (in line with the 5.2% reduction in 2Q10) thanks to the implementation of a variety of cost saving initiatives. Meanwhile, €27 million of other non-recurring costs euros were recognised in 1H10, partially due to increase in consultants and independent professional services required for corporation transactions.

Financial and other non operating results

Impairment losses and net gains on disposals of non-current assets – This item presented a loss of €3 million in 1H10, mainly reflecting write-offs of rotables and expenses in connection with aircraft returns.

Financial results –Decreased 26.8% with respect to 1H09, due mainly to the decline in interest income on short-term deposits caused by the drop in interest rates. The €35 million fall in financial revenues was largely offset by a €3 million decline in financial expenses and a €25 million improvement in exchange differences.

Share of results of associates – This heading showed a profit of €4 million in 1H10, reflecting the share of profits of Vueling, an airline in which Iberia holds a 45.85% stake since July 2009.

Consolidated statements of financial position

€ millon	30-Jun-2010	31-Dec-2009	% (*)
ASSETS	**6,001**	**5,046**	**18.9**
Non-current assets	**3,013**	**2,362**	**27.5**
Intangible assets	44	50	-11.8
Property, plant and equipment	1,105	1,046	5.6
Investments in associates	138	134	3.2
Financial assets	1,114	497	124.1
Deferred tax assets	612	635	-3.6
Current assets	**2,988**	**2,684**	**11.3**
Assets held for sale	7	9	-18.4
Inventories	224	215	3.8
Trade receivables	643	478	34.4
Financial investments	1,476	1,088	35.7
Acrruals and other assets	23	8	n.s.
Cash and cash equivalents	615	886	-30.6
EQUITY AND LIABILITIES	**6,001**	**5,046**	**18.9**
Equity	**1,954**	**1,551**	**26.0**
Shareholders' equity	1,951	1,548	26.0
Minority interests	3	3	-0.2
Non current liabilities	**1,888**	**1,732**	**9.0**
Provisions	1,123	1,209	-7.1
Borrowings and other financial liabilities	395	301	31.2
Deferred tax liabilities	157	7	n.s.
Other deferred income liabilities	213	215	-1.0
Current liabilities	**2,159**	**1,763**	**22.5**
Borrowings/ Other financial liabilities	266	295	-9.9
Customer prepayments	642	389	65.0
Trade and other account payable	1,241	1,075	15.6
Other liabilities	10	4	129.4

n.a.: not applicable.
(*) The percentage variations are calculated with complete numbers in euros.

__Equity__ – The balance at 30 June 2010 stood at €1,954.1 million, €403 million higher than at the end of 2009 due mainly to the fair value adjustment recognised in connection with Iberia's 9% stake in Amadeus IT Holding, S.A. following its IPO, which led to a net increase of €362 million (after income tax). There were also positive revaluation adjustments to the shares held in British Airways and to the company's hedges.

__Current financial investment and Cash and cash equivalents__ - The balance of this heading a 30 June 2010 stood at €2,091 million. Stripping out the valuation of hedging instruments included under current financial investments gives an adjusted gross cash of €2,029 million, up 5.8% on the figure at 31 December 2009.

In-balance sheet net debt – This balance at 30 June 2010 remained negative; i.e. the balance of current financial assets (excluding the valuation of hedging instruments) exceeded the total balance of interest-bearing debt, in an amount of €1,485 million and was 4.8% lower than at year-end 2009.

Adjusted net debt – This heading decreased by 24.6% due principally to lower lease expense. Leverage at 30 June 2010 was 12.1 percentage points lower than at 31 December 2009.

Iberia Group (€ millon)	30-Jun-2010	31-Dec-2009	% (*)
Current financial investments and Cash and cash equivalents (a)	2,029	1,919	5.8
In-balance sheet interest bearing debt (b)	544	502	8.4
In-balances sheet net debt	**-1,485**	**-1,417**	**4.8**
Capitalisation of aircraft leasing (×8) (c)	2,421	2,658	-8.9
Adjusted net debt	**936**	**1,241**	**-24.6**
Leverage (d)	**32.39%**	**44.45%**	**-12.1 p.**

(*) The percentage variations are calculated with complete numbers in euros.
(a) Current financial investments, cash and cash equivalents, excluding the fair value of hedging instruments (€62 million at 31 June 2010 and €55 million at year-end 2009)
(b) Includes current and non-current bank debt and finance lease obligations.
(c) Operating lease (dry leases at 100% and the rest at 50%) annualised and capitalised x 8
(d) Adjusted net debt / (equity + adjusted net debt).

Relevant events after the second quarter 2010

- On 14 July, the European Union gave its unconditional approval of the planned merger between Iberia and British Airways. The approval by the community authorities, coupled with the authorisation given by US authorities in June, marks an important step towards the merger between the two airlines, scheduled to take place by the end of 2010.

- On 21 July, the US Department of Transportation (DOT) officially granted anti-trust immunity to Iberia, American Airlines and British Airways to operate a joint business on transatlantic flights. The European Union had already given its authorisation on 14 July. This agreement will allow the three airlines, members of the **one**world alliance, to jointly operate routes between the EU, Switzerland and Norway and the US, Canada and Mexico beginning this autumn.

Main risks and uncertainties for the second half 2010

The main risk Iberia faces is still the pace of economic recovery. Macroeconomic indicators in the first half of 2010 confirmed expectations of an overall recovery, albeit mixed, across the various regions. According to the latest IMF World Economic Outlook (WEO) update, world growth is projected at 4.6% in 2010, an upward revision of about half a percentage point from the April WEO. Growth is expected to remain robust in Asia, Latin America and the Middle East, but less so in the advanced economies of Europe and the North Atlantic. Meanwhile, financial turbulence in the euro area in the second quarter has undermined prospects and caused confidence over economic growth in the coming months to wane.

For Spain, the IMF expects it will come out of recession more slowly than other large economies, estimating a 0.4% contraction in GDP this year.

Uneven economic growth across regions is clearly evident in the passenger and cargo transport markets. The International Air Transport Association (IATA) estimates growth in total traffic –passenger and freight- of slightly over 10% for the commercial airline industry, with the emerging economies registering double-digit increases but North America and, especially, Europe, likely to see growth taper off.

Total capacity is forecast to increase 5.4% (with larger rises in freight than passenger capacity), boding well for further increases in load factors. However, the outlook could be undermined by a faster resurgence of capacity, threatening yields, or cost pressures arising from political or labour disputes.

Air industry results are also highly vulnerable to a variety of uncertainties, such as trends in fuel prices and exchange rates, especially the US dollar.

Average jet kerosene prices in the first half of 2010 were around $700 per tonne, up 42% on 1H09. Most analysts expect kerosene prices to remain within a similar range to that seen through June.

Iberia carries out a broad range of actions to control and manage risks, putting in place systems that allow it to identify, measure, manage and mitigate the main risks affecting its various businesses. As for financial risks, Iberia has a management programme to control and reduce the potential impact of fluctuations in fuel prices, exchange rates and interest rates on its earnings and to preserve sufficient cash for working capital and investments. The company has kerosene hedges on 72.1% of planned consumption in the second half of 2010.

In keeping with its strategic targets and based on the good performance of demand in long-haul markets in the first half of 2010, Iberia intends to step up the expansion of its intercontinental offering, adding new destinations (Cordoba, Panama and San Salvador) and increasing flight frequency. For this, it will add two new Airbus A340/600 aircraft and extend the lease of an A340/300 aircraft. Meanwhile, the company will continue to scale back domestic capacity, leaving scope for an approximately 6% capacity increase in the total network in the second half of this year.

In 2H10, the cost-cutting initiatives will remain in place, while the company designs a new operating model for the domestic and medium-haul network.

In April, the 19th Collective Bargaining Agreement covering ground staff at Iberia was signed, with effect from 1 January 2009 until 31 December 2012. Management is still in talks with representatives of technical and cabin crew over the terms of their respective bargaining agreements, which expired in December 2009 and 2008, respectively.

Iberia will begin operating a joint business on transatlantic flights with American Airlines and British Airways in the latter months of 2010, which it expects will benefit airlines and customers alike. Work is also planned to continue in the second half of 2010 to complete the merger between Iberia and British Airways by the end of the year.

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Iberia Group

Condensed interim consolidated financial statements and management report for the six months ended 30 June 2010

IBERIA GROUP

CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2010 AND 31 DECEMBER 2009
(Millions of euros)

ASSETS	Notes	(*) 30/06/2010	31/12/2009	EQUITY AND LIABILITIES	Notes	(*) 30/06/2010	31/12/2009
NON-CURRENT ASSETS:				**EQUITY:**			
Intangible assets		**44**	**50**	**Share capital**	**7**	**743**	**743**
Property, plant and equipment		**1,105**	**1,046**	**Share premium**		**120**	**120**
Aircraft fleet	**4**	781	717	**Reserves**		**1,102**	**1,094**
Other items of property, plant and equipment		324	329	**Treasury shares**		**(64)**	**(64)**
Investments in associates		**138**	**134**	**Negative results of previous years**		**(281)**	**-**
Non-current financial assets	**5**	**1,114**	**497**	**Profit attributable to the Parent**		**(21)**	**(273)**
Deferred tax assets		**612**	**635**	Consolidated profit for the period		(21)	(273)
Total non-current assets		**3,013**	**2,362**	**Vauation adjustments in equity**		**352**	**(72)**
				Equity attributable to shareholders of the Parent		**1,951**	**1,548**
				Minority interests		**3**	**3**
				Total equity		**1,954**	**1,551**
				NON-CURRENT LIABILITIES:			
				Long-term provisions	**8**	**1,123**	**1,209**
				Non-current payables	**6**	**395**	**301**
				Deferred tax liabilities		**157**	**7**
				Non-current accrued expenses and deferred income		**213**	**215**
				Total non-current liabilities		**1,888**	**1,732**
				CURRENT LIABILITIES:			
CURRENT ASSETS:				**Current payables**	**6**	**266**	**295**
Non-currents assets classified as held for sale		**7**	**9**	**Customer advances**		**642**	**389**
Inventories		**224**	**215**	**Trade and other payables**		**1,241**	**1,075**
Account receivable		**643**	**478**	Suppliers and sundry accounts payable		908	807
Financial assets	**5**	**1,476**	**1,088**	Remuneration payable		167	149
Other assets		**23**	**8**	Tax payables		166	119
Cash and cash equivalents		**615**	**886**	**Current accrued expenses and deferred income**		**10**	**4**
Total current assets		**2,988**	**2,684**	**Total current liabilities**		**2,159**	**1,763**
TOTAL ASSETS		**6,001**	**5,046**	**TOTAL EQUITY AND LIABILITIES**		**6,001**	**5,046**

*) Not audited figures

The accompanying explanatory notes 1 to 12 are an integral part of the interim condensed consolidated balance sheet as at 30 June 2010

IBERIA GROUP

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 AND 2009
(Millions of Euros)

	Notes	(*) 30/06/2010	(*) 30/06/2009
Revenue	**11**	**2,135**	**2,074**
Other operating income-		**145**	**97**
Recurring		92	93
Non-recurring	**8-c and d**	53	4
Procurements-		**(614)**	**(691)**
Recurring		(614)	(691)
Satff costs		**(637)**	**(651)**
Recurring		(636)	(651)
Non-recurring		(1)	-
Depreciation and amortisation charge		**(86)**	**(89)**
Other operating expenses-		**(990)**	**(1,014)**
Recurring		(963)	(1,013)
Non-recurring		(27)	(1)
Net gains on disposal of non-current assets		**(3)**	-
RECURRING ORDINARY PROFIT		**(72)**	**(277)**
PROFIT FROM OPERATIONS		**(50)**	**(274)**
Finance income		11	46
Finance costs		(17)	(20)
Exchange differences (gains and losses)		19	(6)
Share of results for the year of associates		4	-
Other income and expenses		4	4
PROFIT BEFORE TAX		**(29)**	**(250)**
Income tax		8	85
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**(21)**	**(165)**
Attributable to:			
Shareholders of the parent		(21)	(165)
BASIC EARNINGS PER SHARE (euros)		**(0.023)**	**(0.179)**

(*) Not audited figures

The accompanying explanatory notes 1 to 12 are an integral part of the interim condensed consolidated balance sheet as at 30 June 2010

INTERIM CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE SIX MONTHS ENDED 30 JUNE 2009 AND 2008

(Millions of euros)

	Notes	(*) 30/06/2010	(*) 30/06/2009
CONSOLIDATED PROFIT FOR THE YEAR		**(21)**	**(165)**
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY			
Measurement of financial instruments:		**557**	**(49)**
Available-for-sale financial assets	**5**	557	(49)
Cash flow hedges		**53**	**(39)**
Tax effect		**(183)**	**26**
		427	**(62)**
TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT			
Cash flow hedges		**(5)**	**229**
Tax effect		**2**	**(69)**
		(3)	**160**
TOTAL RECOGNISED INCOME/(EXPENSES)		**403**	**(67)**

The accompanying explanatory notes 1 to 12 are an integral part of the interim condensed consolidated balance sheet as at 30 June 2010

IBERIA GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2010 AND 2009

(Millions of Euros)

	Share Capital	Share Premium	Legal Reserve	Voluntary Reserves	Reserves at: Fully Consolidated Companies	Reserves at: Companies Accounted for Using the Equity	Treasury shares	Negative results of previous years	Valuation Adjustments	Profit	Total	Minority Interests	Total Equity
Balances at 1 January 2009	**743**	**120**	**149**	**941**	**(5)**	**(21)**	**(64)**	**-**	**(357)**	**32**	**1,538**	**1**	**1,539**
Total recognised income and expenses	-	-	-	-	-	-	-	-	**98**	**(165)**	(67)	-	**(67)**
Distribution of profit:													
To reserves	-	-	-	40	6	(14)	-	-	-	(32)	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	2	2
Balances at 30 June 2009 (*)	**743**	**120**	**149**	**981**	**1**	**(35)**	**(64)**	**-**	**(259)**	**(165)**	**1,471**	**3**	**1,474**
Balances at 31 December 2009	**743**	**120**	**149**	**935**	**1**	**9**	**(64)**	**-**	**(72)**	**(273)**	**1,548**	**3**	**1,551**
Total recognised income and expenses	-	-	-	-	-	-	-	-	**424**	**(21)**	403	-	**403**
Distribution of profit:									-	-		-	-
To negative results of previous years	-	-	-	-	-	8	-	(281)	-	273	-	-	-
Balance at 30 June 2010 (*)	**743**	**120**	**149**	**935**	**1**	**17**	**(64)**	**(281)**	**352**	**(21)**	**1,951**	**3**	**1,954**

(*) Not audited figures

The accompanying explanatory notes 1 to 12 are an integral part of the interim condensed consolidated balance sheet as at 30 June 2010

IBERIA GROUP

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 AND 2009

(Milllons of euros)

	(*) 30/06/2010	(*) 30/06/2009
OPERATING ACTIVITIES (I)	**186**	**(111)**
Consolidated loss before tax	**(29)**	**(250)**
Adjustments for-	**32**	**70**
- Depreciation and amortisation	86	89
- Impairment losses	5	-
- Changes in provisions	(25)	36
- Gains/losses on recognition and disposal of financial instruments	(13)	-
- Financial income	(11)	(46)
- Financial costs	17	20
- Exchange differences	(10)	-
- Change in fair value of financial instruments	9	(4)
- Other income and expenses	(22)	(25)
- Share in results of associates	(4)	-
Changes in working capital	**252**	**107**
- Inventories	(9)	22
- Trade and other receivables	(165)	(67)
- Other current assets	(15)	(34)
- Trade and other payables	437	53
- Other current liabilities	(5)	(27)
- Other non-current assets and liabilities	9	160
Other cash flows from operating activities	**(69)**	**(38)**
- Interest paid	(7)	(10)
- Inetrest received	12	45
- Corporate income tax expense and refunds	3	-
- Other amounts received (paid)	(77)	(73)
CASH FLOWS FROM INVESTING ACTIVITIES (II)	**100**	**(72)**
Payments due to investment	**(120)**	**(108)**
- Group companies and associates	(1)	-
- Intangible assets	(3)	(5)
- Property, plant and equipment	(67)	(52)
- Other financial assets	(43)	(51)
- Other assets	(6)	-
Proceeds from disposal	**220**	**36**
- Group companies and associates	1	-
- Property, plant and equipment	73	4
- Other financial assets	105	13
- Non current assets held for sale	2	
- Other assets	39	19
CASH FLOWS FROM FINANCING ACTIVITIES (III)	**(27)**	**75**
Proceeds and payments relating to equity instruments	-	**2**
- Proceeds from issue of equity instruments	-	2
Proceeds and payments relating to financial liability instruments	**(27)**	**73**
- Proceeds from issue of bank borrowings	186	193
- Repayment of bank borrowings	(213)	(120)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)	**(8)**	-
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)	**251**	**(108)**
Cash and cash equivalents at beginning of year (Note 1-h)	1,759	2,182
Cash and cash equivalents at end of year (Note 1-h)	2,010	2,074

(*) Not audited figures

The accompanying explanatory notes 1 to 12 are an integral part of the interim condensed consolidated balance sheet as at 30 June 2010

Iberia Group

Explanatory notes to the condensed interim consolidated financial statements for the six months ended 30 June 2010

1. Information on the parent company and group, basis of presentation of the condensed interim consolidated financial statements and other information

a) Business of the Parent and the Group

The main business of Iberia, Líneas Aéreas de España, S.A. (the "Parent") is the air transport of passengers and cargo, but it also carries out complementary activities, the most important of these being support services for passengers and planes in airports and aircraft maintenance.

As a passenger and cargo air transport group it operates an extensive network serving three core markets: Spain, Europe and the Americas.

Iberia, Líneas Aéreas de España, S.A. is a full member of the Oneworld alliance, one of the world's largest airline groupings, which allows it to extend its air transport business worldwide.

Besides the business lines carried on directly by Iberia, Líneas Aéreas de España, S.A., the Parent has sought to complement these and develop in other transport-related businesses by setting up in the different companies that comprise the Iberia Group (the "Group"), which is headed by Iberia, Líneas Aéreas de España, S.A. as parent.

The registered office of Iberia, Líneas Aéreas de España, S.A. is in Madrid and, since April 2001, its shares have been listed on Spain's four stock markets.

The Group's consolidated annual financial statements for 2009 were approved by shareholders at the Annual General Meeting held on 2 June 2010.

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

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002, all companies governed by the law of an EU Member State whose securities are listed on a regulated market of any Member State, must present their consolidated financial statements for the financial years beginning on or after 1 January 2005 in conformity with the International Financial Reporting Standards (IFRSs) adopted previously by the European Union.

The consolidated financial statements for 2009 were authorised for issue by the Company's directors in accordance with IFRSs as adopted by the European Union, taking into account the consolidation principles, accounting policies and measurement bases described in Notes 3 and 5 of the notes to those consolidated financial statements, to give a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2009 and the results of its operations, the changes in its consolidated equity and its consolidated cash flows in the year then ended.

The accompanying condensed interim consolidated financial statements are presented in accordance with IAS 34 Interim Financial Reporting and have been authorised for issue by the directors of the Parent on 26 August 2010 in accordance with Article 12 of Royal Decree 1362/2007.

In accordance with IAS 34, the interim financial report is intended to provide an update on the Group's latest complete set of annual financial statements, focusing on new activities, events, and circumstances and does not duplicate information previously reported in the 2009 consolidated financial statement. Therefore, for a better understanding of the information included in these condensed interim financial statements, they should be read in conjunction with the Group's annual financial statements as at 31 December 2009.

The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2009, except for the following standards and interpretations that came into effect the first half of 2010:

New effective accounting standards -

In the first half of 2010 the following standards, amendments and interpretations, which, where applicable, were used by the Group to prepare the condensed interim consolidated financial statements.

1. Amendment to IAS 39 Eligible Hedged Items

   This amendment of IAS 39 aims to clarify two specific hedge accounting issues: (a) when inflation can be a hedged risk and (b) when purchased options can be used as hedges. In relation to inflation risk hedging, the amendment establishes that an item can only be considered as a hedge when it is a contractually identified portion of the cash flows hedged. For options, only their intrinsic value can be used as a hedging instrument, not the time value.

   The Group has applied this amendment prospectively from 1 January 2010 as the impact on previous reporting periods is not significant. Its application entails an expense of €9 million, recognised in "Other income and expenses" in the accompanying income statement for the six months ended 30 June 2010.

2. In addition, since 1 January 2010, the following standards, amendments, or interpretations are being applied: *Revised IFRS 2 - Group Share-Based Payments, Revised IFRS 3* and *Amendment to IAS 27-Business Combinations, Amendment to IAS 32- Classification of Rights Issues, IFRS 12- Service Concession Arrangements, IFRIC 15- Agreements for the Construction of Real Estate, IFRIC 16- Hedges of a Net Investment in a Foreign Operation, IFRIC 17- Distributions of Non-cash Assets to Owners* and *IFRIC 18- Transfers of Assets from Customers*. The content of these standards and interpretations is included in Note 3 of the notes to the Group's consolidated financial statements for 2009 and their entry into force has had no impact on the Group.

c) Significant events

Merger process -

In 2009, the Boards of Directors of Iberia, Líneas Aéreas de España, S.A. and British Airways Plc signed a binding memorandum of understanding (MoU) laying down the bases for a merger between the two companies to create one of the largest airline groups in the world, recognising the principle of parity on the board and in the management bodies of the new Group. The planned merger involves the creation of a new holding company that will own both the two current airlines and whose shareholders will be the current shareholders of Iberia, Líneas Aéreas de España, S.A. and British Airways Plc. Under the terms of the planned merger, after cancellation of the Parent's treasury shares and before the cancellation of the two companies' current cross-shareholdings, the shareholders of Iberia, Líneas Aéreas de España, S.A. will own 45% of the holding company, with British Airways Plc owning the other 55%.

On 8 April 2010, the two airlines entered into the final merger agreement, which implements and specifies the terms of the binding agreement (MoU) signed in 2009. On 29 June 2010, they signed the merger plan, which was subsequently registered at the Mercantile Register. The agreement is subject to approval by the directors of Iberia, Líneas Aéreas de España. S.A. of the financing agreement of British Airways Plc's pension schemes.

On 14 July 2010, the pertinent anti-trust authorities approved the merger, scheduled to take place in the second half of 2010 once authorisation is given at the related shareholders' meetings.

The merger process includes the corporate restructuring of the Iberia Group, entailing, *inter alia,* the en bloc transfer of the Parent Company's assets and liabilities to Iberia, Líneas Aéreas de España

Operadora, S.A. As at 30 June 2010, this reorganisation was underway and is expected to be completed prior to the merger.

Joint Business agreement-

In July 2010, the European Commission gave its final regulatory approval for Iberia, Líneas Aéreas de España, S.A., American Airlines Inc and British Airways Plc to operate a joint business on transatlantic flights. The three airlines are confident they will receive definitive authorisation by the US Department of Transportation. The joint business agreement is expected to take effect in the second half of 2010.

d) Use of estimates

The consolidated results and determination of consolidated equity depend on the accounting principles and policies, measurement bases and estimates made by the directors of the Parent in the preparation of the condensed interim consolidated financial statements. The main accounting policies and measurement bases are indicated in Note 5 of the notes to the consolidated annual financial statements for 2009.

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

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

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

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

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

5. The criteria used to measure certain assets.

6. The value of travel tickets and documents sold but never used.

7. The estimate of the liability accrued at the reporting date in respect of outstanding points granted to holders of “Iberia Plus” loyalty cards.

8. Measurement of provisions and contingencies.

9. The fair value of certain financial instruments.

10. Measurement of terms of leases.

The estimates were made on the basis of the best information available at 30 June 2010 on the events analysed. However, is it possible that future events may lead to a modification of these estimates at year-end 2010 or subsequent years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, with the effects of the change in estimates recognised in the related consolidated income statement.

e) Comparative information

The information contained in the accompanying condensed interim consolidated financial statements for the six month periods ended 30 June 2009 and 31 December 2009 are presented exclusively for comparison purposes with the six-month period ended 30 June 2010.

f) *Seasonality of Group operations*

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

g) *Relative significance*

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

h) *Condensed consolidated cash flow statement*

The following terms, with the meanings specified, are used in the condensed consolidated statement of cash flows, which was prepared using the indirect method:

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

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

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

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

For the preparation of the condensed consolidated statement of cash flows, the Group considers as “Cash and cash equivalents” the balances of “Cash and cash equivalents” and part of the balances of “Current financial investments – Other financial assets”, in the amounts of €1,395 million at 30 June 2010 and €874 million at 31 December 2009 (see Note 5), which meet the criteria for being considered highly liquid investments and subject to an insignificant risk of changes in value.

2. Changes in Group structure

Note 2 in the notes to the Group’s consolidated financial statements for the year ended 31 December 2009 provides information on the Group companies that were consolidated at that date and on companies accounted for using the equity method.

During the first six months of 2010 there were no changes to the consolidation scope except the decrease in the stake held in Air Miles Group following the sale of 90 shares in the company. Proceeds for the Group from the sale amounted to €1 million, recognised in “Other income and expenses” in the accompanying condensed consolidated income statement for the six months ended 30 June 2010. The Parent’s stake in the Air Miles Group has decreased to 23%.

3. Dividends paid by the Parent

a) *Dividends paid by the Parent*

In the first six months of 2010, the Parent did not pay out or agree to pay out any dividends.

b) *Earnings (loss) per share from ordinary activities*

Basic earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing profit (loss) for the period attributable to the Parent by the weighted average number of ordinary shares outstanding during the period, excluding the average number of treasury shares held, during the period.

Accordingly, the basic earnings (loss) per share for the six months ended 30 June 2010 and 2009 are as follows:

	30/06/10	30/06/09
Loss attributable to the Parent (€ million)	(21)	(165)
Weighted average number of shares outstanding (shares)	925,204,737	925,204,737
Basic loss per share (€)	**(0.023)**	**(0.179)**

In 2009 an 2010, the Group did not have any outstanding potentially convertible financial instruments into ordinary shares of the Parent. Accordingly, diluted loss per share is the same as basic loss per share.

4. Property, plant and equipment

a) Aircraft in service

Following is a summary of the Group's aircraft in service at 30 June 2010:

	Number of aircraft			
Aircraft type	Owned	Under finance lease	Under operating lease	Total
A-319	-	-	23	23
A-320	3	6	27	36
A-321	-	4	15	19
A-340-300	6	1	11	18
A-340-600	-	1	15	16
	9	**12**	**91**	**112**

The foregoing table excludes a B-747 aircraft owned by the Parent which was grounded at 30 June 2010, because it was to be sold or scrapped and which has 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.

In 2009, the Group temporarily grounded eight owned A-320 aircraft because of the falloff in air traffic. In 2010, the Company resumed operating one of these aircraft and has entered into an operating lease with Vueling Airlines, S.A. for another. The remaining six aircraft, where were still grounded at 30 June 2010, are not included in the above table, but are expected to enter into operation over the coming months.

b) Owned aircraft – Movement in the period

In the first six months of 2010, the Company acquired two A-319 aircraft for subsequent sale and lease under an operating lease. It also acquired an A-320 which it subsequently sold, obtaining a gain of €2 million recognised under “Net gains on disposals of non-current assets” in the accompanying condensed consolidated income statement for the six months ended 30 June 2010.

In addition, a finance lease was arranged for an aircraft in the A-340-600 fleet.

The remaining aircraft additions in the six months ended 30 June 2010 relate to the acquisition of two engines for A-320 aircraft for a total amount of €8 million, and to the capitalisation of internal overhauls on aircraft under operating leases.

c) *Provisions on aircraft*

To cover possible impairment losses on scheduled derecognition of aircraft, the Group makes provisions so that the net carrying amounts of aircraft to be derecognised equal their net realisable value. The allowances recorded are as follows:

Aircraft	€ million	
	Balance at 30/06/10	Balance at 31/12/09
B-747	11	11
A-320	7	5
Other	1	1
	19	**17**

The net carrying amounts of the B-747 aircraft and of items of the fleet included under “Other” are zero.

d) *Commitments and other guarantees on the fleet*

The Parent has given an undertaking to subscribers to a bond issue that it will continue using 20 planes subject to operating or finance leases for periods of between 9 and 14 years. At 30 June 2010, the amount of the bond outstanding was USD 82 million and €120 million (compared to USD 86 million and €120 million at 31 December 2009).

The Parent is carrying out an aircraft renewal programme under various agreements with Airbus, covering the A-319, A-320 and A 340 fleets. Following updates to the Airbus agreement, the aircraft not yet delivered at 30 June 2010 and the years when they are scheduled to join the fleet are as follows:

Aircraft	Number of aircraft					
	2010	2011	2012	2013	2014	Total
A-319	-	3	-	-	-	3
A-320	-	-	-	10	2	12
A-340-600	1	-	-	-	-	1
	1	**3**	**-**	**10**	**2**	**16**

The Parent has signed an agreement to sell five of the A-320 aircraft shown in the table above to British Airways Plc. This agreement is subject to the completion of the merger process underway between the two airlines.

To terms of this renewal programme oblige the Parent to post €251 million in deposits, of which it had already delivered €124 million at 30 June 2010, included under “Non-current financial assets – Other financial assets” (see Note 5). The schedule for delivery of the outstanding amount at 30 June 2010 is as follows:

	€ million
2010	8
2011	39
2012	71
2013	9
	127

Based on the basic prices established in the agreements, the total cost of the aircraft subject to outright purchase commitments not yet delivered at 30 June 2010 was approximately €875 million. The Parent also has options on nine A-320 aircraft.

e) Aircraft operated under operating lease

In the first six months of 2010, the two A-319 aircraft indicated in b) of this Note and three A-340-600 aircraft were included under operating leases.

In addition, in the first half of 2010, the following aircraft were returned following expiry of the related leases: one B-757, one A-319, two A-320 and two A-340-300. The B-757 aircraft was subleased to another carrier at 31 December 2009. One of the aircraft in the A-320 fleet and one A-340-300 returned in the first six months of 2010 were not in service at 31 December 2009.

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

Fleet	Year													No. of aircraft
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
A-319	-	2	4	6	4	2	-	-	-	5	-	-	-	23
A-320	-	1	2	6	2	2	5	-	-	9	-	-	-	27
A-321	-	-	-	1	-	2	3	2	1	6	-	-	-	15
A-340-300	1	1	3	2	3	1	-	-	-	-	-	-	-	11
A-340-600	-	-	-	-	-	3	2	3	4	-	-	1	2	15
Total	**1**	**4**	**9**	**15**	**9**	**10**	**10**	**5**	**5**	**20**	**-**	**1**	**2**	**91**

The approximate total for operating lease payments payable for these aircraft, calculated based on the interest rates and exchange rates prevailing at 30 June 2010 and 31 December 2009, are €1,818 million and €1,509 million, respectively.

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 condensed interim consolidated financial statements, the Parent's directors did not intend to exercise the purchase options or to seek to avail themselves of the extensions provided for in the leases where these would involve using the aircraft for periods exceeding 16 years.

f) Assets held under finance lease

At 30 June 2010, the total cost of property, plant and equipment acquired under finance leases, mainly aircraft, was €511 million, with €139 million of accumulated depreciation (€408 million and €127 million at 31 December 2009, respectively).

g) Non-current assets not in service

The Group keeps aircraft and engines registered in the heading of property, plant and equipment in the condensed consolidated statement of financial position at 30 June 2010, , which are not in service. The cost of these assets, €78 million at both 30 June 2010 and 31 December 2009, is covered by the related depreciation and provisions recognised. These amounts do not include the six A-320 aircraft temporarily grounded since 2009 (see section "Aircraft in service" of this Note). At 30 June 2010, the net carrying amount of these six aircraft was €30 million.

h) Non current assets classified as held for sale

All balances recognised under this heading in the condensed consolidated statement of financial position at 30 June 2010 relate to the Group's MD aircraft which are to be sold in the next few years under the sale contracts for this fleet. At 30 June 2010, these aircraft were not in service.

In June 2010, the Group sold six engines of these MD aircraft, recognising a gain of €2 million under "Net gains on disposal of non-current assets" in the accompanying condensed consolidated income statement. In addition, the Group wrote down the fair value of these aircraft by an amount of €1 million, recognised under "Net gains on disposal of non-current assets" in the accompanying condensed consolidated income statement.

5. Financial assets

The detail of the Group's financial assets at 30 June 2010 and 31 December 2009, by nature and classification for measurement purposes, is as follows:

At 30 June 2010

Nature / Classification	€ million				
	Equity instruments	Loans to third parties	Derivatives	Other financial assets	Total
Long-term financial instruments					
Loans and receivables	7	90	-	149	246
Available-for-sale financial assets:					
- At fair value	801	-	-	-	801
- At cost	9	-	-	-	9
	-	-	58	-	58
Long-term / non-current	**817**	**90**	**58**	**149**	**1.114**
Short-term financial instruments					
Loans and receivables					
- Highly liquid assets	-	-	-	1.395	1.395
- Guarantees and other	-	2	-	17	19
Derivatives	-	-	62	-	62
Short-term / current	**-**	**2**	**62**	**1.412**	**1.476**

At 31 December 2009

Nature / Classification	€ million				
	Equity instruments	Loans to third parties	Derivatives	Other financial assets	Total
Long-term financial instruments					
Loans and receivables	10	77	-	147	234
Available-for-sale financial assets:					
- At fair value	243	-	-	-	243
- At cost	16	-	-	-	16

Derivatives	-	-	4	-	4
Long-term / non-current	**269**	**77**	**4**	**147**	**497**
Short-term financial instruments					
Loans and receivables					
- Highly liquid assets	-	-	-	874	874
- Guarantees and other	-	31	-	128	159
Derivatives	-	-	55	-	55
Short-term / current	**-**	**31**	**55**	**1.002**	**1.088**

Non-current available-for-sale assets - At fair value

British Airways Plc:

In the first six months of 2010, the investment in this company, with which the Parent is in the processing of merging (see Note 1.c), was revalued by €33 million. This revaluation, net of tax, was recognised with a credit to "Equity – Valuation adjustments" in the accompanying consolidated condensed statement of financial position at 30 June 2010. At 30 June 2010, the net carrying amount of the investment was €276 million.

Amadeus IT Holding, S.A. (formerly WAM Acquisition, S.A.):

The stake in Amadeus IT Holding, S.A. was acquired as partial consideration in the sale of Amadeus, S.A. and is structured as ordinary and preference shares, the latter being convertible into ordinary shares if the subsidiary is floated on the stock market.

Trading in the shares of Amadeus IT Holding, S.A. began on 29 April 2010. Previously to that date, the Parent proceeded to sale part of its investment in such company, obtaining a net income of €13 million, recognised in "Other income and expenses" in the accompanying condensed consolidated income statement for the six months ended 30 June 2010. At 31 December 2009, the investment in Amadeus IT Holding, S.A. was carried at acquisition cost. At 30 June, this stake was measured at fair value, which at that date amounted to €524 million. The €523 million difference between this amount and cost was recognised, net of the related tax effect, with a credit to "Equity – Valuation adjustments" in the accompanying consolidated condensed statement of financial position.

Current loans and receivables – Highly liquid assets

At 30 June 2010, the Group had invested €1,395 million (€874 million at 31 December 2009) in current financial assets. These were mainly deposits, euro deposits, euro commercial paper, fixed-term deposits and promissory notes.

6. Financial liabilities

The detail of the Group's financial liabilities at 30 June 2010 and 31 December 2009, by nature and classification for measurement purposes, is as follows:

	€ million					
	30/06/10			31/12/09		
	Current	Non-current	Total	Current	Non-current	Total
At amortised cost:						
Bank borrowings	175	45	220	221	27	248
Finance leases	28	297	325	30	224	254
Other financial liabilities	8	11	19	17	2	19
At fair value						
Derivatives	55	42	97	27	48	75
Total	**266**	**395**	**661**	**295**	**301**	**596**

7. Equity

The number of shares and aggregate par value of the share capital at 30 June 2010 and 2009 were 953,103,008 shares and €743 million, respectively.

At both 30 June 2010 and 31 December 2009, the shareholders of Iberia, Líneas Aéreas de España, S.A. were as follows:

	30/06/10		31/12/09	
	Number of shares	Percentage of ownership	Percentage 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 Plc	125,321,425	13.15	125,321,425	13.15
Chase Nominees Ltd.	88,366,506	9.27	49,594,518	5.20
Sociedad Estatal de Participaciones Industriales	49,212,526	5.16	49,212,526	5.16
El Corte Inglés, S.A.	32,151,759	3.37	32,151,759	3.37
Deutsche Bank AG London	29,940,754	3.14	5,545,569	0.58
The Bank of New York Mellon	25,249,022	2.65	38,072,751	3.99
Other	383,762,497	40.27	434,105,941	45.56
	953,103,008	**100**	**953,103,008**	**100**

The treasury shares held by Iberia, Líneas Aéreas de España, S.A. at 30 June 2010 represented 2.93% of the share capital (28 million shares), the same as at 31 December 2009, with an aggregate par value of €64 million.

8. Provisions and contingent liabilities

a) Detail

The detail of "Non-current Provisions" in the accompanying statement of financial position is as follows:

	€ million	
	30/06/10	31/12/09
Provisions for contingencies and expenses		
Provisions for restructuring costs	*364*	*425*
Litigation and other	*83*	*100*
Provisions for obligations to employees	597	598
Provisions for major repairs	79	86

Provisions	**1,123**	**1,209**

b) Provisions for restructuring costs

The balance of "Provisions for Restructuring Costs" relates to the present value of the liabilities arising from collective redundancy procedure 72/01 (3,535 employees). Some 24 employees signed up for the voluntary collective redundancy procedure in the first half of 2010.

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

In addition, in 2010, the Parent approved the 16th Collective Labour Agreement covering ground staff as well as the extension of the subscription and application period for the aforementioned collective redundancy procedure to 31 December 2013 under the same terms and conditions. This extension was subsequently approved by the Directorate General of Labour on 9 June 2010. In first six months of 2010, a total of six employees took advantage of this procedure.

c) Litigation

No new lawsuits considered significant were brought against the Group nor were there significant changes in ongoing litigation in the first half of 2010, except for the favourable ruling issued regarding the assessments by tax authorities for the customs duties for the period from 1998 to 2000. The Group had recognised a €33 million provision to cover these claims, which it has reversed with a balancing entry in "Other operating income – Non-recurring" in the accompanying condensed consolidated income statement for the six months ended 30 June 2010.

The total amount of payments derived from litigation made by the Group in the first six months of 2010 is not significant.

d) Provisions for obligations to employees

In the first half of 2010, some of the pilots eligible to choose whether to avail of this reserve or remain partially active elected this option. As a result, €20 million of the provision to cover these obligations was reversed, recognised in "Other operating income – Non-recurring" in the condensed consolidated income statement for the six months ended 30 June 2010.

9. Related parties

In addition to associates, the Group considers as related parties the Parent's key management personnel (members of its Board of Directors and Management Board and close members of their families), and entities over which its key management personnel have the ability to control or exercise significant influence.

The table below presents the related-party transactions carried out by the Group in the first six months of 2010 and 2009, distinguishing between significant shareholders, members of the Board of Directors and managers of the Parent and other related parties. Transactions with related parties are carried out on an arm's length basis and include, as appropriate, the following related compensation in kind:

	€ million					
	30/06/10			30/06/09		
Expense and revenue	Significant Shareholders	People, Companies or Group Companies	Total	Significant Shareholders	People, Companies or Group Companies	Total
Expenses:						
Finance costs	1	-	**1**	3	-	**3**

Management or collaboration contracts	1	-	**1**	4	-	**4**
Leases	9	-	**9**	14	-	**14**
Services received	15	17	**32**	16	20	**36**
Goods purchased (finished or in progress)	2	-	**2**	1	-	**1**
	28	**17**	**45**	**38**	**20**	**58**
Revenue:						
Finance income	1	-	1	16	-	16
Services provided	8	48	56	14	34	48
	9	**48**	**57**	**30**	**34**	**64**

Other transactions	€ million					
	30/06/10			30/06/09		
	Significant Shareholders	Directors and Senior Managers	Total	Significant Shareholders	Directors and Senior Managers	Total
Financing arrangements:						
Borrowings and capital contributions (borrower)	140	-	**140**	128	-	**128**
Guarantees and deposits received	52	-	**52**	48	-	**48**
Other transactions	9	3	**12**	-	3	**3**

10. Remuneration of Directors and Senior Executives of the Parent

Note 19 in the notes to the Group's consolidated financial statements for the year ended 31 December 2009 details the existing agreements regarding remuneration and other benefits paid to directors and senior executives of the Parent.

The highlights of this remuneration and benefits corresponding to the six-month period ended 30 June 2010 and 2009 are as follows:

	€ thousand	
	30/06/10	30/06/09
Directors:		
Item-		
Fixed remuneration	971	736
Variable remuneration	216	251
Allowances	320	400

Other	57	46
	1,564	**1,433**
Senior executives:		
Total remuneration paid to senior executives	1,727	1,824
	1,727	**1,824**

“Directors” in the preceding table includes all remuneration and other benefits paid to the directors holding executive positions in the Parent in their capacity as directors -two directors in the first six months of 2010 and only one in the first six months of 2009- for which they received the following remuneration:

Executive Directors	€ thousand 30/06/10	30/06/09
Fixed remuneration	575	346
Variable remuneration (a)	216	251
Compensation in kind	9	9
	800	**606**

(a) Relates to payments for achieving objectives for the year prior to that indicated in the column.

In addition to the amounts shown in the preceding tables, in the first six months of 2010 and 2009 premiums were paid in respect of life insurance policies for Executive directors amounting to €500 thousand and €317 thousand, respectively.

11. Segment information

Note 17 in the notes to the Group’s consolidated financial statements for the year ended 31 December 2009 details the criteria followed by the Group in determining its operating segments. There have been no changes in its segmentation criteria.

Net sales and other recurring operating income by geographical segment in the six months ended 30 June 2010 and 2009 are as follows:

	€ million 30/06/10	30/06/09
Domestic	816	847
Medium-Haul	453	458
Long-Haul	958	862
	2,227	**2,167**

The reconciliation of ordinary segment income and profit with the condensed consolidated income statements for the six months ended 30 June 2010 and 2009 is as follows:

	€ million									
	Transport		Airports		Maintenance and engineering		Corporate unit and other businesses		Total Group	
	30/06/10	30/06/09	30/06/10	30/06/09	30/06/10	30/06/09	30/06/10	30/06/09	30/06/10	30/06/09
Operating income:										
External	1,925	1,861	133	131	158	163	11	12	2,227	2,167
Inter-segment	3	2	97	98	209	202	98	187		

Operating expenses:										
External	1,668	1,796	217	223	323	329	91	96	2,299	2,444
Inter-segment	363	359	14	14	17	16	13	100		
Operating profit (loss)	**(103)**	**(292)**	**(1)**	**(8)**	**27**	**20**	**5**	**3**	**(72)**	**(277)**
E.B.I.T.D.A.R.	109	(48)	6	-	39	32	14	12	168	(4)
Aircraft lease payments	(154)	(184)	-	-	-	-	-	-	(154)	(184)
E.B.I.T.D.A.	(45)	(232)	6	-	39	32	14	12	14	(188)
Depreciation and amortisation	(58)	(60)	(7)	(8)	(12)	(12)	(9)	(9)	(86)	(89)
Non-recurring profit							22	3	22	3
Financial profit							17	24	17	24
Share of profit/(loss) from companies accounted for using the equity method							4	-	4	-
Profit (loss) before tax							(29)	(250)	(29)	(250)
Income tax							8	85	8	85
Net profit/(loss)									**(21)**	**(165)**
Average headcount (FTEs)	7,984	8,562	6,821	7,041	3,806	3,838	1,233	1,297	19,844	20,738
Investments	148	42	3	1	21	20	4	6	175	69

Meanwhile, the reconciliation of total segment assets and liabilities with the condensed consolidated statements of financial position at 30 June 2010 and 31 December 2009 is as follows:

	€ million									
	Transport		Airports		Maintenance and engineering		Corporate unit and other businesses		Total Group	
	30/06/09	31/12/09	30/06/09	31/12/09	30/06/09	31/12/09	30/06/09	31/12/09	30/06/09	31/12/09
Property, plant and equipment	815	754	57	61	181	180	52	51	1,105	1,046
Inventories	31	42	1	-	188	170	4	3	224	215
Other assets:	-	-	-	-	-	-	4,672	3,785	4,672	3,785
Total assets									**6,001**	**5,046**
Customer prepayments	642	389	-	-	-	-	-	-	642	389
Remuneration payable	97	86	35	32	25	21	10	10	167	149
Other liabilities (*)	-	-	-	-	-	-	3,238	2,956	3,238	2,957

(*) Does not include equity.

12. Average headcount

The average number of employees at the Group companies, measured in terms of full-time equivalents (FTEs), by professional category for the six months ended 30 June 2010 and 2009 is as follows:

	Average headcount	
	30/06/10	30/06/09
Senior executives*:	**10**	**10**
Ground staff:		
Senior managers and other line personnel	1,111	1,142
Clerical staff	5,092	5,374
Ancillary services	4,512	4,658
Aircraft maintenance technicians	2,912	2,929
Other	1,125	1,180
	14,752	**15,283**

Flight crew:		
Pilots	1,571	1,618
Cabin crew	3,511	3,827
	5,082	**5,445**
	19,844	**20,738**

* Relates to the Parent