

INTERIM MANAGEMENT REPORT JANUARY-SEPTEMBER 2008

Main figures (not audited)

IBERIA GROUP	3 rd Quarter (Jul-Sep)			Accumulated (Jan-Sep)		
	2008	2007	%	2008	2007	%
Financial data (€ thousand) (a)						
Operating revenues (b)	1.450.528	1.458.828	-0,6	4.120.911	4.125.433	-0,1
Operating costs (b)	1.434.334	1.319.560	8,7	4.136.993	3.916.214	5,6
EBITDAR (b)	159.560	305.968	-47,9	418.953	699.927	-40,1
Operating Income EBIT (b)	16.194	139.268	-88,4	-16.082	209.219	n.s.
Adjusted EBIT (c)	45.297	173.780	-73,9	72.931	309.618	-76,4
Profit/loss from operating activities (d)	-152	205.390	n.s.	6.116	303.976	-98,0
Profit /loss before taxes	36.260	218.355	-83,4	64.393	326.341	-80,3
Profit/loss after taxes	30.386	148.175	-79,5	51.128	223.006	-77,1
Non-current assets (e)	---	---	---	2.266.508	2.086.514	8,6
Current financial investments, cash & cash equivalents (e) (g)	---	---	---	2.425.728	2.967.442	-18,3
Equity (e)	---	---	---	1.711.863	2.005.868	-14,7
In-balance sheet net debt (e)	---	---	---	-1.971.868	-2.500.381	-21,1
Adjusted net debt x 8 (e)	---	---	---	866.647	581.679	49,0
EBITDAR margin (%) (b) (f)	11,0%	21,0%	-10,0 p.	10,2%	17,0%	-6,8 p.
EBIT margin (%) (b) (f)	1,1%	9,5%	-8,4 p.	-0,4%	5,1%	-5,5 p.
Operating revenue/ASK (€ cent) (b)	8,49	8,52	-0,4	8,21	8,30	-1,2
Operating expense/ASK (€ cent) (b)	8,39	7,71	8,9	8,24	7,88	4,5
Operating expense (ex fuel)/ASK (€ cent) (b)	5,65	5,99	-5,7	5,85	6,22	-6,0
Operating data						
ASK (million)	17.093	17.119	-0,2	50.223	49.682	1,1
RPK (million)	14.220	14.653	-3,0	40.583	40.758	-0,4
Load factor (%) (f)	83,2	85,6	-2,4 p.	80,8	82,0	-1,2 p.
Yield (h)	7,43	7,39	0,5	7,28	7,43	-2,1
Passenger revenue / ASK (€ cent) (h)	6,18	6,32	-2,3	5,88	6,10	-3,6
Annual average headcount	21.988	22.803	-3,6	21.785	22.631	-3,7
ASK / Employee (thousand)	777	751	3,5	2.305	2.195	5,0
No. of aircraft end of period	125	139	-10,1	125	139	-10,1
Average fleet utilization (block hours/aircraft/day)	10,2	9,6	6,4	10,0	9,5	4,6

n.m.: not meaningful.

(a) The 2008 financial statements include the revenue and costs associated with the Handling Joint Venture (JV) in proportion to Iberia's participation (in 2007 the whole of the annual impact was recorded in the fourth quarter).

(b) Only recurring items.

(c) Excluding from costs 33% of operating leases (100% of dry leases + 50% of wet lease) equivalent to the implicit financial interest of the rentals.

(d) Includes non-recurring items.

(e) September 2008 vs. December 2007.

(f) Year on year variation expressed in percentage points.

(g) Adjusted liquid balance: current financial investments (excluding the value of hedging instruments) plus cash and other cash equivalents.

(h) Calculated with passenger revenues generated during the period, excluding revenues from the cancellation of customer advances as well as other minor accounting regularizations.

Highlights

- In the first nine months of 2008, Iberia generated Group profit of €51.1 million, of which €30.4 million was recognised in the third quarter alone, despite the sharp rise in kerosene prices and the gradual weakening in demand.
- Fuel costs rose by €374.2 million year-on-year in 9M08. However, the delivery of the bulk of the initiatives envisaged under the 2006-2008 Director Plan resulted in a 6% drop in unit operating expenses ex fuel.
- Operating revenues came in flat year-on-year in 9M08, significantly hurt by the depreciation of the dollar (an estimated impact of €135 million).
- Yields (revenue per RPK) strengthened during 2008, rising 0.5% in 3Q08 (or by 4.2% in constant currency), despite the increase registered in the average stage length (up 15.1% during the last quarter). The favourable evolution of prices partially offset the gradual deterioration in traffic, most notably in the domestic segment where the load factor was driven 2.4 points lower in the third quarter and 1.2 points lower year-to-date.
- Third quarter EBIT amounted to €16.2 million, a €123.1 million drop on 3Q07, mainly driven by the €174.7 million rise in fuel costs.
- Staff productivity rose 5.0% on 9M07, underpinned by a reduction of 845 equivalent employees.
- Fleet utilisation rose 6.4% in 3Q08, and by 4.6% in the first nine months, to an average of 10 block hours/aircraft/day.
- Punctuality improved by 2.8 points year-on-year to 83.2% (within a 15 minute interval) in 9M08, with Iberia outperforming the other main European network operators.

Traffic and passenger revenues

The slowdown in growth in traffic in the **airline sector**, underway since the beginning of 2007, intensified during the summer months in the wake of the deterioration in the international economic environment. Aggregate traffic across the airlines belonging to the Association of European Airlines (AEA) rose a scant 0.6% in 3Q08, to bring growth year-to-date to 2.3% (compared to growth of 5.1% in FY07). Meanwhile, the sector also scaled back capacity, albeit by less than demand, so that load factors declined on a widespread basis. AEA members reported an average load factor for the first nine months of the year of 76%, a drop of 1.5 points.

Iberia maintained a high load factor (80.8%) between **January and September**, the highest among comparable European network carriers, and down 1.2 points on the record level obtained a year earlier. Overall capacity, measured in available seat-kilometres (ASK), rose 1.1%. The company has concluded the overhaul and optimisation of the flight programme set out in the 2006-2008 Director Plan, boosting network operations. The reduction in capacity on domestic flights and their concentration at the hub, together with increased capacity on transatlantic flights and flights to and from Central and Eastern Europe, led to a 12.4% jump in the average stage length to 2,246 kilometres.

9M08	ASK (million)	Chg. (%)	RPK (million)	Chg. (%)	Load factor (%)	Chg. (p.p.)
Long-haul	29,775	4.9	25,577	2.8	85.9	-1.7
Medium-haul	13,097	4.7	9,727	5.2	74.3	0.4
Domestic	7,351	-16.3	5,279	-20.4	71.8	-3.7
Total	50,223	1.1	40,583	-0.4	80.8	-1.2

Revenue per ASK decreased by 3.6% for the **network as a whole** in 9M08, hurt by the lower load factor and the 2.1% drop in yields (revenue per RPK) and, more notably, by the aforementioned increase in the average stage length and the dollar's depreciation against the euro. Stripping out the impact of adverse movements in exchange rates, the drop in revenue per ASK would have narrowed to just 0.2%, while the yield would have increased by 1.4%.

Long-haul traffic (representing 63% of total RPK) climbed 2.8% on 9M07, while capacity rose 4.9% to put the load factor at 85.9%. Capacity rose 2.2% in South America, by 5.3% in Central America and by 11.8% in North America. The growth in the US mainly reflects the addition of new destinations (Boston and Washington) in May 2007. Business Plus passengers rose 1.0% in 9M08 despite a 4.8% drop in the third quarter. The yield in the long-haul segment rose 0.2% on 9M07, eroded by the depreciation of the dollar against the euro. At constant exchange rates, the yield would have risen 5.5%, while revenue per ASK would have climbed 3.4%.

In the international **medium-haul** segment RPK rose 5.2%, while ASK climbed 4.7% leading to a load factor of 74.3% (+0.4 points). The company continued to extend connections with its *hub*, selectively streamlining capacity on other point-to-point routes. Accordingly, on aggregate for international medium-haul flights departing from or landing in Madrid, capacity and traffic jumped 20.2% and 20.7%, respectively, boosting the load factor by 0.3 points to 74.9%. Yields in the medium haul segment fell by 3.2%, hit by the increase in the average stage length in this segment (up 5.6%), the depreciation of the dollar and the pound sterling against the euro and because of pricing pressure on European routes. At constant exchange rates, the yield would have fallen 0.5%, while revenue per ASK would have hold steady year-on-year.

In line with the Company's strategy, capacity in the **domestic** segment declined by 16.3% on 9M07. The load factor was 71.8%, 3.7 points down on the previous year on the back of increasingly weak demand, excess capacity and the impact of the inauguration of new high-speed rail lines (connecting Madrid to Malaga from the end of December and Madrid to Barcelona from 20 February). Nonetheless, available-seat kilometres rose 1.1% on flights in and out of the hub, despite a 17.7% downsizing of the Madrid-Barcelona shuttle, and in the wake of additional capacity adjustments made in the third quarter. Revenue per ASK improved by 0.7% in this segment, driven by a 5.9% jump in the yield (stripping out the negative impact of the appreciation of the euro, these indicators would have risen by 1.6% and 6.8%, respectively).

During the **third quarter** overall capacity was flat (-0.2%); capacity adjustment in the domestic segment (-18.8%) was virtually entirely offset by increased capacity on international flights (3.6%), which was lower than in 1H08 (5.5%). This capacity constraint partially offset the 3.0% drop in traffic across the network, although it rose by 1.5% on international flights.

3Q08	ASK (million)	Chg. (%)	RPK (million)	Chg. (%)	Load factor (%)	Chg. (p.p.)
Long-haul	10,279	3.0	8,954	0.8	87.1	-1.9
Medium-haul	4,463	5.0	3,549	3.3	79.5	-1.3
Domestic	2,351	-18.8	1,716	-26.6	73.0	-7.7
Total	17,093	-0.2	14,220	-3.0	83.2	-2.4

Yield evolution shows an upward trend during 2008. In constant currency, the average yield across the entire network rose 4.2%, compared to a drop of 0.2% in 1H08. The table below details the quarterly trend in yields by segment:

Chg. in yield 2008 / 2007 (%)	At nominal exchange rates			At constant exchange rates		
	1Q	2Q	3Q	1Q	2Q	3Q
Long-haul	-1.3	0.7	1.1	2.5	7.4	6.5
Medium-haul	-6.3	-5.3	1.6	-4.1	-2.2	4.4
Domestic	-1.0	6.9	11.8	-0.3	8.0	13.0
Total	-4.5	-2.5	0.5	-2.0	1.6	4.2

The slowdown in global economic growth also affected **cargo** air traffic, which has weakened as the year progressed. Specifically in 3Q08, RTK across AEA member carriers fell 3.3% to leave the year-to-date growth rate at 1%. Cargo traffic at Iberia fell by 1.2% during the first nine months and the load factor weakened by 2.7 points to 66.2%.

Consolidated Statements of Income (not audited)

IBERIA GROUP	3 rd Quarter (Jul-Sep)			Accumulated (Jan-Sep)		
€ thousand	2008	2007	%	2008	2007	%
Profit/loss from operations (a) (c)	-152	205.390	n.s.	6.116	303.976	-98,0
Revenues from operating activities	1.456.663	1.459.615	-0,2	4.146.873	4.126.981	0,5
Net sales	1.396.245	1.399.034	-0,2	3.963.870	3.962.792	0,0
Passenger revenue (b)	1.138.339	1.153.625	-1,3	3.203.077	3.249.979	-1,4
Cargo revenue	88.081	82.142	7,2	259.251	246.849	5,0
Handling	82.185	77.959	5,4	214.076	206.912	3,5
Technical assistance to airlines	72.818	64.958	12,1	226.251	196.070	15,4
Other revenues	14.822	20.350	-27,2	61.215	62.983	-2,8
Other operating revenues	60.418	60.581	-0,3	183.003	164.189	11,5
Recurring	54.283	59.794	-9,2	157.041	162.640	-3,4
Non-recurring	6.135	787	n.s.	25.962	1.548	n.s.
Costs from operating activities	1.436.643	1.384.048	3,8	4.140.730	3.992.013	3,7
Procurements	520.748	350.376	48,6	1.355.415	987.434	37,3
Aircraft fuel	469.392	294.674	59,3	1.201.445	827.259	45,2
Aircraft spare parts	41.076	46.139	-11,0	125.936	130.495	-3,5
Catering materials	6.100	5.619	8,6	15.572	17.393	-10,5
Other purchases	4.180	3.943	6,0	12.463	12.287	1,4
Personnel expenses	334.347	397.372	-15,9	1.009.963	1.086.714	-7,1
of which: non recurring	-	57.000	n.a.	-	61.000	n.a.
Depreciation and amortization	50.024	54.420	-8,1	147.285	162.381	-9,3
Other operating costs	531.524	581.881	-8,7	1.628.067	1.755.485	-7,3
Aircraft leases	93.342	112.280	-16,9	287.750	328.327	-12,4
Other rentals	17.689	19.437	-9,0	55.693	55.607	0,2
Fleet maintenance (subcontracts)	56.349	56.616	-0,5	171.612	184.320	-6,9
of which: non recurring	-	3.000	n.a.	-	8.398	n.a.
Commercial expenses	50.966	60.829	-16,2	161.855	179.298	-9,7
Traffic services	105.810	113.802	-7,0	311.273	346.811	-10,2
Navigation charges	64.822	69.456	-6,7	195.541	209.031	-6,5
In flight services	19.525	20.166	-3,2	54.218	56.662	-4,3
Booking systems	30.368	32.608	-6,9	107.852	114.986	-6,2
Other expenses	92.652	96.687	-4,2	282.271	280.442	0,7
of which: non recurring	2.309	4.488	-48,6	3.737	6.402	-41,6
Net gains on disposals of non-current assets (c)	1.252	129.823	-99,0	24.110	169.034	-85,7
Impairment losses (d)	21.424	-	n.a.	24.136	26	n.s.

n.a.: not applicable; 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. In 2008, revenues and costs also include the proportional part of Iberia's stake in the Handling JV (in 2007 the full impact was recorded in the fourth quarter).

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

(c) A gain of €94.4 million in connection with the recapitalisation of WAM, which was classified within "Financial revenues" at 30 September 2007, has been reclassified to "Net gains (losses) on disposals of non-current assets", following the criteria adopted at the close of 2007 in the audited annual financial statements.

(d) Following the criteria adopted at the close of 2007, a provision for the amount of €9,149 thousand which was recorded at 30 September 2007 as "Impairment losses", was reclassified as "Share of results of associates".

IBERIA GROUP € thousand	3 rd Quarter (Jul-Sep)			Accumulated (Jan-Sep)		
	2008	2007	%	2008	2007	%
Financial results	24.866	11.867	109,5	58.222	29.422	97,9
Financial revenues (c)	36.578	29.186	25,3	101.691	79.708	27,6
Financial expenses	11.039	15.830	-30,3	35.365	48.503	-27,1
Exchange gains/losses	30	-1.532	102,0	-3.102	-2.003	-54,8
Other revenues and expenses	-703	43	n.s.	-5.002	220	n.s.
Share of results of associates (d)	11.546	1.097	n.s.	55	-7.058	n.s.
Profit before taxes	36.260	218.355	-83,4	64.393	326.341	-80,3
Taxes	-5.874	-70.179	91,6	-13.265	-103.335	87,2
Profit after taxes	30.386	148.175	-79,5	51.128	223.006	-77,1
Attributable to shareholders of the parent company	30.342	148.134	-79,5	50.953	222.849	-77,1
Attributable to minority interests	44	42	6,0	175	157	11,9
Basic earnings per share (euros)	0,033	0,157	-79,1	0,055	0,236	-76,8
Diluted earnings per share (euros)	0,033	0,156	-79,0	0,055	0,235	-76,7

n.m.: not meaningful

Average weighted n° of shares 3rd quarter: 925,204,737 in 2008 and 946,250,196 in 2007; nine months: 930,729,188 in 2008 and 945,669,871 in 2007.

Revenues from operating activities

Revenues from operating activities were €4,146.9 million in the first nine months of the year, increasing 0.5%, despite the depreciation of the dollar relative to the euro (12%). Revenue growth in constant currency would stand at 3.7%. **Operating revenues** (€4,120.9 million) were similar to last year's figure; the decline in passenger revenue (-€46.9 million) was almost fully offset by the growth in other recurring revenue headings (€42.4 million in all), with a noteworthy increase in the maintenance business (+€30.2 million). In addition, **non-recurring revenues** in 9M08 amounted to €26.0 million (€1.5 million in 9M07), half of which derived from an insurance recovery for an A-340 aircraft and the remainder mostly from the recovery of sundry provisions.

Passenger revenue fell 1.4% year-on-year to €3,203.1 million in the first three quarters.

Cargo revenue rose 5.0% compared to the previous year, due mainly to a 4% increase in revenue per RTK and increased billing at subsidiaries.

Handling revenues rose 3.5% on 9M07. However, this includes the recognition in 9M08 of €16.4 million in connection with revenues accrued at the JVs at the Barcelona, Lanzarote and Fuerteventura airports under the proportionate consolidation method (whereas the company's share of 2007 revenues in this connection were fully recognised in their entirety in 4Q07).

Although slightly hurt by dollar weakness, revenue from **technical assistance to airlines** jumped 15.4% mainly driven by the increased number and value of workshop technical assistance services provided to third parties, including engine and components, C and D checks and additional work.

Other revenue narrowed €1.8 million (or 2.8%) year-on-year as a result of a €5.5 million drop in the third quarter (equivalent to 27.2%) due to the outsourcing of management of on-board sales and lower revenue generated at the cargo terminals, in part due to the transfer of activity to the Barcelona cargo JV. **"Other recurring operating revenues"** (commissions, deferred income, revenue from supplying staff to the JVs and other sundry revenue) fell by €5.6 million (or 3.4%), mainly due to lower revenue from the recovery of provisions for major repairs.

Costs from operating activities

During the first three quarters of 2008, **costs from operating activities** climbed 3.7% year-on-year to €4,140.7 million. This figure includes €3.7 million of **non-recurring costs**, whereas non-recurring costs recognised in 9M07 stood at €75.8 million, of which €61 million related to an extraordinary provision in connection with the extension of the redundancy programme to 2008 and 2009.

Operating **costs** amounted to €4,137 million in 9M08, 5.6%, higher than a year earlier, due primarily to the rise in fuel costs, the impact of which was partially mitigated by the cost cutting initiatives contemplated in the 2006-08 Director Plan and the positive impact of the depreciation of the dollar against the euro. Stripping out fuel expense, the other headings comprising the operating costs declined by 5.0%.

The market value of a barrel of **Brent** crude oil has soared during the first nine months of 2008, rising sharply in the first half to over €140 at the beginning of July, and falling then rapidly to end September at levels similar to those witnessed in January (€90-100). The average price (in dollars) in 9M08 was 65% higher than that recorded in 9M07.

Fuel costs reached €1,201.4 million in 9M08 (some 29% of total operating costs and over 36% of total costs at the transport business), €374.2 million higher than in 9M07. The increase in the price of kerosene in dollars, after hedging, drove costs €536.1 million higher. This was partially offset by lower unit fuel consumption, thanks to a higher fleet efficiency, and the positive impact of the depreciation of the dollar. The cost of fuel per ASK increased by 43.7% year-on-year.

Recurring **personnel expenses** decreased by 1.5% on 9M07; this drop widens to 2.1% if we exclude the personnel expenses relating to the handling and cargo JVs (adopting the same accounting criteria as in FY07, when the JVs' annual costs were recognised in full in the last quarter of the year). Unit personnel expenses dropped 3.2% on 9M07 (excluding the impact of the JVs), driven primarily by a 3.7% reduction in the Group's equivalent headcount. The ground staff headcount decreased by 4.8% year-on-year, with a particularly significant decrease in Iberia Handling (7.3%), whereas the average headcount on in-flight staff fell 0.5%. Group staff productivity, measured as ASK per employee, rose 5.0%.

The **depreciation and amortisation** was 9.3% lower year-on-year, reflecting the ongoing policy of gradually retiring the MD-87/88 fleet from service, a process which concluded in October 2008. **Aircraft lease** expense was €40.6 million, or 12.4%, lower than in 9M07. The passenger aircraft operating lease expense narrowed €28.4 million thanks to better prices negotiated and the depreciation of the dollar. In addition, the restructuring of the wet lease operation generated €13 million in savings due to a 13.6% reduction in the number of block hours operated under this type of arrangement. Although cargo aircraft lease expense climbed 7.6% on 9M07 due to a 12.0% increase in the number of leased cargo block hours, the impact in absolute terms is relatively minor (€0.8 million). In unit terms, the aggregate fleet leasing and depreciation charges decreased by 12.3% on 9M07.

The 2.9% year-on-year reduction in recurring **fleet maintenance** expenses (external services plus spare parts) was noteworthy, especially in light of the sustained growth in activity for third parties. Factoring in non-recurring items, the drop in maintenance expenses widens to 5.5%, due to the recognition in 2007 of €8.4 million in connection with work performed in relation to aircraft returns. Unit maintenance expense for Iberia's aircraft declined by 8.4% per ASK, partially impacted by the depreciation of the dollar.

Commercial expenses fell 9.7%, driven by a 10.9% drop in commissions, promotional expenses and development expenditure. The ratio of net commercial expenses to traffic revenue narrowed 0.5 percentage points to 2.9% in 9M08.

The redesign of the flight programme and the growing weight of the long-haul segment in relation to overall capacity led to a 14.5% reduction in the number of take-offs, in large part underpinning the 10.2% decrease in the **traffic services** expense. Almost all the items included under this heading registered year-on-year declines, with the most noteworthy being the 7.2% drop in landing fees, the 29.0% decline in aircraft dispatch expenses and the 25.8% reduction in incident-associated expenses (discontinued flights, missed connections and lost baggage delivery), thanks to higher quality operations management. **Navigation charges** declined 6.5%, in part due to the depreciation of the dollar relative to the euro and, more notably, due to fewer flights. Unit costs for traffic services and navigation charges combined fell 9.8% year-on-year.

The 10.5% drop in **catering materials** primarily reflects the decision to outsource on-board sale of goods during the second half of 2007 and, to a lesser extent, the redesign of the flight programme. The cost of **booking systems** fell by 6.2% due mainly to the application of the new contract signed with Amadeus.

"Other recurring operating costs" rose 1.6%, to €278.5 million in 9M08. Over one percentage point of this rise (1.1pp) is accounted for by the consolidation of expenses incurred by the JVs in 9M08, in contrast to 2007 when the entire expense for the year was recognised in 4Q07.

Financial and Other Non-Operating Results

"Net gains on disposals of non-current assets" amounted to €24.1 million in 9M08, reflecting in large part gains on the sale of two Airbus A-320 aircraft and eight of the MD-87 fleet. In 9M07 the Group recognised net gains of €169.0 million, of which €94.4 million corresponded to the gain on the sale of a portion of Iberia's stake in Wam Acquisition, S.A., linked to the recapitalisation of this investee. This gain was included in "Financial revenue" in the 9M07 financial statements and was subsequently reclassified at year-end to "Net gains on disposals of non-current assets" (in line with the presentation used in the income statement included in this report which follows the criteria applied in the annual financial statements). This heading also reflected gains of €74.6 million recognised in 9M07, of which approximately €68 million corresponded to capital gains on a series of fleet-related transactions.

Impairment losses in 9M08 amounted to €24.1 million (€21.4 million in the third quarter), corresponding to provisions recognised in connection with estimated losses for the year on investments in associates, primarily related to restructuring processes.

Net **financial** results amounted to €58.2 million, €28.8 million higher on the previous year. This improvement was driven by a 27.6% jump in financial revenue, thanks to the increase in returns on short term deposits, in turn deriving from a higher average deposit balance and higher interest rates. Moreover, financial expense declined a significant 27.1%, largely due to lower interest charges on loans and lease obligations. The measurement of hedging instruments in accordance with IAS 39, reflected in **"Other revenues and expenses"** within financial results, amounted to -€5 million in 9M08.

The Group's **share of results of associates** improved by €7.1 million in 9M08, from a loss a year earlier. The increase in profits in the third quarter (€10.4 million higher than in 2007), thanks mainly to the significant improvement in profitability at Clickair, was particularly noteworthy.

Financial position

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, standing at -€1,971.9 million at 30 September 2008. The balance of current financial investments plus cash and cash equivalents (**liquid balance**) diminished by €471 million from year-end 2007 to €2,531.8 million at the end of the third quarter, due to the dividend paid out in July and the acquisition of British Airways shares in connection with corporate transactions. Net debt is calculated by adjusting current financial investments to exclude the impact of measuring hedges at fair value, which amounted to €106 million at 30 September 2008 (compared to €35.3 million at year-end 2007). By this measure, the adjusted liquid balance fell by €541.7 million.

Adjusted net debt, including the capitalisation of operating leases (excluding the effect of hedge valuation) amounted to €866.6 million, €285 million more than at year-end 2007.

Non-current assets increased by €180 million from year-end 2007, mainly due to the rise in financial assets, which include €155 million in connection with the carrying amount of shares in British Airways acquired by Iberia up to the 30th of September, representing 6.4% of the capital of the British carrier.

The Iberia Group's **equity** at 30 September 2008 stood at €1,711.9 million, down €294 million on year-end 2007, due to the distribution of 2007 profits (dividend of €157.6 million), the €45.5 million increase in treasury shares and the negative impact on reserves of re-valuation of hedging instruments.

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