INTERIM MANAGEMENT REPORT
JANUARY-SEPTEMBER 2009

1. Main figures (not audited)

IBERIA GROUP	3rd Quarter (Jul-Sep)			Accumulated (Jan-Sep)		
	2009	2008	%	2009	2008	%
Financial Data (€ million)						
Operating revenues (a)	1,166.6	1,450.5	-19.6	3,333.0	4,120.9	-19.1
Operating costs (a)	1,220.6	1,434.3	-14.9	3,663.9	4,137.0	-11.4
EBITDAR (a)	74.5	159.6	-53.3	69.7	419.0	-83.4
Recurring EBIT (a)	-54.0	16.2	n.m.	-330.9	-16.1	n.m.
Adjusted EBIT (b)	-26.9	45.3	n.m.	-246.4	72.9	n.m.
Profit/loss from operations (c)(i)	-56.0	21.3	n.m.	-329.7	30.3	n.m.
Consolidated income before taxes	-30.4	36.3	n.m.	-281.1	64.4	n.m.
Consolidated income after taxes	-16.4	30.4	n.m.	-181.9	51.1	n.m.
Non-current assets (d)	---	---	---	2,400.1	2,450.2	-2.0
Current financial investments, cash & cash equivalents (d)(e)	---	---	---	2,034.3	2,271.6	-10.4
Equity (d)	---	---	---	1,582.5	1,563.9	1.2
In-balance sheet net debt (d) (f)	---	---	---	-1,520.8	-1,803.3	-15.7
Adjusted net debt x 8 (d) (g)	---	---	---	1,170.5	1,012.4	15.6
EBITDAR margin (%) (a)	6.4	11.0	-4.6 p.	2.1	10.2	-8.1 p.
EBIT margin (%) (a)	-4.6	1.1	-5.7 p.	-9.9	-0.4	-9.5 p.
Operating revenue/ASK (€ cent) (a)	7.17	8.49	-15.5	7.04	8.21	-14.1
Operating expense/ASK (€ cent) (a)	7.50	8.39	-10.6	7.74	8.24	-6.0
Operating expense (ex fuel)/ASK (€ cent) (a)	5.60	5.65	-0.8	5.86	5.85	0.3
Operating Figures						
ASK (million)	16,275	17,093	-4.8	47,312	50,223	-5.8
RPK (million)	13,369	14,220	-6.0	37,853	40,583	-6.7
Load factor (%)	82.1	83.2	-1.1 p.	80.0	80.8	-0.8 p.
Yield (h)	6.41	7.43	-13.8	6.30	7.28	-13.4
Passenger revenue / ASK (€ cent) (h)	5.26	6.18	-14.8	5.04	5.88	-14.2
Annual average headcount	21,113	21,988	-4.0	20,863	21,785	-4.2
ASK / Employee (thousand)	771	777	-0.8	2,268	2,305	-1.6
No. of aircraft end of period	---	---	---	114	125	-8.8
Average fleet utilization (block hours/aircraft/day)	10.6	10.2	4.7	10.4	10.0	4.2

n.m.: not meaningful.
(a) Only recurring items.
(b) Excluding 33% of operating leases (100% of dry leases + 50% of wet lease) equivalent to the implicit financial interest of the aircraft rentals.
(c) Includes non-recurring items.
(d) September 2009 vs. December 2008.
(e) Current financial investments (excluding the value of hedging instruments) plus cash and other cash equivalents.
(f) In balance sheet net debt: (Bank borrowings and obligations under finance leases) – (Current financial investments + cash and cash equivalents).
(g) Adjusted net debt: In balance sheet net debt + Aircraft rentals (dry lease at 100% and the rest at 50%) annualised and capitalised (x8) (€2,699.0 million in 2009 and €2,841.6 million in 2008) – Interests (at 4% since 2009, at 6% previously) of Iberbus laons capitalised (7.6 millions in 2009 and 25.9 millions in 2008).
(h) Calculated with passenger revenues generated during the period, excluding revenues from the cancellation of customer advances as well as other minor accounting regularizations.
(i) A provision for the amount of €24.1 million which was recorded at 30 September 2008 as "Impairment losses", was reclasified as "Share of results of associates".

2. Highlights

▪ Iberia reported a consolidated loss reported of €16.4 million in the third quarter, €47 million lower than the loss obtained in the previous quarter. This is an improvement on the results recorded in the two previous quarters.

▪ Operating revenues fell 19.6%, in line with the performance seen in the first nine months of the year, and as a result of the generalised decline in air traffic, which had a stronger impact in the business traveller segment.

▪ The load factor stood at 82.1%, down 1.1 p.p. on the previous year. The sharpest decline was observed in the intercontinental sector, with the load factor in the European and domestic businesses rising significantly compared to the third quarter of 2008.

▪ Yields fell by 13.8%, an improvement on the second quarter (-17.1%), although figures still reflect the significant weakness of air traffic. While the reduction in traffic appears to have bottomed out, demand is extremely price sensitive, especially in the long-haul segment.

▪ Iberia continued to implement capacity adjustments, with a reduction of 4.8% in ASK. At the same time, adjusting its staff and fleet to this new scenario has allowed the company to maintain its levels of productivity per employee (-0.8%) and significantly improve its fleet utilisation (+ 4.7%).

▪ Along these lines, unit costs (ex-fuel) have been slightly reduced (-0.8%) and fuel costs have fallen substantially, both in terms of total costs (-34.1%) and unit costs (-30.8%). Overall, unit cost per ASK declined 10.6%, the sharpest fall so far this year.

▪ In July 2009 the merger of the two airlines, Vueling and Clickair, was completed. Iberia retains a stake of 45.85% in the merged company. The merger has created a capital gain of around €20 million for the company.

▪ The Iberia Group's financial position remains sound, with equity increasing by 1.2% since year-end 2008, putting the gearing ratio, measured in terms of net debt to total capital employed, at 42.5%.

▪ British Airways and Iberia's boards have yesterday agreed a binding memorandum of understanding (MoU) setting out the basis for a proposed merger of the two companies to create a new, leading European airline group that recognises the principle of parity at board and management level.

The proposed merger will result in the creation of a new holding company (TopCo) that will own both the existing airlines and whose shareholders will be the current British Airways and Iberia shareholders. Under the terms of the proposed merger, British Airways shareholders will receive one new ordinary share in TopCo for every existing British Airways ordinary share held by them and Iberia shareholders will receive 1.0205 new ordinary shares for every existing Iberia ordinary share held by them. On the basis of this exchange ratio, and after cancellation of the treasury shares held by Iberia and prior to the cancellation of the cross-shareholdings held by British Airways and Iberia in each other, British Airways shareholders will hold 55 per cent of TopCo and Iberia shareholders will hold 45 per cent.

The merger is expected to be completed in late 2010.

3. Traffic and Passenger Revenues

OPERATING STATISTICS (a)	3rd Quarter (Jul-Sep)			Accumulated (Jan-Sep)		
	2009	2008	%	2009	2008	%
Passenger operations						
ASK (million)	16,275	17,093	-4.8	47,312	50,223	-5.8
Domestic	2,233	2,351	-5.0	6,458	7,351	-12.2
Medium Haul	4,122	4,463	-7.6	12,048	13,097	-8.0
Europe	3,584	3,946	-9.2	10,496	11,591	-9.4
Africa and Middle East (b)	538	517	4.1	1,552	1,506	3.0
Long Haul	9,919	10,279	-3.5	28,807	29,775	-3.3
RPK (million)	13,369	14,220	-6.0	37,853	40,583	-6.7
Domestic	1,689	1,716	-1.6	4,698	5,279	-11.0
Medium Haul	3,356	3,549	-5.5	9,148	9,727	-6.0
Europe	2,940	3,145	-6.5	8,018	8,583	-6.6
Africa and Middle East (b)	416	404	2.8	1,130	1,143	-1.1
Long Haul	8,323	8,954	-7.0	24,008	25,577	-6.1
Load factor (%)	82.1	83.2	-1.1 p.	80.0	80.8	-0.8 p.
Domestic	75.7	73.0	2.7 p.	72.7	71.8	0.9 p.
Medium Haul	81.4	79.5	1.9 p.	75.9	74.3	1.7 p.
Europe	82.0	79.7	2.3 p.	76.4	74.0	2.3 p.
Africa and Middle East (b)	77.2	78.2	-1.0 p.	72.8	75.9	-3.1 p.
Long Haul	83.9	87.1	-3.2 p.	83.3	85.9	-2.6 p.
Cargo						
ATK (million)	451	445	1.3	1,272	1,301	-2.2
RTK (million)	258	282	-8.6	695	861	-19.3
Load factor (%)	57.2	63.4	-6.2 p.	54.7	66.2	-11.6 p.
Passenger revenues (c)						
Passenger revenues (€ million)	856.4	1,056.2	-18.9	2,385.2	2,952.7	-19.2
Passenger revenues/ ASK (€ cent)	5.26	6.18	-14.8	5.04	5.88	-14.2
Passenger revenues/ RPK (€ cent)	6.41	7.43	-13.8	6.30	7.28	-13.4

(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.

Global demand **in the airline industry** weakened in 2008 as a result of the economic crisis, falling further in the first half of 2009 with international passenger traffic marking a year-on-year decline of around 10% in February and March. This trend reversed and traffic started to pick up in the third quarter, driven by the improvement in economic indicators, although still below the levels seen in 2008. The upturn was also triggered by the across-the-board reduction in air fares, which were down by around 20% in the second quarter of 2009 and fell at a similar pace in the third quarter, in line with **IATA's** most recent forecasts. This effect was compounded by the proportionally higher drop in business class traffic in nearly all markets worldwide, exacerbating the slump in carriers' revenues. IATA data for the first eight months of 2009 signal that the number of passengers travelling tourist class on international flights dropped by 4.4%, while passengers travelling first and business class fell by 18.8% compared to the same period in 2008.

Aggregate traffic across the carriers belonging to the *Association of European Airlines* (**AEA**) fell 5.5% on September 2008, with declines observed in all regions except Africa and the Middle East, while capacity was scaled back by 4.3%, causing the load factor to drop 1.0 percentage points year-on-year to 75.8%.

The **Spanish airline sector** is faced with an extraordinarily challenging set of circumstances. The recession is taking its toll on domestic flights (Spanish GDP is expected to shrink by 3.8% in 2009 according to the latest International Monetary Fund forecast). This segment is also affected by intense competition from high speed rail connections especially on the core Madrid-Barcelona route. According to data released by **AENA** (the Spanish airport management authority), passenger numbers on commercial domestic flights dropped 10.6% to September 2009.

Iberia's overall load factor was 80.0% (-0.8 points) in January-September 2009, and remains above the average reported by the main European network carriers. Iberia scaled back capacity in the three segments to adapt to the adverse market environment, reducing total ASK by 5.8%. In the first nine months of the year, yields dropped by 13.4% year-on-year, due to a significant deterioration in the class mix, fierce price pressure in most markets and the higher average stage length (4.7%). All this, combined with the aforementioned decline in the load factor, drove passenger revenue per ASK 14.2% lower. Exchange rate movements had a slightly positive effect on unit revenues (+1.7 points in the aggregate January- September). In the third quarter, the yield and revenue per ASK fell 13.8% and 14.8% respectively, a mild improvement on the second quarter.

Long haul flights experienced the smallest reduction in capacity (-3.3% vs. 9M2008). Demand in this segment, accounting for 63.4% of total RPK, dropped 6.1%, and tourist class traffic was weaker in the third quarter. To September, the largest absolute falls in capacity and demand were observed on routes to Johannesburg, Miami, Buenos Aires and, above all, Mexico. Demand for the Mexico route declined by 36%, due partly to the outbreak of swine flu at the end of April. However, with a share of 20.4% in the nine months to September 2009 (unchanged vs. 2008) Iberia maintains its leadership position in the Europe-Latin America market, which shrunk 10.6% (according to booking system data) for all operators. The yield in the long haul sector fell by 10.7%, affected by the ongoing imbalance between capacity and traffic and the 16.1% fall in *Business Plus* passengers, although business traffic did pick up in the summer, dropping 9.8% in the third quarter compared to the 19.7% contraction marked in the first half. Business class traffic in the Europe-Latin America market fell 25.3% to September, with Iberia's market share growing by 0.5 points year-on-year to 23.8%. As a result, the company maintains a leadership position in this segment as well.

The load factor in the **international medium-haul** segment improved by 1.7 points year-on-year to 75.9%, with a 2.3 point increase in the load factor on European flights, outpacing the main European network carriers. The reduction in medium-haul capacity (-8.0%) was owed, in part, to the selective streamlining of capacity on point-to-point routes. International medium-haul flights departing from or arriving at Madrid saw a decline in capacity of 4.0%, with traffic down 2.4% year-on-year, and a load factor of 76.2% (+1.3 points). The yield fell by 15.6%, affected by the increase in the average stage length in this segment (3.3%), the slump in business class traffic in the Spain-Europe market (-37.1% across all companies), and the fierce competition on European routes. Revenue per ASK dropped by 13.7%.

The load factor in the **domestic sector** improved by 0.9 points year-on-year, standing at 72.7% in 9M09, with a 12.2% drop in ASK. In line with the company's strategy, capacity adjustments have been decreasing (20.9% in 1Q09, 9.6% in 2Q09 and 5.0% in 3Q09), partly because of the capacity restructuring programme on flights between Barcelona and Madrid, initiated in April 2008. In relative terms, routes between these two cities recorded the sharpest declines in capacity and traffic, 22.5% and 31.3% respectively, although adjustments were also made on other routes. The yield decreased by 13.9% compared to the previous year and revenue per ASK dropped 12.8%, affected by the higher average stage length in this sector (4.5%) and lower fuel surcharges.

The world economic crisis also hit **cargo** air traffic, and in the aggregate January-September total RTK at all AEA member airlines fell by 19.9% year-on-year. Cargo traffic at Iberia fell by 19.9% year-on-year during the first nine months and the load factor weakened by 11.6 points to 54.7%. However, the decline in traffic in the third quarter (RTK -8.6%) was much less pronounced than in the first half of the year (-24.4%), mirroring the recovery of the markets.

4. Consolidated statements of income (not audited)

IBERIA GROUP	3rd Quarter (Jul-Sep)			Accumulated (Jan-Sep)		
€ million	**2009**	**2008**	**%**	**2009**	**2008**	**%**
Profit/loss from operations (a) (c)	**-56.0**	**21.3**	**n.m.**	**-329.7**	**30.3**	**n.m.**
Revenues from operations	**1,166.9**	**1,456.7**	**-19.9**	**3,337.2**	**4,146.9**	**-19.5**
Net sales	**1,123.7**	**1,396.2**	**-19.5**	**3,197.4**	**3,963.9**	**-19.3**
Passenger revenue (b)	892.7	1,138.3	-21.6	2,526.1	3,203.1	-21.1
Cargo revenue	59.9	88.1	-32.0	179.2	259.3	-30.9
Handling	82.5	82.2	0.4	204.0	214.1	-4.7
Technical assistance to airlines	69.1	72.8	-5.2	226.5	226.3	0.1
Other revenues	19.5	14.8	31.5	61.6	61.2	0.6
Other operating revenues	**43.2**	**60.4**	**-28.4**	**139.8**	**183.0**	**-23.6**
Recurring	42.9	54.3	-20.9	135.6	157.0	-13.7
Non-recurring	0.3	6.1	-94.9	4.2	26.0	-83.7
Costs from operations	**1,222.6**	**1,436.6**	**-14.9**	**3,666.6**	**4,140.7**	**-11.5**
Procurements	**364.7**	**520.7**	**-30.0**	**1,055.5**	**1,355.4**	**-22.1**
Aircraft fuel	309.5	469.4	-34.1	889.6	1,201.4	-26.0
Aircraft spare parts	47.2	41.1	14.9	140.9	125.9	11.9
Catering materials	4.8	6.2	-22.4	14.1	15.6	-9.9
Other purchases	3.2	4.1	-22.1	11.0	12.4	-11.6
Personnel expenses	**324.8**	**334.3**	**-2.8**	**975.2**	**1,010.0**	**-3.4**
Depreciation and amortization	**44.0**	**50.0**	**-12.0**	**132.7**	**147.3**	**-9.9**
Other operating costs	**489.1**	**531.5**	**-8.0**	**1,503.1**	**1,628.1**	**-7.7**
Aircraft leases	84.5	93.3	-9.4	267.9	287.7	-6.9
Other rentals	17.9	17.7	1.5	54.2	55.7	-2.6
Fleet maintenance (subcontracts)	44.0	56.3	-22.0	154.9	171.6	-9.7
Commercial costs (d)	35.5	51.0	-30.4	106.6	161.9	-34.2
Traffic services	100.5	105.8	-5.0	301.0	311.3	-3.3
Navigation charges	65.9	64.8	1.6	191.5	195.5	-2.1
In-flight services	19.5	19.5	-0.1	50.0	54.2	-7.8
Booking systems	28.8	30.4	-5.1	104.5	107.9	-3.1
Other costs	92.4	92.7	-0.2	272.5	282.3	-3.5
of which: Non-recurring	2.0	2.3	-15.0	2.7	3.7	-27.7
Net gains on disposals of non-current assets	**-0.4**	**1.3**	**n.m.**	**-0.3**	**24.1**	**n.m.**
Impairment losses (c)	**-**	**-**	**n.a.**	**-**	**-**	**n.a.**

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.
(b) Passenger revenues include issued but unused tickets, previously accounted in current liabilities as customer advances, together with other minor adjustments.
(c) A provision for the amount of €24.1 million which was recorded at 30 June 2008 as "Impairment losses" was reclassified as "Other financial revenues and expenses" at year end 2008.

IBERIA GROUP	3rd Quarter (Jul-Sep)			Accumulated (Jan-Sep)		
€ million	2009	2008	%	2009	2008	%
Financial results (c)	**17.3**	**3.4**	**n.s.**	**40.7**	**34.1**	**19.4**
Financial revenues	9.8	36.6	-73.3	55.5	101.7	-45.4
Financial expenses	9.6	11.0	-12.6	30.3	35.4	-14.3
Exchange gains/losses	-3.1	0.0	n.m.	-8.8	-3.1	n.m.
Other revenues and expenses (c)	20.3	-22.1	n.m.	24.3	-29.1	n.m.
Share of results of associates	**8.3**	**11.5**	**-28.1**	**7.9**	**0.1**	**n.m.**
Profit before taxes	**-30.4**	**36.3**	**n.m.**	**-281.1**	**64.4**	**n.m.**
Taxes	13.9	-5.9	n.m.	99.3	-13.3	n.m.
Profit after taxes	**-16.4**	**30.4**	**n.m.**	**-181.9**	**51.1**	**n.m.**
Atributable to shareholders of the parent company	-16.4	30.3	n.m.	-181.7	51.0	n.m.
Atributable to minority interests	-0.1	0.0	n.m.	-0.1	0.2	n.m.
Basic earnings per share (euros)	-0.018	0.033	n.m.	-0.196	0.055	n.m.
Diluted earnings per share (euros)	-0.018	0.033	n.m.	-0.196	0.055	n.m.

n.m.: not meaningful.

Average weighted nº of shares in the third quarter: 925.204.737 in 2009 and 2008. In the first 9 months: 925.204.737 in 2009 and 930.729.188 in 2008.

5. Revenues from operations

Revenues from operating activities fell 19.5% year-on-year to September 2009. Excluding non-recurring revenues, which were €21.7 million lower (in 2008 an aircraft insurance indemnity payment, among other items, was booked), the decline in **operating revenues** was 19.1%, due mainly to the fall in air traffic revenues (-21.9%), still hard hit by the economic recession.

Total passenger revenues fell 21.1% in 9M09 year-on-year. **Passenger revenues** from flown tickets fell 19.2% to €2,385.2 million, impacted by negative price trends (-12.0%) and the decline in traffic volume (-7.2%). All sectors were affected by lower prices, especially in Europe, while the fall in RPK was the result of both capacity scale-backs, primarily on domestic and European routes, and the lower load factor in the long haul segment. The decline in passenger revenues linked to activity eased slightly in the third quarter (-18.9%) from the first half of the year (-19.4%) on the back of a smaller cut in unit revenues in the international medium-haul segment and, above all, in domestic traffic volumes.

Other passenger revenues (from unused tickets, loyalty programmes and accounting adjustments, among others – accounting for 5.6% of total passenger revenues) fell by 43.7% in 9M09 year-on-year, due in part to the application of IFRIC 13, which amends the accounting treatment for loyalty programmes from this year and implies a parallel reduction of commercial expenses.

Cargo revenues narrowed by 30.9% year-on-year, mainly as a result of the slump in traffic volume (-19.3%) and lower revenue per RTK, partly affected by the reduction in fuel and security charges.

Revenues from **handling** fell 4.7% in 9M09 due to lower volumes in handling for third parties (-8.5%, measured in weighted aircraft handled), partly offset by the increase in unit revenue (1.7%) and the rise in revenues from other assistance services, including services for passengers with reduced mobility provided by the company's JVs. In the third quarter revenues from handling rose 0.4% year-on-year, with a drop of merely 3.0% in activity, thanks to the addition of Vueling to the customer portfolio.

Revenues from **technical assistance** to airlines were in line with the figures reported in 9M08 even though the crisis affecting the airline sector has caused a reduction in prices. The growth in engine inspections (particularly CFM56 engines) and in-line technical assistance for third parties was offset by the drop in revenues from other inspections and services. In 3Q09, revenues from technical assistance slipped 5.2% year-on-year due to calendar differences and are expected to start rebounding in the fourth quarter.

"**Other operating revenues - recurring**" (commissions, deferred income, revenues from the provision of staff to the JVs and other sundry revenue items) declined 13.7% to September, due mainly to the drop in passenger commissions on ticket sales for other carriers.

6. Costs from operations

In 9M09, **costs from operations** fell 11.5% year-on-year, with **recurring operating expenses** tracking a similar path (-11.4%). This performance was largely due to the 26% reduction in the fuel expense. Other costs from operations fell 5.5% on the back of lower activity (ASK -5.8%) and the various measures implemented by the company within the framework of its Contingency Plan. The Group's unit operating costs fell by 6.0% to 7.74 euro cents per ASK.

In 3Q09 the year-on-year savings on operating expenses was 14.9%, reflecting a very positive cost control performance, with costs per ASK down 10.6%, clearly outstripping the 3.5% reduction seen in the first half of the year.

The **fuel expense** (24.3% of Group operating expenses) decreased by €311.9 million to September 2009, year-on-year. This reduction was due to (i) the significant dip in market fuel prices; (ii) lower consumption (-7.2% measured in litres), owing to lower activity and higher fleet efficiency, which pushed expenses down by €81 million; and (iii) the favourable impact of euro/dollar exchange hedges.

The average market price of kerosene in dollars between January and September was 53% below the average price seen in the same period last year. Fuel prices hit historic highs in the summer of 2008 and fell sharply in the subsequent months to around $400/tonne in mid-March 2009. Prices rose in the second quarter of 2009 to hover around $600/tonne in the third quarter. The company benefited partially from these lower prices due to hedges arranged in mid-2008, which covered 56% of consumption in 9M09. Despite this, fuel costs went down 34.1% in the third quarter.

Personnel expenses, accounting for 26.6% of operating expenses, slipped 3.4% in 9M09 year-on-year thanks to the streamlining of Iberia's average headcount (-4.2% measured in full-time equivalent employees) across all divisions, and salary freezes. By business segment, the largest adjustment was observed in Iberia Airport Services, where the headcount was reduced by 713 full-time equivalent employees (-9.0%) compared to January-September 2008.

IBERIA GROUP	**January-September**		
Equivalent headcount (a)	**2009**	**2008**	**%**
Ground	15,471	16,189	-4.4
Flight	5,392	5,596	-3.7
Total	**20,863**	**21,785**	**-4.2**

(a) Sum of the average headcounts at Iberia, L.A.E. (including employees transferred to the JVs) and its subsidiaries: CACESA, ALAER and Binter Finance

At 30 September 2009 Iberia's **operating fleet** included 114 Airbus aircraft (33 used on long haul routes and 81 on short/medium haul routes), all operated by the company's own crew (the last A340 aircraft operating under wet lease was transferred to dry lease at the end of August).

Depreciation and amortisation was 9.9% lower in 9M09 (-12.0% in 3Q09) due mainly to the smaller number of in-balance sheet aircraft (the MD fleet was fully retired in October 2008).

Leasing costs fell 6.9% (€19.9 million) in 9M09 year-on-year. The wet lease expense also decreased by €9.1 million as a result of the 56.1% reduction in the number of block hours operated. The passenger aircraft operating lease declined by €3.2 million due in part to the lower prevailing interest rates. Additionally, the number of seats leased to other companies fell by 4.4 million compared to 2008 and the cargo aircraft lease expense was €3.2 million lower, following the 33.4% reduction in block hours leased (as a result of adapting capacity to dwindling demand).

The total **fleet maintenance expense** slipped 0.6% in 9M09 year-on-year, down 6.4% in the third quarter. This decline was due mainly to the drop in external repair services contracted (10.5% in 9M09 and 22.0% in 3Q09) in addition to the smaller provisions for major repairs. In contrast, the expense relating to spare part consumption for the fleet rose 11.9% year-on-year in 9M09, reflecting the dollar's appreciation against the euro and the higher volume of work carried out internally.

Commercial costs fell 34.2% in 9M09 year-on-year, due in part to the aforementioned application of IFRIC 13 concerning the valuation of loyalty programme points. Commissions, promotional expenses and development expenditure fell by 33.3% on aggregate vs. 2008, while advertising expenses were down 40.1%. The ratio of net commercial expenses to traffic revenue improved 0.8 percentage points to 2.1% in 9M09.

Traffic service costs dropped 3.3% in 9M09 and 5.0% in the third quarter year-on-year, mainly as a result of lower activity, which affected the cost performance of the main items making up this heading: landing fees, use of jet bridges and airport parking, aircraft dispatch and flight staff accommodation expenses, among others.

Navigation charges fell by 2.1% in 9M09 year-on-year, with airport approach fees (-8.3%) dipping more sharply than en-route navigation service charges (-0.6%). The savings obtained from the reduction in the number of flights operated was partly offset by the increase in prices, and, to a lesser extent, by the negative impact of the dollar's appreciation vis-à-vis the previous year.

Other expense headings also registered year-on-year reductions, including: booking systems (-3.1%), catering materials (-9.9%), other procurements (-11.6%), other leases (-2.6%) and in-flight services (-7.8%). Furthermore, **other recurring costs** dropped 3.1% in 9M09 year-on-year.

In the third quarter, operating unit cost -ex fuel- decreased by 0.8% compared to the previous year, showing a positive evolution in total costs during 2009 (year-on-year variation was +1.7% in the first quarter and +0.1% in the second).

7. Other results

The company generated a **net loss on disposals of non-current assets** of €0.3 million in 9M09, compared to a plus of €24 million in 9M08, mostly reflecting gains on the sale of two Airbus A-320 aircraft and eight units of the MD-87 fleet.

Financial results rose by 19.4% year-on-year to €40.7 million in 9M09, due to a €53.5 million increase in the net balance of "**Other revenues and expenses**", which in the third quarter included the capital gain derived from the share exchange between Clickair and Vueling as part of their merger transaction (€20.5 million). In application of IAS 39, the valuation of financial hedging instruments is also recognised under "Other revenues and expenses", boosting net revenues by €3.7 million in 9M09 compared to a negative effect of €5.0 million in 9M08.

Financial revenues contracted by €46.2 million due to the sharp reduction in interest rates and the lower balance of short-term investments. Financial expenses were €5.1 million lower, with net exchange differences down €5.7 million on 2008.

The **Group's share of results of associates** showed a net gain of €7.9 million in 9M09 (€0.1 million in 2008), mainly reflecting its share in the results of Vueling following the merger with Clickair in July.

Taxes for the nine months include a tax credit corresponding to a negative taxable profit accumulated to September as well as a regularisation of prior years' charges amounting to €13.9 million, as a result of a favourable resolution of a procedure to avoid double taxation between Germany and Spain. This regularisation was already accounted in the second quarter of the year.

8. Financial position

Current financial investments, cash and cash equivalents stood at €2,041.5 million at 30 September 2009. Stripping out the fair value of hedge instruments recognised within current financial investments (€7.2 million at September 2009), this measure of the company's liquidity is €2,034.3 million, 10.4% lower than the figure at year-end 2008, due mainly to the negative impact of the operating result.

At 30 September 2009, the Iberia Group's **in-balance sheet net debt** remained negative, ie, the balance of current financial assets (excluding the valuation of hedges) exceeded the total balance of interest-bearing debt by €1,520.8 million. At 30 September 2009, bank borrowings and finance lease obligations totalled €513.4 million, up 9.6% on year-end 2008.

Adjusted net debt, including the capitalisation of operating leases (by annualising lease payments and capitalising them over 8 years and adjusting for interest capitalised on the loans to the Iberbus companies), amounted to €1,170.5 million, 15.6% more than the 2008 year-end balance.

Despite the above, Iberia's **leverage** measured as adjusted net debt / total employed capital (sum of shareholder's equity and adjusted net debt) remains at 42.5%, one of the best in the sector.

The Iberia Group's **equity** stood at €1,582.5 million at 30 September 2009, 1.2% higher than at year-end 2008, chiefly as a result of the value actualization of hedges and the holding in British Airways at fair value.

At 30 September 2009 the consolidated balance sheet of the parent company included €64 million for treasury stock relating to 27,898,271 treasury shares, (2.93% of the share capital), unchanged on year-end 2008.

Non-current assets decreased by 2.0% compared to year-end 2008 due mainly to the depreciation of fleet and other property, plant and equipment.

Investor Relations Department
Velázquez 130, Bloque IV, Planta 8
28006 Madrid (Spain)
Phone 34 91 5877334   Fax 34 91 5877043
invesrel@iberia.es