



INTERIM MANAGEMENT REPORT JANUARY-SEPTEMBER 2010

Main figures (not audited)

Financial data (€ million)	3 rd Quarter (Jul-Sep)			January - September		
	2010	2009	% (*)	2010	2009	% (*)
Operating revenue (a)	1,341	1,167	14.9	3,567	3,333	7.0
Operating costs (a)	1,269	1,221	4.0	3,568	3,664	-2.6
EBITDAR (a)	201	75	169.4	369	70	n.m.
Recurring EBIT (a)	71	-54	n.m.	-1	-331	99.8
Adjusted EBIT (a) (b)	99	-27	n.m.	77	-246	n.m.
Profit/ Loss from operations (c)	77	-56	n.m.	27	-330	n.m.
Consolidated income before taxes	94	-30	n.m.	64	-281	n.m.
Consolidated income after taxes	74	-16	n.m.	53	-182	n.m.
Non-current assets (d)	---	---	---	3,068	2,362	29.9
Current financial investments, cash & cash equivalents (d) (e)	---	---	---	1,968	1,919	2.5
Equity (d)	---	---	---	2,034	1,551	31.2
In-balance sheet net debt (d) (f)	---	---	---	-1,357	-1,417	-4.3
Adjusted net debt x 8 (d) (g)	---	---	---	1,142	1,241	-8.0
Cash flows from operating activities	---	---	---	97	-338	n.m.
EBITDAR margin (%) (a)	15.0	6.4	8.6 p.	10.3	2.1	8.2 p.
EBIT margin (%) (a)	5.3	-4.6	9.9 p.	0.0	-9.9	9.9 p.
Operating revenue / ASK (€ cent) (a)	7.96	7.17	11.1	7.67	7.04	8.9
Operating expense / ASK (€ cent) (a)	7.54	7.50	0.5	7.67	7.74	-1.0

Operating figures

ASK (million)	16,834	16,275	3.4	46,518	47,312	-1.7
RPK (million)	14,404	13,369	7.7	38,657	37,853	2.1
Load factor (%)	85.6	82.1	3.4 p.	83.1	80.0	3.1 p.
Yield (h)	6.68	6.41	4.3	6.52	6.30	3.5
Passenger revenue / ASK (€ cent) (h)	5.72	5.26	8.6	5.42	5.04	7.5
Annual average headcount	20,668	21,113	-2.1	20,119	20,863	-3.6
No. of aircraft end of period	113	114	-0.9	113	114	-0.9
Average fleet utilization (block hours / aircraft / day)	10.9	10.6	2.2	10.6	10.4	2.5

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) September 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 consolidated income after taxes of €53 million for the nine-month period ended 30 September 2010, an improvement of €235 million on the losses posted in 9M09. Third-quarter net profit was €74 million while profit from operations amounted to €77 million, a year-on-year improvement of €133 million.
- EBITDAR for the nine months to September 2010 was €369 million, €299 million more than that posted in 9M09. The EBIT margin widened 9.9 percentage points during the nine-month period, as it did in 3Q10 when this margin stood at 5.3%.
- Operating revenue was 7.0% higher than in 9M09, maintaining an upward trend throughout 2010, and reaching a 14.9% increase in the third quarter, buoyed by growth in all business segments. Passenger revenue climbed 13.5% in the third quarter, driven by the strong performance in the long-haul segment. Considering the entire network, the load factor improved by 3.4 points to 85.6%, the yield bounced by 4.3% and revenue per ASK jumped 8.6% on 3Q09, despite the increase in the average stage length (10.6%).
- Operating costs through September narrowed 2.6% year-on-year, due mostly to lower fuel expenses, the cost control measures implemented and capacity cuts. Unit operating costs fell by 1.0%.
- Average headcount decreased by 3.6% year-on-year in the first nine months, while average fleet utilisation improved 2.5% to 10.6 block hours per aircraft per day.
- Equity stood at €2,034 million at 30 September 2010, up 31.2% on the year-end balance, thanks mainly to the revaluation of the airline's investment in Amadeus. Adjusted net debt narrowed by 8%, reflecting the decrease in aircraft lease expense.
- Iberia, American Airlines and British Airways have signed the definitive joint business agreement which will enable them to cooperate on transatlantic flights from October 2010.
- The merger between Iberia and British Airways continues to make progress. On 22 September, the Board of Directors of Iberia decided to waive its right to terminate the Merger Agreement in connection with the agreement reached between British Airways and its pension fund trustees. On 27 September, the merging entities named the members of the Board of Directors of International Consolidated Airlines Group (IAG), the holding company to result from the merger, and of its Advisory Committees.
- On 27 October 2010, Iberia published the call notice for the Extraordinary General Meeting to be held, in all likelihood, at second call on 29 November. The purpose of the meeting is to submit the hive-down of Iberia and subsequent merger of the Spanish airline with British Airways to Iberia's shareholders for approval.



Traffic and passenger revenues

Operating Statistics (a)	3 rd Quarter (Jul-Sep)			January - September		
	2010	2009	%(*)	2010	2009	%(*)
Passenger						
ASK (million)	16,834	16,275	3.4	46,518	47,312	-1.7
Domestic	2,000	2,233	-10.4	5,909	6,458	-8.5
Medium haul	3,975	4,122	-3.6	11,187	12,048	-7.1
Europe	3,407	3,584	-4.9	9,608	10,496	-8.5
Africa and Middle East (b)	569	538	5.6	1,578	1,552	1.7
Long haul	10,859	9,919	9.5	29,422	28,807	2.1
RPK (million)	14,404	13,369	7.7	38,657	37,853	2.1
Domestic	1,594	1,689	-5.6	4,407	4,698	-6.2
Medium haul	3,239	3,356	-3.5	8,635	9,148	-5.6
Europe	2,797	2,940	-4.9	7,430	8,018	-7.3
Africa and Middle East (b)	442	416	6.3	1,205	1,130	6.6
Long haul	9,571	8,323	15.0	25,614	24,008	6.7
Load Factor (%)	85.6	82.1	3.4 p.	83.1	80.0	3.1 p.
Domestic	79.7	75.7	4.1 p.	74.6	72.7	1.8 p.
Medium haul	81.5	81.4	0.1 p.	77.2	75.9	1.3 p.
Europe	82.1	82.0	0.1 p.	77.3	76.4	0.9 p.
Africa and Middle East (b)	77.7	77.2	0.5 p.	76.3	72.8	3.5 p.
Long haul	88.1	83.9	4.2 p.	87.1	83.3	3.7 p.
Cargo						
ATK (million)	513	451	13.7	1,385	1,272	8.9
RTK (million)	302	258	16.9	920	695	32.4
Load Factor (%)	58.8	57.2	1.6 p.	66.4	54.7	11.8 p.
Passenger Revenues (c)						
Passenger revenues (€ million)	962	856	12.4	2,522	2,385	5.7
Passenger revenue / ASK (€ cent)	5.72	5.26	8.6	5.42	5.04	7.5
Passenger revenue / RPK (€ cent)	6.68	6.41	4.3	6.52	6.30	3.5

(*) 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 (not audited)

€ million	3 rd Quarter (Jul-Sep)			January - September		
	2010	2009	% (*)	2010	2009	% (*)
Profit/ loss from operations (a)	77	-56	n.m.	27	-330	n.m.
Revenue from operations	1,351	1,167	15.8	3,631	3,337	8.8
Net sales	1,289	1,124	14.7	3,424	3,197	7.1
Passenger revenue (b) (c)	1,018	897	13.5	2,698	2,539	6.3
Cargo revenue (c)	74	55	34.5	213	167	28.1
Handling	84	83	2.1	207	204	1.7
Technical assistance to airlines	92	69	33.7	243	227	7.3
Other revenues	20	19	0.3	61	62	-0.6
Other operating revenues	62	43	44.5	208	140	48.6
Recurring	52	43	21.1	144	136	6.1
Non-recurring	10	0	n.m.	64	4	n.m.
Costs from operations	1,273	1,223	4.1	3,600	3,667	-1.8
Procurements	381	365	4.5	995	1,055	-5.7
Aircraft fuel	303	309	-2.2	797	890	-10.4
Aircraft spare parts	69	47	47.9	173	141	23.2
Catering materials	5	5	12.5	14	14	2.3
Other purchases	4	4	3.6	10	11	-7.5
Personnel expenses	333	325	2.6	970	975	-0.5
of which: Non-recurring (d)	0	-	n.a.	2	-	n.a.
Depreciation and amortization	44	44	0.0	130	133	-2.4
Other operating costs	514	489	5.2	1,505	1,503	0.1
Aircraft leases	86	85	1.3	240	268	-10.4
Fleet maintenance (subcontracts)	56	44	27.3	152	155	-2.2
Commercial costs	43	35	21.8	128	107	20.5
Traffic services	105	101	4.1	299	301	-0.6
Navigation charges	67	66	1.5	189	192	-1.4
In-flight services	20	20	2.0	53	50	6.8
Booking systems	31	29	7.8	105	104	0.9
Other costs (e)	107	110	-3.0	338	327	3.4
of which: Non-recurring	3	2	36.1	30	3	n.m.
Impairment losses and net gains on disposals of non current assets	-1	0	n.m.	-4	0	n.m.

n.m.: not meaningful.

n.a.: not applicable

(*) 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 (5 million in the third quarter and 13 million in the nine months to September) has been reclassified according with the new criterion.

(d) Non-recurring personnel expenses amounted to €0.4 million in the third quarter 2010.

(e) Includes "Other rent", "Indemnities", "Insurances" y "Other maintenance", among others.

€ million	3 rd Quarter (Jul-Sep)			January - September		
	2010	2009	% (*)	2010	2009	% (*)
Financial results	-4	17	n.m.	13	41	-68.6
Financial revenues	8	10	-21.4	19	56	-65.9
Financial expenses	9	10	-8.4	25	30	-15.9
Exchange gains/losses	-5	-3	-49.9	14	-9	n.m.
Other revenues and expenses	1	20	-92.6	6	24	-76.8
Shares of results of associates	21	8	149.7	24	8	209.4
Profit before taxes	94	-30	n.m.	64	-281	n.m.
Taxes	-19	14	n.m.	-11	99	n.m.
Profit after taxes	74	-16	n.m.	53	-182	n.m.
Atributable to shareholders of the parent company	74	-16	n.m.	54	-182	n.m.
Atributable to minority interest	-0	-0	n.a.	-0	-0	n.a.
Basic earning per share (euros)	0.080	-0.018	n.m.	0.058	-0.196	n.m.

n.m.: not meaningful.

n.a.: not applicable

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

Average weighted n° of shares in the third quarter: 925,204,966 in 2010 and 925,204,737 in 2009. January-September: 925,204,813 in 2010 and 925,204,737 in 2009.

Revenues from operations

Passenger revenues – Total passenger revenues in the first nine months increased by €159.6 million year-on-year, €137 million of which related to revenue from used tickets in the period. The €23 million increase in “Other passenger revenues” was driven mainly by higher revenues from customer loyalty programmes (Iberia Plus and frequent-flyer agreements with other airlines) as well as revenue from luggage charges.

Passenger revenues January-September	Revenues (€ million)			Rev./RPK	Rev./ASK
	2010	2009	Var. %	Var. %	Var. %
Long haul	1,343	1,160	15.8	8.5	13.3
International medium haul	674	685	-1.6	4.2	5.9
Domestic	506	541	-6.5	-0.3	2.2
Total network (a)	2,522	2,385	5.7	3.5	7.5
Other passenger revenues (b)	177	154	15.0	n.a.	n.a.
Total (b)	2,698	2,539	6.3	n.a.	n.a.

n.a.: not applicable.

(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 9M10 rose 5.7% year-on-year, driven by the steady increase in revenue from long-haul flights since the beginning of the year. Passenger revenue from this segment rose 15.8% on 9M09, thanks to the 6.7% growth in revenue passenger kilometres (RPK) and the 8.5% rise in yields.

Capacity (measured in ASK) across the network fell by 1.7% on 9M09: the 2.1% capacity increase in the long-haul segment was offset by the 7.6% decrease in domestic and medium-haul flights. **Load factors** improved in all segments, rising 3.1 percentage points on average across the entire network to 83.1%, compared to a 2.1% increase in traffic volumes. The total network yield was 3.5% higher despite the 7.2% increase in the average stage length, caused mainly by the increasing contribution from the long-haul segment (66.3% of total traffic, measured in RPK, in 9M10, an increase of 2.8 points from 9M09). **Revenue per ASK** was higher in all segments, leading to an increase of 7.5% across the entire network; 1.6 points of this increase was owed to the appreciation in the dollar and other currencies relative to the euro. Within the long-haul business, revenue per ASK jumped 13.3% year-on-year (by 10.9% stripping out the effect of euro depreciation), in part driven by the increase in Business Plus passengers (8.2%).

In the **third quarter** of 2010, total passenger revenues rose 13.5% year-on-year. Passenger revenue from tickets used during the quarter rose €106 million (or 12.4%), driven by the significant growth in revenue in the long-haul segment, which soared 29.2%. "Other passenger revenues" were €15 million higher than in 3Q09, driven primarily by growth in revenue from the cancellation of customer advances as well as revenue from frequent-flyer programmes.

For the overall network, the **load factor** improved by 3.4 points on 3Q09 to 85.6%, underpinned by growth of 3.4% in ASK and 7.7% in RPK. The growth in capacity (9.5%) and traffic (15%) in the long-haul segment was partially offset by the contractions in capacity (-6.0%) and demand (-4.2%) in the short and medium-haul segments.

Revenue per ASK rose 8.6% on 3Q09 for the overall network, thanks to the improvement in the load factor and the recovery in yield (4.3%) over the course of the quarter. The sharp growth in the average stage length (+10.6%) is estimated to have eroded the growth in unit revenue and yield by around 5.0 percentage points. In contrast, the appreciation of the dollar and other currencies relative to the euro drove an approximately 4.0 point increase in revenue per ASK and yield in the third quarter.

Cargo - Revenues were 28.1% higher year-on-year in 9M10, thanks to a 32.4% jump in cargo traffic, measured in RTK, with noteworthy growth in all international segments. Unit revenue per ATK increased by 19.9% in 9M10, driven by an 11.8 percentage point improvement in the cargo load factor. The yield, which had contracted by 28% year-on-year in the second half of 2009, has been recovering steadily since the beginning of 2010, rising 17% in the third quarter alone. The significant growth in price and the increase in traffic (16.9%) drove a 34.5% increase in consolidated cargo revenue for the quarter.

Handling – Revenues from third-parties rose 2.1% year-on-year in 3Q10 and by 1.7% in 9M10. Iberia Airport Services (excluding the temporary JVs and stripping out consolidation adjustments) posted growth of 2.3% in handling revenue on 9M09, underpinned by an increase of 1.7% in weighted aircraft handled, standing out the growth in volumes handled to Vueling. .

Maintenance – Revenue from third-party maintenance rose 7.3% year-on-year, with growth of 33.7% (€23 million) in the third quarter, driven by higher revenue from engine inspections and other workshop services, partially favoured by the appreciation of the dollar relative to the euro in the third quarter.

Other revenues – This heading, which includes revenue from the use of booking systems, revenue generated at cargo terminals, revenue net of points awarded from affiliate companies of the Iberia Plus frequent-flyer programme and revenue from miscellaneous and training services, narrowed slightly (-0.6%) on 9M09 to €61 million.

Other operating revenues - The **recurring** portion of this heading (commissions, rents, work done by the company on its fixed assets and sundry other revenue) totalled €143 million in 9M10, year-on-year growth of 6.1%. This figure includes €18 million in reversals of overprovisions for major fleet repair work, €14 million more than the amount recognised in 9M09, with €6.5 million of the increase recognised in the third quarter. The **non-recurring** portion in the first nine months of 2010 amounted to €64 million (9M09: €4 million), including €30 million for the estimated 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 payment of several settlements of customs duties for the period from 1998 to 2000.



Costs froms operations

Fuel - Fuel costs diminished by 10.4% year-on-year in 9M10, due primarily to the drop in average prices after hedges, though this was partly offset by a 5.6% increase in fuel spending caused by the euro's depreciation against the US dollar. Third-quarter spending narrowed just 2.2%, as the higher spend due to euro depreciation (10.9%) coupled with the higher litre volume used (4.5%) offset most of the cost savings generated by the decline in average prices after hedges in relation to 3Q09. Fuel costs per ASK fell by 8.8% in the first half and by 5.5% in the third quarter compared to last year. Market jet kerosene prices (JET CIF NWE) were relatively stable during the third quarter, at around \$700 per tonne, similar to the average price year-to-date. So far this year, quoted oil prices have tracked above those of last year, although the gap has been diminishing owing to the increase in market prices since March of 2009.

Personnel – Recurring costs were 0.7% lower in 9M10, thanks to a 3.6% reduction in the Group's average equivalent headcount to 20,119 employees. Average technical and cabin crew headcount declined by 2.8% and 6.5%, respectively. In addition, non-recurring costs for termination benefits in 9M10 totalled €1.6 million. In the third quarter of 2010 recurring personnel costs were 2.5% higher year-on-year, driven in part by the increase in out-of-pocket expenses, overtime and other variable labour costs. Personnel costs per ASK narrowed 0.9% on 3Q09.

Equivalent headcount (a)	3 rd Quarter (Jul-Sep)			January - September		
	2010	2009	%	2010	2009	%
Ground	15,530	15,829	-1.9	15,018	15,471	-2.9
Flight	5,139	5,284	-2.8	5,101	5,391	-5.4
Total	20,668	21,113	-2.1	20,119	20,863	-3.6

(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. Negotiations on the flight staff collective bargaining agreements are ongoing.

Aircraft leases – Lease expense declined 10.4% year-on-year in 9M10. Some of the savings (€15 million) relate to the use of wet leases in 2009 (an average of 1.8 A340 aircraft), which was discontinued from August 2009. Passenger aircraft operating lease expense was €11 million lower, due in part to the drop in interest rates, while cargo aircraft leases were almost €2 million lower. In 3Q10 aircraft lease expense went up 1.3% , due mainly to the addition of three A340/600 aircraft, the largest aircraft in Iberia's fleet, under operating lease.

Depreciation and amortisation – This heading was 2.4% lower in the first nine months of the year, mostly due to lower depreciation of aircraft, IT equipment, airport equipment and vehicles. In unit terms, the aggregate of aircraft lease and amortisation/depreciation charges fell by 6.2% to €0.79 per ASK.

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

OPERATING FLEET (a)	September 2010	December 2009	September 2009
Long Haul	35	32	33
Owned	6	6	6
Financial lease	3	1	1
Operating lease	26	25	26
Wet lease	0	0	0
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	113	109	114
Owned	9	8	11
Financial lease	13	11	11
Operating lease	91	90	92
Wet lease	0	0	0

(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). It is not including one owned A320 which has been transferred to Vueling between May and October.

The company has restarted its fleet renewal plan in 2010. During the first seven months of the year, the airline added five Airbus A340/600 aircraft (one in each of March, April and July and two in June), of which three were under operating leases and two under finance leases at 30 September 2010. At the September close, there were two fewer A340/300 aircraft than at year-end; these aircraft were returned to their owners upon termination of the pertinent operating leases. As a result, the airline has boosted potential capacity in its long-haul fleet by 13%, because the A340/600 has 342 seats as currently configured, compared to 254 seats on the A340/300.

As for the operating fleet in the short and medium-haul segments, the company had a total of 78 aircraft in service at 30 September, one more (an A319) than at 31 December 2009. In addition, one owned A320 which had been temporarily grounded at the end of 2009 was brought back into operation last February, substituting another A320 held under operating lease which was returned to its owner in April.

Aircraft maintenance – The aggregate cost of outsourced fleet maintenance expense, spare parts and provisions recognised for major repairs increased by 9.9% on 9M09 to €325 million, due mainly to higher volumes of maintenance work which in turn drove a significant increase, above all, in CFM56 engines parts. In the third quarter of 2010, total maintenance costs amounted to €125 million, up 38% on 3Q09, reflecting higher volumes of third-party maintenance work and the appreciation of the dollar.

Commercial costs – This heading rose 20.5% year-on-year in 9M10 and by 21.8% in 3Q10. Commissions and bonus payments to travel agencies rose on the back of the growth in passenger revenue and the shift in the mix of the origin of sales (faster growth in foreign markets, primarily Latin America, entailing higher commissions). The media advertising spend was also higher.

Traffic services, layover and incident related expenses – This heading narrowed 0.6% year-on-year in 9M10, but rose by 4.1% in 3Q10, reflecting the growth in air traffic volumes. Costs per ASK rose by 0.7% in 3Q10 and by 1.1% in 9M10.

Navigation charges – These costs diminished 1.4% in 9M10, although the unit cost (per ASK) rose by 0.3% year-on-year due to higher prices. In 3Q10, navigation charges per ASK fell 1.8% year-on-year.

In-flight services – These costs increased by €3 million, or 6.8%, from 9M09, mainly as a result of higher in-flight meal costs, due primarily to the 6% growth in passengers on long-haul flights, as well as the improvement of the mix across the overall network.

Booking systems – This heading rose 0.9% year-on-year in 9M10 and by 7.8% in 3Q10. The third-quarter increase was driven by growth in bookings and to a lesser extent by dollar appreciation.

Other costs – The **recurring** component dropped by €16 million (or 5.0%) compared to 9M09. Meanwhile, €30 million of other non-recurring costs were recognised in 9M10, mainly due to the cost of independent professional services required by corporate transactions, coupled with certain provisions.

Financial and other non operating results

Impairment losses and net gains on disposals of non-current assets – This item presented a loss of €4 million in 9M10, mainly reflecting losses on the derecognition of rotables and expenses in connection with aircraft returns, which were partially mitigated by gains on asset sales.

Financial results – 9M10 featured a €28 million year-on-year decrease in financial results to €13 million; financial revenues were €37 million lower, due mainly to the decline in interest income on short-term deposits caused by the drop in interest rates. This decline in financial revenues was largely offset by a €5 million drop in financial expenses and a €23 million improvement in net exchange differences. Financial results also comprises “Other revenues and expenses” (gains on disposals of financial instruments and value of non-effective hedges) which presented a net gain of €6 million in 9M10, compared to €24 million in 9M09 (in 3Q09 Iberia recognised a gain of €20 million as a result of the merger between Vueling and Clickair).

Share of results of associates – This heading showed a profit of €24 million in 9M10, €16 million more than a year earlier, essentially reflecting earnings growth at Vueling, an airline in which Iberia holds a 45.85% stake since July 2009.



Consolidated statements of financial position (not audited)

€ million	30-Sep-2010	31-Dec-2009	% (*)
ASSETS	6,001	5,046	18.9
Non-current assets	3,068	2,362	29.9
Intangible assets	42	50	-15.6
Property, plant and equipment	1,165	1,046	11.3
Investments in associates	159	134	18.3
Financial assets	1,110	497	123.4
Deferred tax assets	593	635	-6.7
Current assets	2,933	2,684	9.3
Assets held for sale	2	9	-76.5
Inventories	218	215	1.2
Trade receivables	705	478	47.4
Financial investments	1,174	1,088	7.9
Accruals and other assets	18	8	117.1
Cash and cash equivalents	816	886	-7.9
EQUITY AND LIABILITIES	6,001	5,046	18.9
Equity	2,034	1,551	31.2
Shareholders' equity	2,032	1,548	31.2
Minority interests	3	3	-1.4
Non current liabilities	1,934	1,732	11.7
Provisions	1,103	1,209	-8.8
Borrowings and other financial liabilities	460	301	52.7
Deferred tax liabilities	160	7	n.m.
Other deferred income liabilities	211	215	-1.8
Current liabilities	2,032	1,763	15.3
Borrowings/ Other financial liabilities	260	295	-11.9
Customer prepayments	555	389	42.6
Trade and other account payable	1,211	1,075	12.7
Other liabilities	6	4	46.1

n.m.: not meaningful.

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

Equity – At 30 September 2010, equity stood at €2,034 million, €483 million more than at year-end. This increase primarily reflects the revaluation at the September close of Iberia's 9.0% shareholding in Amadeus IT Holding, S.A. following its IPO. The fair value of this investment was €539 million higher than the underlying acquisition cost. This difference (net of the corresponding tax effect) is recognised under "Equity - Valuation adjustments". The company's shares in British Airways also revalued during the period.

Current financial investment and Cash and cash equivalents - This aggregate stood at €1,990 million at the September close. Stripping out the measurement of the hedging instruments included under current financial investments gives an adjusted gross cash of €1,968 million, up 2.5% on the year-end 2009 balance.

In-balance sheet net debt – This balance remained negative at 30 September 2010; i.e. the balance of current financial assets (excluding the valuation of hedging instruments) exceeded the total balance of interest-bearing debt in the amount of €1,357 million. Interest-bearing debt recognised on the balance sheet increased by €109 million between year-end and the September close, due mainly to the finance leases on two new A340/600 aircraft.

Adjusted net debt – This heading decreased by 8.0% due principally to lower lease expense. Leverage at 30 September 2010 was 8.5 percentage points lower than at 31 December 2009.

The table below depicts the trend in the key capital management metrics:

Iberia Group (€ million)	30-Sep-2010	31-Dec-2009	Var. %
Current financial investments and Cash and cash equivalents (a)	1,968	1,919	2.5
In-balance sheet interest bearing debt (b)	611	502	21.7
In-balances sheet net debt	-1,357	-1,417	-4.3
Capitalisation of aircraft leasing (×8) (c)	2,498	2,658	-6.0
Adjusted net debt	1,142	1,241	-8.0
Leverage (d)	35.9%	44.4%	-8.5 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 (€22 million as at September 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 third quarter 2010

- On 8 October, Iberia sold a total of 6.71 million shares in Amadeus, representing 1.5% of this equity. The shares were placed on the open market at €13.50 each. The transaction generated cash proceeds for Iberia of €90 million and an after-tax gain of €63 million. Following this sale, Iberia's ownership stake in Amadeus stands at 7.5%.

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