

SUMMARY FY 2009 RESULTS

1. Main figures

Financial data (€ million)	4 th Quarter (Oct-Dec)			Accumulated (Jan-Dec)		
	2009	2008	%	2009	2008	%
Operating revenues (a)	1.076	1.329	-19,0	4.409	5.450	-19,1
Operating costs (a)	1.208	1.392	-13,2	4.873	5.529	-11,9
EBITDAR (a)	-8	81	n.m.	61	500	-87,8
Recurring EBIT (a)	-132	-63	n.m.	-464	-79	n.m.
Adjusted EBIT (b)	-106	-33	n.m.	-352	40	n.m.
Profit/loss from operations (c)	-145	-25	n.m.	-475	5	n.m.
Consolidated income before taxes	-155	-28	n.m.	-435	36	n.m.
Consolidated income after taxes	-91	-19	n.m.	-273	32	n.m.
Non-current assets (d)	---	---	---	2.362	2.450	-3,6
Current financial investments, cash & cash equivalents (d) (e)	---	---	---	1.919	2.272	-15,5
Equity (d)	---	---	---	1.551	1.564	-0,8
In-balance sheet net debt (d) (f)	---	---	---	-1.417	-1.803	-21,4
Adjusted net debt x 8 (d) (g)	---	---	---	1.229	1.012	21,4
EBITDAR margin (%) (a)	-0,7%	6,1%	-6,8 p.	1,4%	9,2%	-7,8 p.
EBIT margin (%) (a)	-12,3%	-4,7%	-7,5 p.	-10,5%	-1,5%	-9,0 p.
Operating revenue/ASK (€ cent) (a)	7,25	8,37	-13,4	7,09	8,24	-14,0
Operating expense/ASK (€ cent) (a)	8,13	8,77	-7,2	7,84	8,36	-6,3
Operating figures						
ASK (million)	14.846	15.875	-6,5	62.158	66.098	-6,0
RPK (million)	11.759	12.302	-4,4	49.612	52.885	-6,2
Load factor (%)	79,2	77,5	1,7 p.	79,8	80,0	-0,2 p.
Yield (h)	6,40	7,63	-16,2	6,32	7,36	-14,1
Passenger revenue / ASK (€ cent) (h)	5,07	5,91	-14,3	5,05	5,89	-14,3
Annual average headcount	20.096	20.956	-4,1	20.671	21.578	-4,2
ASK / Employee (thousand)	739	758	-2,5	3.007	3.063	-1,8
No. of aircraft end of period (d)	---	---	---	109	119	-8,4
Average fleet utilization (block hours/aircraft/day)	10,2	10,0	2,2	10,3	10,0	3,7

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) December 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%) capitalised (x8) (€2,658.1 million in 2009 and €2,841.6 million in 2008) - Interests (at 4% since 2009, at 6% previously) of Iberbus loans capitalised (12.2 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.

2. Highlights

- The Iberia Group recorded net losses of €273 million, during one of the most difficult years in the company's history.
- Operating revenues fell by 19.1%, principally due to the sharp decline in transport revenues (passenger and cargo), following a generalised decline in demand, particularly within the business segment. Revenue per ask fell by 14.3%
- Following a capacity reduction of 6% to adapt to current demand, the overall load factor reached 79.8%, slightly down on the previous year.
- Operating costs fell by 11.9%, helped by the significant fall in fuel prices. Other expenses were also reduced due to capacity adjustments and cost-saving initiatives put in place under the Contingency Plan. Unit costs fell by 6.3%
- Equivalent headcount fell by 4.2% and the operating fleet had been reduced by 10 aircraft. Staff productivity (measured as ASK per employee) fell 1.8%, while daily fleet utilisation (measured in block hours per aircraft) rose 3.7% to 10.3 hours per day.
- At year-end, the consolidated balance sheet reflects the company's solid financial health, with equity of €1,551 million and liquidity of €1,919 million.

3. Traffic and Passenger Revenues

3.1. Transport

Operating Statistics (a)	4 th Quarter (Oct-Dec)			Accumulated (Jan-Dec)		
	2009	2008	%	2009	2008	%
Passenger operations						
ASK (million)	14,846	15,875	-6.5	62,158	66,098	-6.0
Domestic	2,034	2,194	-7.3	8,492	9,546	-11.0
Medium Haul	3,596	4,126	-12.9	15,643	17,223	-9.2
Europe	3,090	3,601	-14.2	13,586	15,192	-10.6
Africa and Middle East (b)	506	525	-3.6	2,057	2,031	1.3
Long Haul	9,216	9,555	-3.5	38,023	39,330	-3.3
RPK (million)	11,759	12,302	-4.4	49,612	52,885	-6.2
Domestic	1,393	1,532	-9.0	6,091	6,810	-10.6
Medium Haul	2,675	2,858	-6.4	11,823	12,584	-6.0
Europe	2,296	2,466	-6.9	10,314	11,049	-6.7
Africa and Middle East (b)	380	391	-3.0	1,510	1,535	-1.6
Long Haul	7,690	7,913	-2.8	31,698	33,490	-5.4
Load factor (%)	79.2	77.5	1.7 p.	79.8	80.0	-0.2 p.
Domestic	68.5	69.8	-1.3 p.	71.7	71.3	0.4 p.
Medium Haul	74.4	69.3	5.2 p.	75.6	73.1	2.5 p.
Europe	74.3	68.5	5.8 p.	75.9	72.7	3.2 p.
Africa and Middle East (b)	75.1	74.6	0.5 p.	73.4	75.6	-2.2 p.
Long Haul	83.4	82.8	0.6 p.	83.4	85.2	-1.8 p.
Cargo						
ATK (million)	412	414	-0.5	1,684	1,714	-1.8
RTK (million)	326	295	10.5	1,021	1,156	-11.6
Load factor (%)	79.2	71.3	7.9 p.	60.7	67.4	-6.8 p.
Passenger revenues (c)						
Passenger revenues (€ thousand)	752.0	938.8	-19.9	3,137.2	3,891.5	-19.4
Passenger revenues/ ASK (€ cent)	5.07	5.91	-14.3	5.05	5.89	-14.3
Passenger revenues/ RPK (€ cent)	6.40	7.63	-16.2	6.32	7.36	-14.1

(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.

During 2009 Iberia adjusted capacity in order to adapt to difficult market conditions. The company reduced available seat kilometre by 6% in comparison to the previous year, maintaining the overall load factor at 79.8%, similar to that seen in 2008, and one of the highest reported by European network carriers.

The reduction in capacity across the network was stable throughout 2009. The gradual recovery of air-traffic levels led to a greater increase in terms of load factor (+1.7 points in comparison to the previous year) in the fourth quarter.

In 2009 yields across the network fell by 14.1% in relation to 2008, due to mix deterioration, an intense pressure on pricing in most markets and the effect of an increase in average stage length (4.4%). All this, combined with a slight drop in load factor, led to a 14.3% decrease in passenger revenue per ASK.

Revenue per ASK decreased by 15.5% in the second quarter in comparison to the same period in 2008, and recovered slightly during the second half of the year, ending with an 8.9% drop in December.

Capacity reductions were less significant within the long-haul sector (-3.3%). Through the year traffic volume in this sector remained below the levels reached in 2008, falling by 5.4% over the year, although showing signs of recovery in the fourth quarter. Load factor was at 83.4% in 2009, falling 1.8 points in comparison to the previous year, but rising by 0.6 points in the last quarter. Iberia, with a market share of 20.1% in 2009, maintained its leadership position in the Europe-Latin America market. Long-haul yield fell by 11.6% in 2009, as a result of increased competition brought on by reduced demand across all markets. In particular, a year-on-year decrease of 13.3% in the number of Business Plus passengers had a significant impact, even though some recovery in terms of business traffic has been seen since the summer, in part due to promotions. As a result, Business Plus traffic fell by 6.0% in the second half of 2009, compared to a decline of 20.4% in the first half of the year. Revenue per ASK fell by 13.5% in comparison to 2008.

In international medium-haul flights the company increased load factor by 2.5, reaching 75.6% for the year, after a reduction in capacity of 9.2% to adapt to difficult European market conditions. Traffic decreased 6% year-on-year, with the greatest fall seen in the first quarter (-10.7%). The company continued to prioritise improvements in connections at its hub in Madrid –Barajas. As a result of this policy, if only international medium-haul flights arriving or departing from Madrid are taken into consideration, the fall in traffic is only 2.3% in relation to the previous year. Average yield decreased by 15.7% across the medium-haul sector, affected by the slump in business class traffic in the Spain-Europe market (-32.0%), the considerable competition on European routes and an increase in average stage length (3.2%). Thanks to an improvement in load factors, the fall in revenue per ASK (-12.8%) was almost 3 points less than that of the yield.

In line with company strategy, Iberia continued to reduce capacity in the domestic market, with a fall in ASK of 11% in relation to 2008, and a rise of 0.4 points in terms of load factor. The reduction in capacity was 20% year-on-year for the Madrid - Barcelona route, with reductions of 36.5% in the first quarter and 11.7% over the following nine months. Iberia launched a capacity restructuring programme on this route in April 2008 following the opening of the high-speed rail link in February., mainly through the introduction of smaller aircraft. This explains the higher year-on-year decline in the first few months of 2009. Yield fell by 14.6% in comparison to the previous year, affected by the increased average stage length in this sector (3.3%), the sharp deterioration in the *mix* and lower fuel surcharges, with revenue per ASK falling by 14.2%.

Cargo traffic was significantly affected by the economic crisis, which had a substantial and prolonged impact on all markets. In the case of Iberia, the number of cargo RTK fell by 11.6% in comparison to the previous year, with a 1.8% decrease in the total number of Available Ton Kilometres (ATK). The annual load factor fell 6.8 percentage points, although in the fourth quarter it increased 7.9 points with respect to the previous year, thanks to the traffic recovery (+10.5%). Yields fell by 20.6% year-on-year due to three factors: a reduction in overall sector prices due to excess capacity, reduction in fuel prices, and the decision to maximise aircraft bellies occupancy through highly aggressive pricing campaigns.

3.2. Maintenance

Iberia Maintenance undertook a total of 220 C and D inspections, equivalent to a 2.3% decrease in activity from 2008. The percentage of inspections performed for third parties stood at 56.6% (2008: 59.7%). In terms of engine maintenance, production (for Iberia and third parties) rose 11.9% to 214.

Average equivalent headcount at Iberia Maintenance is 3,845 employees in 2009, representing an increase of 2.1% on the previous year.

Several important commercial agreements were signed in 2009, and are noteworthy for their economic and strategic relevance:

- Maintenance agreement for the B757 fleet of DHL Air operating in Spain. This agreement widens the scope of maintenance services provided, which the company already carried out exclusively for Rolls Royce RB211-535 C37 engines, on the basis of an agreement signed in May 2008.
- Contract with Finnair Technical Services for parts repairs and access to stock for Finnair A330 and A340 fleets.
- Exclusive agreement with SAS to carry out major repairs (C and D) for the MD80 and Airbus A330 and A340 fleets owned by SAS.
- Engine overhaul contract with Federal Express (Fedex) for RB211-535E4 engines.
- Binding agreement with SR Technics for parts maintenance for several aircraft fleets.

- Agreement with Airbus Military for the conversion of A330 aircraft with passenger configuration to Multi Role Tanker Transport (MRTT) configurations with in-flight refuelling capabilities.

It is worth underlining the fact that Iberia Maintenance is one of the few fulfilment centres in the world to service RB211-535 engines, and the only provider in Europe. In addition, the engine subdivision is the only centre in Spain and the third in Europe certified to service General Electric's CF34 engine.

3.3. Iberia Airport Services

In 2009, Iberia Airport Services continued to operate as a handling agent in 36 airports, based on 21 licences issued since 2007. The company has also a presence at airports in Barcelona, Lanzarote and Fuerteventura through its participation in several joint ventures that have been awarded operating licences, with a stake of 32% in the first case, and 30% for the two airports in the Canary Islands.

2009 was characterized by the negative impact of the economic crisis on the majority of production sectors and this impact was especially acute in the commercial aviation industry and all related business activities. As such, the overall Handling market in Spain, measured in terms of aircraft operations, experienced a year-on-year decline of 10.8%, while in the case of Iberia Airport Services this decline was less significant, equating to 7.8% (including production for Iberia itself and measured in terms of weighted aircraft handled). In terms of passenger numbers using Iberia Airport Services, the total fell from 80 million passengers in 2008 to 73 million passengers in 2009, a fall of 8.7%.

In 2009, activity for third parties represented 56.6% of total production, measured in terms of weighted aircraft handled, slightly higher than the figure of 2008(56.2%). Despite the adverse economic conditions and the state of the Handling market, the company successfully increased its market share from 30.7% in 2008 to 31.5% in 2009, thanks to the strengthening of its portfolio, with the addition of 22 new clients.

Average headcount was 7,132 equivalent employees in 2009 (including 515 transferred to the Barcelona JV), 637 fewer than in 2008. The number of hours worked fell by a similar percentage to production, which allowed staff productivity to be kept at the same level as 2008 (+0.2%). This is despite the fact that 2009 was characterized by a greater number of incidents (cancellations and delays due to strikes by flight crews, adverse weather conditions, etc.).

4. Financial evolution

4.1. Consolidated statements of income

€ million	4 th Quarter (Oct-Dec)			Accumulated (Jan-Dec)		
	2009	2008	%	2009	2008	%
Profit/loss from operations (a)	-145	-25	n.m.	-475	5	n.m.
Revenues from operations	1,121	1,368	-18.0	4,458	5,515	-19.2
Net sales	1,034	1,259	-17.9	4,231	5,223	-19.0
Passenger revenue (b)	799	1,015	-21.3	3,325	4,218	-21.2
Cargo revenue	72	87	-17.1	251	347	-27.4
Handling	62	61	1.9	266	275	-3.3
Technical assistance to airlines	83	71	17.2	310	297	4.2
Other revenues	18	24	-27.4	79	86	-7.4
Other operating revenues	87	109	-20.2	227	292	-22.3
Recurring	42	70	-40.1	178	227	-21.8
Non-recurring	45	39	15.1	49	65	-24.3
Costs from operations	1,264	1,394	-9.3	4,930	5,535	-10.9
Procurements	354	509	-30.4	1,410	1,864	-24.4
Aircraft fuel	295	464	-36.5	1,184	1,666	-28.9
Aircraft spare parts	51	35	46.0	191	160	19.0
Catering materials	5	5	2.8	19	21	-6.8
Other purchases	4	5	-23.4	16	17	-9.3
Personnel expenses	372	311	19.6	1,348	1,321	2.0
of which: Non-recurring	51	1	n.m.	51	1	n.m.
Depreciation and amortization	43	46	-5.7	176	193	-8.9
Other operating costs	494	528	-6.4	1,996	2,157	-7.4
Aircraft leases	81	98	-17.3	349	386	-9.5
Other rentals	19	20	-8.0	73	76	-4.1
Fleet maintenance (subcontracts)	47	57	-17.0	202	228	-11.5
Commercial costs	44	39	13.7	151	200	-24.9
Traffic services	96	102	-5.7	397	413	-3.9
Navigation charges	61	63	-3.0	252	258	-2.3
In-flight services	17	18	-5.7	66	72	-7.3
Booking systems	29	30	-1.0	134	137	-2.7
Other costs	101	103	-1.8	372	386	-3.4
of which: Non-recurring	5	1	n.m.	6	5	43.7
Impairment losses and net gains on disposals of non-current assets	-2	1	n.m.	-3	25	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.

€ million	4 th Quarter (Oct-Dec)			Accumulated (Jan-Dec)		
	2009	2008	%	2009	2008	%
Financial results	-9	15	n.m.	32	49	-35.3
Financial revenues	7	36	-79.6	64	137	-53.7
Financial expenses	9	16	-46.3	40	52	-23.7
Exchange gains/losses	-9	2	n.m.	-17	-2	n.m.
Other revenues and expenses	1	-6	n.m.	25	-34	n.m.
Share of results of associates	0	-18	n.m.	8	-18	n.m.
Profit before taxes	-155	-28	n.m.	-435	36	n.m.
Taxes	63	9	n.m.	162	-4	n.m.
Profit after taxes	-91	-19	n.m.	-273	32	n.m.
Atributable to shareholders of the parent company	-92	-19	n.m.	-273	32	n.m.
Basic earnings per share (euros)	-0.0989	-0.0205	n.m.	-0.2953	0.034	n.m.

n.m.: not meaningful.

Average weighted n° of shares in the fourth quarter: 925,204,737 in 2009 and 2008. In the period January-December: 925,204,737 in 2009 and 929,348,075 in 2008.

4.2. Revenues from operations

In 2009, revenue from operating activities fell by 19.2% with respect to the previous year. If we exclude all non-recurring items, the fall in revenue from operating activities was 19.1%, mainly due to the reduction in passenger and cargo revenues (-21.7%), which were greatly affected by the fall in unit prices and the reduction in traffic levels.

Within the context of significant reductions in operations at airports, the limited decline in handling revenue (-3.3%) should be viewed in a positive light. Revenues from technical assistance to airlines continued to grow for another year, with a year-on-year increase of 4.2% from 2008.

Passenger

The total amount of passenger revenues fell by 21.2% from 2008, standing at €3,325 million for the financial year 2009. Of this amount, €3,137.2 million related to revenue for tickets used within the period, falling 19.4% as a result of negative price trends (equivalent to a -12.6% reduction) and to a lesser extent as a result of the reduced traffic.

The remaining revenue, representing 6.0% of total passenger revenue for 2009, fell by 42.6% from 2008, in part due to the entry into force of IFRIC 13 accounting standards, which modified accounting practices for customer loyalty programmes from 2009, and also results in a reduction in commercial costs.

Cargo

In 2009 cargo revenue fell by 27.4% from 2008, with total revenue amounting to €251 million. Thanks to the aforementioned increase in demand, however, the fall in revenue during the last quarter was 17.1%, compared to 30.9% over the first nine months of the year. This revenue was affected by the reduction in cargo traffic (-11.6%), the sharp decline in average RTK (-20.6%), partly due to the fall in fuel surcharges. Reduced revenue from its subsidiary CACESA was also recorded, while revenue from excess baggage increased 8.6%.

Handling

Revenue from ground support services for passengers and aircraft from third party carriers fell 3.3% on 2008. This was due a decrease of-7.3%, in weighted aircraft handled. Increases in revenue per ASK (2.1%) and revenue from other airport support services were able to partially compensate for this. Among these other services, it is worth mentioning services for passengers with reduced mobility provided by joint ventures participated by the company. In the third quarter, revenue from handling rose 1.9% year-on-year, with a limited drop in third party services thanks to the addition of Vueling to the customer portfolio.

Maintenance

Despite the fact that the economic crisis triggered price cuts in the aeronautical maintenance industry, revenue from third parties totalled €310 million, exceeding 2008 figures by €12.5 million. In part, this increase was due to the strength of the dollar compared to the exchange rate in 2008. Increased revenue was mainly from engine repairs (above all the CFM56 engine), technical assistance to the Ministry of Defence and work on landing gears.

Other revenues

"Other revenues" fell by 7.4% on 2008. Revenue from the use of booking systems, in particular those from the Amadeus system, totalled €59 million, a fall of 7.6% on 2008, due to a drop in the number of reservations. Revenue from cargo terminals and other cargo services also fell.

Other operating revenues

"Other operating revenues - recurring" (commissions, deferred income, rents and other sundry revenue items) fell 21.8% on aggregate to €227 million in comparison to 2008, in particular due to fall in passenger commissions and other revenue.

In 2009 some non-recurring revenue was recorded, totalling €49 million. The majority share (€45 million) relates to the partial recovery of contributions made to technical crew pension funds. This follows an actuarial study carried out after the 7th Collective Agreement was signed, providing the option for pilots to fly to the age of 65. In the previous financial year, non-recurring revenue was also recorded, totalling €65 million. This revenue was mainly recovered from various provisions and aircraft insurance premiums.

4.3. Costs from operations

In 2009 operating costs for the Iberia Group totalled €4,930 million, representing a drop of 10.9% from 2008. If recurring costs are excluded, the drop in operating costs is 11.9%, particularly noting the cost of fuel, which dropped 28.9% from 2008. Other costs also fell due to capacity adjustments (6% percent in terms of ASK) and the cost-saving initiatives rolled out under the Contingency Plan. Unit costs from operations fell 6.3% on the year before to 7.84¢ per ASK in 2009.

Fuel

Fuel costs for the Iberia Group totalled €1,184 million in 2009, €482 million less than the total recorded for the same period in 2008. This drop can primarily be attributed to substantial price cuts and reduced consumption levels (-6.6%, measured in litres) resulting from lower levels of activity and improved efficiency of aircraft fleet.

Despite an upward trend over 2009, the average price of jet fuel in dollars at market value was 44% less than the average price the previous year. The company has benefited in part from this drop in price, as a result of fuel hedges taken out in 2008.

Unit fuel costs stood at 1.91¢ per ASK in 2009, down 24.4% on 2008.

Personnel

Recurring personnel costs fell by 1.8% from 2008 to € 1,297 million, thanks to cost-saving measures put in place and a reduction in headcount equivalent to 4.2% of the workforce. This reduction was achieved mainly through voluntary redundancies. Non recurring personnel costs totalled €51 million in 2009 and corresponds to a one-off payment to extend the redundancy programme.. For this same purpose, a one-off payment of €1.4 million was made in 2008.

The table below details the headcount at the Iberia Group in terms of equivalent employees for 2008 and 2009:

	Ground		Flight		Total	
	2009	2008	2009	2008	2009	2008
Iberia Group	15,336	16,011	5,335	5,567	20,671	21,578
Change 2009 / 2008 (%)	-4.2		-4.2		-4.2	

In April 2009, Iberia's Board of Directors and the Company's representatives for the Air Industry Trade Union in Spain (SEPLA) signed the 7th Collective Agreement for Technical Crew members, which will remain in force until 31 December 2009.

Depreciations

Depreciation and amortisation charges were 8.9% lower in 2009, at €176 million. Of this total, almost 60% is attributed to depreciation of aircraft fleet stock, where allowances reduced by 14.2% due to a reduction in the number of operating aircraft. This was principally due fleet MD87/88 being removed to service, which was completed in the last quarter of 2008.

Aircraft rentals

Leasing costs fell 9.5% on 2008 to €349 million. resulting in savings of almost €37 million on 2008 Operating leases on passenger aircraft totalled €315 million, falling by €9 million. In part, this was the result of falling interest rates and a slight reduction in the average number of aircraft. Leasing costs paid to other companies totalled €7 million, down €6 million on the previous year. The most significant reduction was seen in wet leases, which totalled around €16 million, compared to a cost of €33 million in 2008. This reduction was the result of reduced aircraft numbers and operating hours, down by 66.9% on 2008 contracts. Finally, cargo aircraft leases totalled €11 million, almost €5 million down on 2008, due to a drop of 32.5% in the number of leasing hours, resulting from the capacity reduction and the sharp fall in cargo traffic. Leasing cost per ASK fell 3.8% on 2008 to €0.56.

At the end of 2009, the Iberia Group had a total of 109 passenger aircraft in operation. The following table should the breakdown of aircraft by type and use:

Operating fleet (a)	December 2009	September 2009	December 2008
Long Haul	32	33	33
Owned	6	6	6
Financial lease	1	1	1
Operating lease	25	26	23
Wet lease	0	0	3
Short and Medium Haul	77	81	86
Owned	2	5	10
Financial lease	10	10	10
Operating lease	65	66	66
Wet lease	0	0	0
Total	109	114	119
Owned	8	11	16
Financial lease	11	11	11
Operating lease	90	92	89
Wet lease	0	0	3

(a) End of period, excluding inactive aircraft or in the process of redesign for its sale.
Additionally, as at 31-December-2009 Iberia, L.A.E. has a Boeing B-757 leased to other airline.

Maintenance

Total fleet maintenance expenses (including subcontracts and aircraft spare parts) totalled €393 million in 2009, climbing by 1.3% on 2008. This increase was due to a 24.3% rise in spare parts consumption, resulting mainly from the strength of the dollar against the Euro, and the larger volume of work carried out internally. The increase in the costs of aircraft spare parts was partially offset by an 11.5% reduction in expenditure on external services.

Commercial

In 2009 commercial costs fell by €49 million in comparison to 2008, representing a drop of 24.9%. Total commissions and promotion and development costs fell €47 million in comparison to 2008 (26.7%), due in part to the new IFRIC 13 accounting standard (valuation of loyalty programme points) which came into effect in January 2009. In 2008, around €23 million attributed to points obtained by clients under the Iberia Plus programme were accounted under commercial costs, whilst in 2009, under the regulations this new accounting standard, the value of the points obtained is accounted as lower revenue. Advertising costs fell by €3 million (12.3%). The ratio of net commercial expenses to traffic revenue narrowed 0.2 percentage points to 2.4% in 2009.

Traffic services

Traffic service expenses fell by 3.9% in 2009 on the previous year, due mainly to the reduced number of flights operated (11.8% less take-offs than in 2008), which impacted on the performance of the main cost items making up this heading: landing fees, as well as fees for the use of jet bridges and other airport services fell by €5 million on 2008. Aircraft dispatch, fees and other traffic services dropped by €9 million. Aircraft cleaning and handling for relevant equipment were down by €5 million, and flight staff accommodation costs fell by €3 million compared to the previous year. Costs for flight disruptions, missed connections and baggage claim increased by €6 million on the previous year, essentially due to operational difficulties caused by labour disputes involving cabin crews and adverse weather conditions.

Navigation charges

Navigation charges drop by 2.3% in comparison to 2008, mainly as a result of reduced activity during that period. This impact was partially mitigated by the appreciation of the dollar, and above all, by price rises.

En-route navigation charges were 0.9% lower in 2009, at €208 million. The increase in average navigation charges by Eurocontrol, representing 75.5% of all payments associated with these charges, was 4.0% in comparison to the previous year, once adjusted to account for the main countries that Iberia flies over.

Airport approach fees fell 8.5% on 2008 to €44 million, due primarily to reduced traffic. In 2009, approach fees for Spanish airports rose by 3.0% on a unit basis compared to 2008.

In-flight services

The aggregated costs of in-flight services and catering materials were more than €85 million in 2009, falling by 7.2% on 2008. This was primarily due to a reduction in activity and more specifically, a drop in the number of business class passengers, together with savings achieved through renegotiating contracts with suppliers.

Booking systems

Booking system expenses were approximately €134 million, dropping 2.7% in comparison to 2008, helped by a reduced number of reservations as a result of the weakness of the overall traffic. This was partially offset by the appreciation of the dollar and an increase in average prices.

Other recurring costs

Total "Other recurring costs" was approximately €366 million in 2009, falling 3.9% on 2008. This trend was consistently noted over the entire accounting period, thanks to actions taken under the Contingency Plan. Among the items included under this item, the most significant cost reductions were seen under transport costs, severance payments, ground equipment maintenance, security services and levies.

Other non-recurring costs

In 2009, €6 million of non-recurring expenses were recorded, primarily associated with various provisions, fines and sanctions. In 2008 non-recurring expenses, including various contingencies, totalled €5 million.

4.4. Other results

The aggregated total under "**Impairment losses and net gains on disposal of non current assets**" was recorded as a loss of €3 million in 2009, mainly attributed to losses on rotables. In 2008 a profit of €25 million was recorded, primarily as a result of capital gains on the sale of aircraft.

Financial Results for the year recorded a profit of €32 million in 2009, representing a 35.5% decline on 2008. The net balance was €24 million, €61 million less than 2008, following a drop in financial revenue of 53.7%, resulting from a lower balance of short-term financial investments and a drop in interest rates on short-term deposits. Financial expenses fell 23.7% on 2008, primarily due to a drop in interest rates on loans.

Net exchange differences were down €15 million on 2008, at €17 million. Following the devaluation of the Venezuelan Bolivar against the US dollar by 50%, Iberia has been forced to allocate a contingency of €6 million at year-end, to offset the impact on deposits from revenues obtained in Venezuela, where these amounts were still pending.

"**Other revenues and costs**" for 2009 includes the capital gains derived from the share exchange between Clickair and Vueling, following the merger between the two companies (€20.5 million). The valuation of financial hedge instruments is also recognised in this entry, under IAS 39, with a net balance of €4 million in 2009, in comparison to a negative balance of €29 million in 2008. The negative balance of 2008 was reflecting primarily the result of losses from fuel hedges that were considered "inefficient" (-€23 million). In 2008, "Other Revenues and Expenses" includes a contingent liability in relation to Iberia's participation in its associate Clickair.

In contrast the Group's **share of results of associates** recorded a profit of €8 million in 2009, representing an increase of €26 million on the negative balance for 2008, mainly reflecting its share in the results of Vueling from July 2009.

5. Financial position

Iberia Group's **equity** is approximately €1,551 million at year-end 2009, falling 0.8% in relation to figures for 2008. The impact of the recorded losses (-273 million) was almost compensated by the improvement in the valuation of hedging instruments, and to a lesser extent by the effect of the revaluation of British Airways shares.

Current financial investments, cash and cash equivalents stood at € 1,974 million at year-end 2009, falling by €377 million in comparison to 2008. This includes the fair valuation of hedging instruments (under IAS 39), representing a €55 million increase under the current financial investments entry of the balance sheet, in comparison to €79 million in 2008.

The Iberia Group's **in-balance sheet net debt** remained negative, i.e. the balance of current financial assets (excluding the valuation of hedges) exceeded the total balance of interest-bearing debt, totalling -€1,417 million at 31.12.09, compared to -€1,803 in 2008.

Adjusted net debt, including the capitalisation of operating leases (with adjustments for interest capitalised on the loans to Iberbus companies), amounted to €1,229 million, rising 21.4% on the previous year.

Iberia's **leverage**, measured as adjusted net debt/ total employed capital (sum of shareholder's equity and adjusted net debt) amounted to 44.2% at year-end 2009, rising 4.9 percentage points on 2008.

Balance sheet position (€ million)	2009	2008	% yoy
Adjusted gross cash (a)	1.919	2.272	-15,5
Interest bearing debt	502	468	7,2
In-balance sheet net debt	-1.417	-1.803	-21,4
Capitalisation of operating leases (x8) (b)	2.646	2.816	-6,0
Adjusted net debt	1.229	1.012	21,4

- a) Current financial investments, cash and cash equivalents, excluding the valuation of hedging operations.
- b) Operating leases capitalised x8 and adjusted by the capitalised interests of Iberbus loans.

6. Relevant events after 31 December 2009

At the Board Meeting held on February 12, Mr. Rodrigo de Rato Figaredo was named a member of the Board, at the proposal of Caja Madrid. Moreover, he will act as Vice Chairman of Iberia and will be a member of the Executive Committee of the Company's Board of Directors.

7. Main risks and uncertainties

The aviation transport industry is especially sensitive to economic conditions, and the outlook for global economic growth continues to be uncertain and subject to significant risk.

A key aspect of the future outlook for the air transport sector is the level of uncertainty concerning recovery rates for both tourist and business class demand. The reduction in business class passengers has been substantial throughout 2009 and has had a knock-on effect on yield.

Another important area of risk that the industry faces with uncertainty is the volatility of oil prices. Prices continued to rise throughout 2009 and it is expected that this upward trend will continue, in response to a perceived upturn in economic activity. The International Air Transport Association (IATA) estimates that the average price per barrel in 2010 for Brent Crude oil will be \$75. In the medium term, forecasts for oil price trends and the risks of a new price rise will depend on the balance between supply and demand, taking into consideration that demand for oil is expected to see significant growth among emerging economies, but will remain constant within developed economies.

This is also a level of uncertainty around future fluctuations in the dollar exchange rate. Analysts believe that the Euro exchange rate will appreciate against the dollar, and they expect to see the euro depreciate in the coming months. A possible strengthening of the dollar would increase revenue and also costs for Iberia, given that around 41% of the company's costs and 22% of its revenue are linked to the US dollar.

Iberia follows a global financial risk management program designed to control and diminish the potential impact of swings in fuel prices, exchange rates and interest rates on its income statement. In particular, fuel hedges taken at the start of 2010 shall cover 65% of estimated consumption for the year.

During 2010, Iberia's Board of Directors will aim to reach agreements with representatives from the company's three employee categories to renew their respective agreements, with Negotiation committees already appointed. The 20th of April of 2009, the Board of Directors, and the company's SEPLA representatives signed the 7th Collective Agreement for Technical Crew Members, with the agreement remaining in force until December 2009. The 15th Collective Agreement for Cabin Crew was extended until 31 December 2008. The 18th Collective Agreement for Ground Staff remained in force until 31 December 2008.

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Iberia Group

Consolidated Financial Statements
for 2009, prepared in accordance with
International Financial Reporting
Standards (IFRS)
as adopted by the European Union

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of (consolidated/abridged, etc.) financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 3 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23).
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IBERIA GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2009 AND 2008

(EUR million)

ASSETS	Notes	31-12-2009	31-12-2008	LIABILITIES AND EQUITY	Notes	31-12-2009	31-12-2008
NON-CURRENT ASSETS:				EQUITY:			
Intangible assets	5.1	50	52	Issued capital		743	743
Property, plant and equipment	6	1,046	1,118	Share premium		120	120
Aircraft fleet		717	779	Reserves		1,094	1,089
Other property, plant and equipment		329	339	Treasury shares		(64)	(64)
Investments in associates	5.5	134	17	Profit for the year attributable to the Parent		(273)	32
Non-current financial assets	7.1	497	672	Group profit (loss) for the year		(273)	32
Equity instruments		269	247	Profit attributable to non-controlling interests		-	-
Loans to third parties		77	123	Valuation adjustments		(72)	(357)
Derivatives		4	70	Equity attributable to:			
Other financial assets		147	232	Owners of the Parent		1,548	1,563
Deferred tax assets	13	635	591	Non-controlling interests		3	1
Total non-current assets		2,362	2,450	Total equity	9	1,551	1,564
CURRENT ASSETS:				NON-CURRENT LIABILITIES:			
Non-current assets held for sale	6.6	9	11	Non-current provisions	10	1,209	1,283
Inventories		215	224	Non-current payables	11	301	403
Aircraft expendables		170	176	Deferred tax liabilities	13	7	1
Other inventories		45	48	Long-term accruals	5.11	215	78
Receivables	8	478	586	Total non-current liabilities		1,732	1,765
Current financial instruments	7.2	1,088	1,751	CURRENT LIABILITIES:			
Loans to third parties		31	34	Current liabilities	11	295	640
Derivatives		55	79	Customer prepayments	5.11	389	394
Other financial assets		1,002	1,638	Trade and other payables		1,075	1,254
Accruals		8	12	Trade payables		807	970
Cash and cash equivalents	5.6	886	600	Remuneration payable		149	159
Cash		47	74	Payables to public authorities		119	125
Cash equivalents		839	526	Accruals	13	4	17
Total current assets		2,684	3,184	Total current liabilities		1,763	2,305
TOTAL ASSETS		5,046	5,634	TOTAL EQUITY AND LIABILITIES		5,046	5,634

Notes 1 to 23 to the financial statements form an integral part of the consolidated statement of financial position at 31 December 2009.

Translation of consolidated financial statements originally issued in Spanish and prepared
in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23).
In the event of a discrepancy, the Spanish-language version prevails.

IBERIA GROUP

CONSOLIDATED INCOME STATEMENT

2009 AND 2008

(EUR million)

	Notes	2009	2008
CONTINUING OPERATIONS:			
Revenue	14.1	4.231	5.223
Other operating income	14.2	227	292
Recurrent		178	227
Non-recurrent		49	65
Procurements	15.1	(1.410)	(1.864)
Employee cost	15.2	(1.348)	(1.321)
Recurrent		(1.297)	(1.320)
Non-recurrent		(51)	(1)
Depreciation and amortisation charge	5.1 and 6	(176)	(193)
Other operating costs	15.3	(1.996)	(2.157)
Recurrent		(1.990)	(2.152)
Non-recurrent		(6)	(5)
Impairment losses and gains (losses) on disposal of assets		(3)	25
PROFIT (LOSS) FROM OPERATIONS		(475)	5
Finance income	14.3	64	137
Finance cost	15.4	(40)	(52)
Exchange differences		(17)	(2)
Group share in profit of associates	16	8	(18)
Other finance revenue and expenses		25	(34)
PROFIT BEFORE TAX		(435)	36
Income tax expense	13	162	(4)
PROFIT (LOSS) FROM CONTINUING OPERATIONS		(273)	32
Attributable to:			
Owners of the Parent		(273)	32
Non-controlling interests		-	-
BASIC EARNINGS PER SHARE (EUR)	9.7	(0,295)	0,034

Notes 1 to 23 to the financial statements form an integral part
of the 2009 consolidated income statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

2009 AND 2008

(EUR million)

	Notes	2009	2008
PROFIT FOR THE YEAR		(273)	32
OTHER COMPREHENSIVE INCOME:			
Income and expenses recognised directly in equity			
From measurement of financial instruments:		25	(114)
Available-for-sale (AFS) financial assets	7.1.1	25	(114)
From cash flow hedges	12	-	(335)
Tax effect	13.4	(7)	135
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY		18	(314)
Amounts transferred to income statement			
From cash flow hedges	12	382	66
Tax effect	13.4	(115)	(20)
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT		267	46
TOTAL COMPREHENSIVE INCOME		12	(236)
Attributable to:			
Owners of the Parent		12	(236)
Non-controlling interests		-	-

Notes 1 to 23 to the financial statements form an integral part
of the 2009 consolidated statement of comprehensive income.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23).
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IBERIA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2009 AND 2008 (EUR million)

	Issued capital	Share premium	Legal Reserve	Voluntary reserves	Reserves of companies consolidated by		Treasury shares	Revaluation adjustments	Consolidated profit for the year	Total	Non-controlling interests	Total equity
					Full consolidation	Equity method						
Balance at 31 December 2007	743	120	148	777	(12)	10	(19)	(89)	327	2.005	1	2.006
Consolidated comprehensive income for 2008	-	-	-	-	-	-	-	(268)	32	(236)	-	(236)
Distribution of 2007 profit:	-	-	1	192	7	(31)	-	-	(169)	-	-	-
To reserves	-	-	-	-	-	-	-	-	(156)	(158)	-	(158)
To dividends	-	-	-	-	-	-	-	-	-	(45)	-	(45)
Change in treasury shares	-	-	-	-	-	-	(45)	-	-	(3)	-	(3)
Other changes	-	-	-	(3)	-	-	-	-	-	-	-	-
Balance at 31 December 2008	743	120	149	966	(5)	(21)	(64)	(357)	32	1.563	1	1.564
Adjustments for first-time application of IFRIC 13 (Note 3)	-	-	-	(25)	-	-	-	-	-	(25)	-	(25)
Adjusted balance at 1 January 2009	743	120	149	941	(5)	(21)	(64)	(357)	32	1.538	1	1.539
Consolidated comprehensive income for 2009	-	-	-	-	-	-	-	285	(273)	12	-	12
Distribution of 2008 profit	-	-	-	44	6	(18)	-	-	(32)	-	-	-
To reserves	-	-	-	(50)	-	48	-	-	-	(2)	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2009	743	120	149	935	1	9	(64)	(72)	(273)	1.548	3	1.551

Notes 1 to 23 to the financial statements form an integral part of the consolidated statement of changes in equity for 2009.

Translation of consolidated financial statements originally issued in Spanish and prepared
in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23).

In the event of a discrepancy, the Spanish-language version prevails.

IBERIA GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS

2009 AND 2008 (NOTE 22)

(EUR million)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:	(280)	38
Profit before tax	(435)	36
Adjustments for:	151	113
Depreciation and amortisation	176	193
Impairment losses	(3)	6
Changes in provisions	72	52
Gains (losses) on retirements and disposal of property, plant and equipment	4	(25)
Gains (losses) on retirements and disposal of financial instruments	(21)	-
Finance income	(63)	(137)
Finance cost	39	52
Exchange differences	17	-
Change in fair value of financial instruments	(4)	5
Other income and expenses	(66)	(33)
Changes in working capital	75	(56)
Inventories	17	(26)
Trade and other receivables	104	126
Other current assets	4	(26)
Trade and other payables	(69)	(153)
Other current liabilities	(10)	11
Other non-current assets and liabilities	29	12
Other cash flows from operating activities	(71)	(55)
Interest paid	(16)	(26)
Dividends received	2	1
Interest received	104	137
Corporate income tax expense	14	(31)
Other receipts (payments)	(175)	(136)
CASH FLOWS FROM INVESTING ACTIVITIES:	(175)	(390)
Payments on investments	(277)	(633)
Group and associated companies	(59)	(57)
Intangible assets	(17)	(20)
Property, plant and equipment	(110)	(127)
Other financial assets	(55)	(429)
Other assets	(36)	-
Proceeds from disposals	102	243
Intangible assets	-	-
Property, plant and equipment	37	106
Other financial assets	61	47
Other assets	4	90
CASH FLOWS FROM FINANCING ACTIVITIES:	39	(301)
Proceeds from and payments for equity instruments	-	(45)
Issue of equity instruments	-	-
Acquisition of treasury shares	-	(46)
Disposal of treasury shares	-	1
Proceeds from and payments for financial liabilities	39	(98)
Proceeds from bank borrowings	125	56
Repayment of bank borrowings	(86)	(154)
Dividends paid and payments on other equity instruments	-	(158)
Dividends	-	(158)
EFFECTS OF EXCHANGE RATE CHANGES	(6)	-
NET INCREASE/DECREASE IN CASH AND EQUIVALENTS	(422)	(653)
Cash and cash equivalents at the beginning of the year	2.182	2.835
Cash and cash equivalents at the end of the year	1.760	2.182

Notes 1 to 23 to the financial statements form an integral part
of the consolidated statement of cash flows for 2009

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 3 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Iberia Group

Notes to the consolidated financial statements for 2009.

1. Business of the Parent and 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 leading 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 or investing 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.

2. Group companies

2.1 Subsidiaries

Basic information about the companies in the Iberia Group consolidated by the full consolidation method and their equity at 31 December 2009 is as follows:

Name Registered Office Corporate purpose	Millions of Euros						
	% ownership (direct and indirect)		Information on the subsidiary at 31/12/2009				Carrying Amount of the investment
	2009	2008	Share capital	Profit (loss) for the year	Other Equity	Equity	
<u>Group companies:</u>							
Compañía Auxiliar al Cargo Exprés, S.A. Centro de Carga Aérea Parcela 2 p 5 nave 6; Madrid Cargo transport	75.00	75.00	-	-	5	5	1
Cargosur, S.A. Velázquez, 130; Madrid Air cargo transport	100.00	100.00	6	-	-	6	6
Iberia Tecnología, S.A. Velázquez, 130; Madrid Aircraft maintenance services	100.00	100.00	1	-	-	1	1
VIVA Vuelos Internacionales de Vacaciones, S.A. Camino de la Escollera, 5; Palma de Mallorca Aircraft maintenance	100.00	100.00	1	-	4	5	1
Campos Velázquez, S.A. Velázquez, 34; Madrid Acquisition and holding of urban land	100.00	100.00	1	-	-	1	1
Auxiliar Logística Aeroportuaria, S.A. Centro de Carga Aérea Parcela 2 p 5 nave 6; Madrid Cargo transport	75.00	75.00	-	-	1	1	-
Consultores Hansa, S.A. Velázquez, 130; Madrid Market consultancy	100.00	100.00	-	-	-	-	-
Iberia Desarrollo Barcelona, S.L.R. Bergara, 3; Barcelona Promotion and development of airport infrastructure	75.00	75.00	6	-	(1)	5	4
Iberia Mexico, S.A. Ejercito Nacional 439; Mexico Aircraft engineering services	100.00	100.00	-	1	-	1	-
Binter Finance B.V. Strawinskian 3105 100 BL; Amsterdam Financing and cash management	100.00	100.00	-	-	1	1	-
IB OPCO Holdings, S.L. Velázquez, 130; Madrid Asset management and consultancy services	100.00	-	-	-	-	-	-
Iberia, Líneas Aéreas de España, Sociedad Anónima Operadora Velázquez, 130; Madrid Passenger transport and other related services	100.00	-	-	-	-	-	-

Notes 9.4 and 16 of these notes to the consolidated financial statements set out the contributions made by each of these companies to the Group's profits and reserves. Assets contributed by these companies are immaterial as a proportion of total Group assets.

2.2 Associates and jointly controlled entities

General information on the Group's main associates and jointly controlled entities and basic information on their equity at 31 December 2009, is as follows:

Name Registered Office Corporate purpose	Millions of Euros								
	% ownership		Information on the subsidiary at 31/12/2009						Carrying Amount of the investment
	(direct and indirect)		Share capital	Profit (loss) for the year	Other Equity	Equity	Total assets	Total revenue	
	2009	2008							
<u>Associated companies:</u>									
Vueling Airlines, S.A. Parque de Negocios Mas Blau; Barcelona Passenger transport	45.85	-	30	28	89	147	424	605	109
Multiservicios Aeroportuarios, S.A. Bravo Murillo, 52; Madrid Auxiliary services in airports	49.00	49.00	-	1	5	6	25	68	-
Empresa Logística de Carga Aérea, S.A. (ELCA) Aeropuerto Jose Martí; Ciudad de La Habana Cargo terminal operator	50.00	50.00	-	-	1	-	1	-	-
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeica, S.A. Aeropuerto Jose Martí; Ciudad de La Habana Aircraft maintenance	50.00	50.00	-	1	-	1	2	2	-
Handling Guinea Ecuatorial, S.A. (HANGESA) (a) Malabo (Equatorial Guinea) Handling	51.00	51.00	-	1	-	1	2	2	-
Sociedad Conjunta para la Emisión y gestión de Medios de Pago EFC, S.A. (IBERIA CARDS) Ortega y Gasset, 22; Madrid Issue and management of payment cards	43.50	43.50	6	1	13	20	35	43	4
Air Miles Group Avda. de Bruselas, 20; Alcobendas, Madrid Multi-sector loyalty scheme	33.33 (b)	25.00 (b)	-	(1)	3	2	98	54	1
Serpista, S.A. Velázquez, 130; Madrid Maintenance of airport equipment	39.00	39.00	1	1	4	6	11	13	-
International Supply Management, S.L. Pozuelo de Alarcón, Madrid Sale of chemical products	49.00	49.00	1	-	(1)	-	8	11	1
Iber-América Aerospace, LLC(a) Miami, Florida (USA) Trading in aircraft parts and engines	65.33	65.33	1	-	-	1	4	3	1
Noamar Air Handling Amsterdam Owning and financing companies	40.00	40.00	-	-	-	-	-	-	-
Aerohandling Ltd Owning and financing companies Handling	40.00	40.00	-	-	-	-	3	3	-
<u>Jointly controlled entities:</u>									
Madrid Aerospace Services, S.L. Pol. Ind. Las Monjas – C/Verano, 9 Landing gear maintenance	50.00	50.00	3	(1)	(1)	1	5	3	-

(a) Due to limitations on the exercise of effective control over this subsidiary it has been classed as an associate.

(b) The calculation of the percentage ownership of this company includes the treasury shares held by it.

Notes 9.5 and 16 set out the contributions of each of these companies to the Group's earnings and reserves.

2.3 Changes in the scope of consolidation

Newly included within the Group's scope in 2009 were IB OPCO Holdings, S.L. and Iberia, Líneas Aéreas de España, Sociedad Anónima Operadora, both created during the year and wholly owned by the Parent.

Also in 2009, the Parent increased its stake in Clickair, S.A. to 91.70% by further contributions to its share capital, by buying out the ownership stakes of three of the other four shareholders and by converting its preference shares into common shares (Note 7.1.2). In July 2009, the Parent contributed all its Clickair shares to the capital increase by Vueling Airlines, S.A., in return for a 45.85% stake in the company's share capital. The transaction generated a profit for the Group of EUR 21 million, booked under "Other financial income and expense" in the 2009 consolidated income statement.

In 2009 the Parent also increased its ownership stake in the Air Miles Group by buying 90 new shares in the company for approximately EUR 1 million, giving it a 33.33% stake.

3. Basis of presentation of the consolidated financial statements and consolidation principles

3.1 Bases of presentation of the consolidated annual financial statements

The consolidated financial statements for 2009 were prepared using the accounting records and financial statements of the Parent company and the companies falling within its consolidated group.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and Law 62/2003, of 30 December, on tax, administration and social order measures, to give a true and fair view of the consolidated equity and consolidated financial position of the Group at 31 December 2009 and of the consolidated profit from operations, changes in consolidated equity and consolidated cash flows that have occurred in the Group over the year ending on that date.

The Group's consolidated financial statements and the individual financial statements of its constituent companies for 2009, prepared by their respective boards of directors, are pending approval by shareholders at their respective Annual General Meetings. However, the directors of the Parent expect these financial statements to be approved without significant changes. The Group's consolidated financial statements for 2008 were approved by shareholders at the Ordinary General Meeting on 3 June 2009.

3.2 Main policy decisions on IFRS

The Group took the following decisions on the presentation of the financial statements and other information contained in the notes to the consolidated financial statements:

- a) The euro was considered the Group's functional currency. The consolidated financial statements are therefore given in euros.
- b) The statement of financial position is shown with a distinction made between current and non-current items. The income statement is presented on a "by nature" basis.
- c) The Group has opted to prepare the statement of cash flows using the indirect method.

Regarding the adoption of new standards and interpretations, the following rulings were adopted:

3.2.1 Standards and interpretations effective in 2009:

The following interpretations of accounting standards became effective in 2009 and have been used by the Group where applicable in preparing the consolidated financial statements.

1. IFRIC 13 *Customer Loyalty Programmes*. This interpretation establishes the accounting treatment of free or discounted goods and services given by companies to their customers as part of a customer loyalty scheme in the form of points or other types of credit when they sell a good or provide a service.

Under this interpretation, Iberia, Líneas Aéreas de España, S.A. has changed the criteria for classification and measurement of points in the "Iberia Plus" scheme. Until the year ended 31 December 2008, points were measured as a cost under "Other Operating Costs" on the consolidated income statement and a provision for the estimated value of outstanding points at the end of each year was booked under "Trade and Other Payables - Trade Payables" on the consolidated statement of financial position. At 31 December 2008, the related provision stood at EUR 115 million. As from 2009, the value assigned to points is recognised as an identifiable component of the sale of flight tickets at their fair value and the value measured is initially recognised as deferred income under "Non-current Accrued Expenses and Deferred Income" on the liability side of the consolidated statement of financial position.

Iberia, Líneas Aéreas de España, S.A. applied this interpretation allowed under IFRIC 13 prospectively from 1 January 2009 as it was impossible to measure all the effects of retrospective application. The effect at this date was a charge of approximately EUR 36 million booked under "Reserves Attributable to the Parent" on the consolidated statement of financial position. The corresponding tax impact was recognised as a credit to the same item of approximately EUR 11 million.

2. Amended IFRS 7 - *Additional disclosures*. The consequential amendment to IFRS 7 expands disclosure requirements about fair value measurements and liquidity risk. In the first case, the biggest change is the requirement to disclose financial instruments measured at fair value according to a hierarchy based on how they were measured. Note 12 explains the additional disclosures required.
3. Revised IAS 1 *Presentation of Financial Statements*. These fundamental changes to IAS 1 are intended to improve the presentation of information so that users of consolidated financial statements can clearly identify changes in equity resulting from transactions with owners when they act as such (e.g., dividends and share buybacks) separately from changes resulting from transactions with non-owners (transactions with third parties or income or costs recognised directly in equity). The Group has made use of this option, as in previous years. As a result the application of this revision has extended the scope of some information in the financial statements and some changes to item names to comply with the revised standard.
4. From 1 January 2009, the following new standards, amendments and interpretations have been applied: IFRS 8 *Operating Segments*, revised IAS 23 *Borrowing Costs*, amended IFRS 2 *Share-based Payment*, amended IAS 32 and IAS 1, "Puttable financial instruments and obligations arising on liquidation", amended IAS 39 and IFRIC 9 *Reassessment of Embedded Derivatives*, IFRIC 14 and IAS 19 "Limit on a defined benefit asset, minimum funding requirements and their interaction" and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*. Details of these standards and interpretations were summarised in Note 3 to the consolidated financial statements for 2008 and their application had no material impact on the Group.

3.2.2 Standards and interpretations issued but not yet effective:

At the date of preparation of these annual financial statements, the following standards and interpretations had been published by the IASB but had not become effective, either because their effective date was subsequent to the reporting date or because they had yet to be adopted by the European Union:

Standard	Item	Mandatory application (years beginning after)
Approved for use in EU: Revised IFRS 3 Amended IAS 27 Amended IAS 39 Amended IAS 32 IFRIC 12 (1) IFRIC 15 (1)	Business Combinations Changes in Investments Eligible Hedged Items Classification of Rights Issues Service Concession Arrangements Agreements for the Construction of Real Estate	1 July 2009 1 February 2010 1 February 2010 1 February 2010 1 April 2009 1 January 2010
IFRIC 17 (1) IFRIC 18 (1)	Distribution of Non-cash Assets to Owners Transfers of Assets from Customers	1 November 2009 1 November 2009
Not approved for use in EUR (2): IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013
Projects for improvements in 2009	Non-urgent improvements to IFRS	Various (mostly 1 January 2010)
Amended IFRS 2 Revised IAS 24 Amended IFRIC 14 IFRIC 19	Group Share-based Payments Related Party Disclosures Minimum Funding Requirements Extinguishing Financial Liabilities with Equity Instruments	1 January 2010 1 January 2011 1 January 2011 1 July 2010

(1) Date of mandatory application based on the date for adoption published in the Official Journal of the European Union, which is different from the original date set by the IASB.

(2) Standards and interpretations not yet adopted by the European Union at the date of preparation of these consolidated financial statements.

The directors of the Parent have measured the potential impacts of future application of these standards and interpretations and consider that their entry into force will have no material effect on the consolidated financial statements.

3.3 Responsibility for the information and estimates made

The information included in these consolidated financial statements is the responsibility of the directors of the Parent.

The Group's consolidated financial statements for 2009 made use of estimates by the Parent's directors to measure some assets, liabilities, income, expenses and obligations. These estimates related basically to the following:

- The assessment of possible impairment losses on certain assets.
- The assumptions used in the actuarial calculation of obligations to employees.
- The useful lives of property, plant and equipment and of intangible assets.
- The criteria used to measure certain assets.
- The value of travel tickets and documents sold but never used.

- The estimate of the liability accrued at year-end in respect of outstanding points granted to holders of “Iberia Plus” loyalty cards.
- Measurement of provisions and contingencies.
- The fair value of certain financial instruments.
- Measurement of the terms of leases.

The estimates were made on the basis of the best information available at 31 December 2009 on the events analysed. It is however possible that future events may lead to a modification of these estimates in coming years. Any such changes would have only a prospective effect.

Loss for the year

The Group made a EUR 273 million loss in 2009. This loss was basically a result of weaker demand and lower average revenues.

The Group's budget for 2010 envisages a profit, and projections drawn up by the Parent's management forecast positive and growing profit for the next 5 years. The implementation of the current merger with British Airways plc, described in Note 7.1.1, should improve this profit outlook thanks to the resulting synergies.

As a result, the Parent's directors do not consider it necessary to recognise provisions for impairment of Group assets beyond those recorded in the consolidated financial statements for 2009 and explained in the corresponding notes.

3.4 Consolidation principles

3.4.1 Subsidiaries

Subsidiaries are companies over which Iberia, Líneas Aéreas de España, S.A. can exercise effective control. Effective control is evidenced in general, although not exclusively, by the direct or indirect ownership of 50% or more of the voting rights of the subsidiaries or, when the Parent has a lower or no ownership stake, by shareholder agreements that assure it of control. Control is the power to govern the financial and operating policies of that entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are consolidated with those of the Parent using the full consolidation method. Consequently, all material balances and effects of transactions between consolidated companies were eliminated on consolidation.

Interests owned by third parties in Group equity and third parties' share in profit or loss for the year are recorded under “Non-controlling Interests” in the consolidated statement of financial position and consolidated income statement, respectively.

3.4.2 Associates

Associates are entities over which the Parent has significant influence and which are neither a subsidiary nor a joint venture. In general, this influence is evidenced by a direct or indirect holding of 20% or more of the investee company's voting rights.

Investments in associates are accounted for using the equity method; that is, the Group accounts for its proportional share in the associate's equity, net of any dividends received and other equity eliminations. The Group's share of the associate's profit or loss for the year is recognised in “Group Share in Profit of Associates” in the income statement.

Gains or losses from any transactions with associates are eliminated to the extent of the Group's interest in the associate concerned.

If an associate incurs losses to the extent that its equity becomes negative, it is recorded as zero in the Group's consolidated statement of financial position, since the Group has no obligation to support the associate financially.

Exceptionally, the "Iberbus" companies (Note 7.1), in which the group owns more than 20% of the voting rights, are not considered to be associates and therefore are not consolidated. This is because their controlling shareholder, Airbus, has guaranteed that Iberia, Líneas Aéreas de España, S.A., as a non-controlling shareholder, will recover the whole of its investment.

The accounting policies and principles applied by consolidated companies have been harmonised with those of the Group during the consolidation process.

4. Application of Parent loss

The directors propose that the Parent's loss for 2009 should be taken in full to prior years' losses.

5. Accounting policies and measurement bases

The main accounting policies and measurement bases used in preparing the consolidated financial statements for 2009 are as follows:

5.1 Intangible assets

Intangible assets include computer software which was mainly acquired from third parties. The Group recognises costs incurred to acquire or develop software programmes under this heading. Maintenance costs of computer applications are recognised with a charge to the income statement for the year in which they are incurred. Computer software is amortised on a straight-line basis over five years. In 2009 the charge for this item was EUR 20 million (compared to EUR 19 million in 2008).

5.2 Property, plant and equipment

Property, plant and equipment are carried at historical cost, net of the related accumulated depreciation and impairment losses, if any, in accordance with the criteria in Note 5.3.

Improvements to items of property, plant and equipment leading to increased capacity, efficiency, or to a lengthening of the useful lives of the assets are capitalised.

The Group depreciates the depreciable cost of its property, plant and equipment using the straight-line method at annual rates based on years of estimated useful life.

The estimated useful life of property, plant and equipment items are as follows:

	years
Aircraft	18 – 22
Buildings and other structures	20 – 50
Machinery, fixtures and tools	10 – 15
Surface transport equipment	7 – 10
Furniture and fixtures	10
Computer hardware	4 – 7
Spare parts for PPE	8 – 18
Flight simulators	12 – 14

The estimated residual value of rotatable fuselage parts (those assigned to specific types or families of aircraft), which is recognised under “Spare Parts for Property, Plant and Equipment”, ranges from 10% to 20% of acquisition cost, depending on the type of aircraft to which the parts are assigned. The estimated residual value of repairable fuselage parts is 10% of acquisition cost.

The Group depreciates in full the acquisition cost of other items of property, plant and equipment.

When consolidating owned aircraft and aircraft operated under a finance lease, the Group strips out from the cost of the aircraft the cost of components that will be replaced during the scheduled overhauls that take place every four to seven years. This cost is depreciated on a straight-line basis over the period from the acquisition of the aircraft to the first scheduled overhaul. The cost of the repairs made during these overhauls is capitalised to property, plant and equipment and depreciated over the period until the next scheduled overhaul.

For each aircraft operating under an operating lease, based on the terms of the lease, the Group recognises a provision for the total cost of scheduled overhauls and allocates this cost to the consolidated income statement on a straight-line basis over the period between two consecutive overhauls (Note 10).

Maintenance costs of property, plant and equipment and the cost of minor repairs to aircraft operated by the Group are recognised in the income statement as incurred.

5.3 Impairment of property, plant and equipment and intangible assets

When there is any indication of decline in value, the Group performs an impairment test to estimate the possible loss of value that may reduce the recoverable amount of the assets to below their carrying amount.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the Group recognises an impairment loss in the income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to a maximum of the original carrying amount that would have been recognised had no impairment loss been recognised.

5.4 Leases

Leases are classified as finance or operating leases depending on the substance and the nature of the transaction. The main leases entered into by the Group are for aircraft and do not include automatic transfer of ownership at the end of the lease term.

Leases are classified as finance leases whenever their terms include an option for the lessee to acquire the asset (purchase option) and Group management has decided to exercise the option. Other leases, with or without a purchase option, are classified as operating leases unless their terms and conditions make the transaction equivalent to an acquisition (based on following indicators: purchase option, lease term and present value of the payment obligations).

Finance leases

For finance leases, the Group recognises the cost of the leased assets in the consolidated statement of financial position based on the nature of the leased asset and, simultaneously, a liability for the same amount. This amount is calculated as the lower of the fair value of the leased asset and the present value, at the beginning of the lease term, of the minimum payments agreed upon, plus any purchase option, when there is no reasonable doubt as to its exercise. The calculation does not include contingent payments, service costs or taxes that can be passed on by the lessor. The total finance charge on the lease is recognised in the consolidated income statement for the year in which it is incurred, using the effective interest rate method. Contingent payments, if any, are recognised as an expense for the year they are incurred.

The assets recognised for these types of transactions are depreciated on the basis of their nature using similar criteria to those applied to other items of property, plant and equipment.

Operating leases

Costs from operating leases are recognised in the consolidated income statement for the year when they are incurred.

Any receipt or payment made on contracting an operating lease is treated as an advance receipt or payment and recognised in the income statement over the lifetime of the lease as the benefits of the leased asset are received or given.

5.5 Investments in associates

This mainly consists of the Parent's stake in Vueling Airlines, S.A., recognised at EUR 117 million in the consolidated statement of financial position.

At 31 December 2009, the Parent's stake in Vueling Airlines, S.A., based on its stock market price, was measured at EUR 169 million.

5.6 Financial assets

The financial assets held by the Group are classified as follows:

- a) Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of business, or financial assets which did not arise from the ordinary course of business but are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.
- b) Financial assets held for trading: those acquired with the purpose of selling them in the near term or part of a portfolio of identified financial instruments for which there is evidence of a recent actual pattern of short-term profit-taking. This category includes financial derivatives, except for those that constitute financial guarantee contracts (such as pledges) or have been designated as hedging instruments.
- c) Available-for-sale financial assets: these include debt securities and equity instruments of other companies that are not classified in any of the previous categories.

Loans and receivables are initially measured at the fair value of the consideration given plus directly attributable transaction costs and, thereafter, at amortised cost. The Group has recognised provisions to cover non-payment risks. These provisions are calculated according to the probability of recovering the debt based on its age and the debtor's solvency. At 31 December 2009 the fair value of these assets was not materially different from their value in the consolidated statement of financial position.

Financial assets held for trading are measured at fair value through profit or loss on the consolidated income statement.

Available-for-sale financial assets are measured at fair value until the asset is disposed of or has become permanently impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the consolidated income statement.

At least at each reporting date the Group tests its financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the income statement.

The Group derecognises financial assets when the rights to receive the asset's cash flows have expired or are sold and substantially all the risks and rewards of ownership have been transferred. However, the Group does not derecognise financial assets which it sells while retaining substantially all the risks and rewards of ownership, instead recognising a financial liability equal to the consideration received.

The Group generally invests its temporary cash surpluses in short-term financial assets, which are recognised under "Current Financial Assets" and "Cash Equivalents" at the amounts invested. Interest on these investments is recognised as income when paid and interest accrued at year-end is recognised in the consolidated statement of financial position as an increase in the corresponding item.

Cash and cash equivalents

This includes cash and short-term highly liquid investments maturing in less than three months that are readily convertible to cash and where the risk of change in value is insignificant. Interest on these investments is recognised as income when paid and interest accrued at year-end is recognised in the consolidated statement of financial position as an increase in this item.

"Cash Equivalents" in the consolidated statement of financial position at 31 December 2008 includes all investment maturing in less than three months from that date, irrespective of the original term of these investments. If 2009 criteria were applied to the 2008 consolidated financial statements "Cash Equivalents" would be reduced by EUR 104 million, and this amount would instead be recognised as an increase to "Current Financial Assets – Other Financial Assets".

Treasury shares of the Parent

Treasury shares are recognised at the value of the consideration paid and are deducted from equity. Gains and losses on the acquisition, sale, issue or cancellation of treasury shares are recognised in equity.

5.7 Financial liabilities

Financial liabilities include payables owed by the Group that arose from the purchase of goods and services in the normal course of its business, or non-commercial payables that cannot be considered to be derivative financial instruments.

These payables are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs. They are subsequently measured at amortised cost. At 31 December 2009, the amortised cost was not materially different from fair value.

The Group derecognises financial liabilities once the resulting obligations have been extinguished.

5.8 Inventories

Inventories are measured at the lower of acquisition cost (weighted average cost) or market value (net realisable value) and include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

The Group makes the appropriate valuation adjustments, and recognises them as an expense in the income statement when the net realisable value of the inventories is lower than their acquisition cost.

5.9 Balances and transactions in currencies other than the euro

Transactions in currencies other than the euro and the resulting receivables and payables are recognised at their equivalent euro value at the transaction date.

Receivables and payables denominated in currencies other than the euro are translated into euros at the exchange rates prevailing at 31 December each year. However, following customary airline practice, the balance of the liability for unused traffic documents is recognised in the consolidated statement of financial position at the exchange rate prevailing in the month of the sale, as set by the International Air Transport Association (IATA). The IATA exchange rate for each month is the average exchange rate for the last five bank working days prior to the 25th, inclusive, of the preceding month.

Any differences in value arising from a discrepancy between the official exchange rates at year-end and the exchange rates at which non-euro receivables and payables were originally recognised or from differences with exchange rates at the date of collection or payment of non-euro receivables, payables and cash or equivalent balances are allocated to "Exchange Differences" in the consolidated income statement.

5.10 Income tax

Since 1 January 2002 Iberia, Líneas Aéreas de España, S.A. and certain subsidiaries file consolidated tax returns under the tax system provided for by Chapter VII of Title VII of the Amended and Consolidated Spanish Corporate Income Tax Law. The Consolidated Tax Group is made up of all the fully consolidated companies except for Binter Finance, BV and Iberia México, S.A., which do not meet the legal requirements for inclusion.

For each company, the current tax for the year is the amount paid in settlement of the income tax returns for that year. Tax credits and other tax benefits applied to the taxable profit, excluding withholdings, prepayments and tax loss carryforwards effectively offset during the year, are deducted from the current tax amount.

Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, measured at the amount expected to be payable or recoverable, between the carrying amounts of assets and liabilities and their tax bases, as well as tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are only recognised to the extent that it is considered probable that the Group will have sufficient taxable profits in the future against which the deferred tax asset can be offset.

Deferred tax assets and liabilities arising from items directly charged or credited to equity accounts are also recognised with a charge or credit, respectively, to equity.

Recognised deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made where there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised where it has become probable that they will be recovered through future taxable profits.

5.11 Income and expense recognition

Income and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Ticket sales and sales of the traffic documents for cargo and other services are initially credited to "Customer Prepayments" in the consolidated statement of financial position. This shows the estimated liability for ticket sales and traffic documents sold each year prior to 31 December but not yet used at that date. The related revenue is recognised when the transport or service actually happens.

Iberia, Líneas Aéreas de España, S.A. operates the "Iberia Plus" card to promote customer loyalty. Cardholders accumulate points for taking certain flights, using the services of entities participating in the programme or making purchases with credit cards signed up to the programme. The points can be exchanged for free tickets or other services offered by participating companies. Points are measured at fair value which is initially recognised as deferred income. The fair value of unused points at 31 December 2009 of EUR 156 million was recognised under "Non-current Accrued Expenses and Deferred Income" on the liabilities side of the consolidated statement of financial position.

Iberia, Líneas Aéreas de España, S.A. bases its measurement of the fair value of points granted on the fares for its own flights and the terms of agreements with other companies participating in the "Iberia Plus" programme. These agreements state the prices that they can recovered from Iberia, Líneas Aéreas de España, S.A. for Iberia Plus points redeemed against their services.

When programme users redeem the points against services provided by Iberia, Líneas Aéreas de España, S.A. it is recorded as income in the consolidated income statement. Income recognised for redeemed points includes not only the value of the points themselves but also a percentage estimated to represent the number of points that will be left unredeemed by Iberia Plus beneficiaries. It is currently estimated that 18% of points will never be redeemed, based on the experience of the Parent over the lifetime of the programme.

In general, any incentives, bonuses or discounts received in cash or in kind by the Parent relating to aircraft coming into service under operating leases are recognised in the consolidated income statement either on a straight-line basis over the term of the lease or when the incentive, bonus or discount is used. Amounts not yet recognised as income at each year-end are included under "Non-Current Accrued Expenses and Deferred Income" on the liability side of the consolidated statement of financial position.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment is established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income in the consolidated income statement.

5.12 Non-Current Provisions

In preparing the consolidated financial statements, the directors drew a distinction between:

1. Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources, but which are uncertain as to their amount and/or timing.
2. Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more future events not wholly within the control of the consolidated companies.

The consolidated financial statements recognise provisions when it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are disclosed in the notes to the financial statements, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as a finance cost on an accrual basis. The Group reverses these provisions, fully or partially, when the obligations cease to exist or are reduced.

Provisions for restructuring costs

In December 2001 the Parent obtained authorisation from the employment authorities for a collective redundancy procedure to be applied to various employee groups. This was extended by further authorisations (the last granted in November 2007) and remains in force until 31 December 2010 for ground staff and cabin crew. On 20 April 2009, the Parent approved an extension to the term and scope of the redundancy procedure until 31 December 2013 to include pilots on the same terms and conditions. The procedure provides for payments until the statutory retirement age to employees who meet certain conditions and decide to request early retirement.

The actuarial studies used to determine the liability to the employees who have opted for early retirement under these conditions are based on similar assumptions to those described in the section on "Provision for Obligations to Employees". The successive payments resulting from these commitments are deducted from the provisions recorded.

Liabilities arising from the redundancy procedure are recognised as "Provisions for Obligations to Employees" under "Non-Current Provisions" in the consolidated statement of financial position (Note 10).

Also, a collective redundancy procedure for handling staff on the ground associated with the process for the assignment of resources by way of subrogation was approved in 2006 which will remain in force until 2014. The consolidated statement of financial position at 31 December 2009 includes no provisions for this second collective redundancy procedure, since there is no associated cost commitment.

Obligations to Employees

Under the collective labour agreements in force at the Parent, on reaching the age of 60 flight crew cease to discharge their duties and are placed on reserve, although their employment relationship remains in place until their statutory retirement age. Since May 2009, pilots, on reaching the age of 60, have had the option of remaining active, subject to restrictions on certain aspects of their work. The Parent recognises the costs of staff placed on reserve throughout the active working life of each employee based on the related actuarial studies.

The collective labour agreements in force at the Parent also provide that flight crew who meet certain conditions may take early retirement (special leave of absence and voluntary termination). The Parent is required to pay certain amounts of remuneration to these employees until they reach the statutory retirement age. The Parent recognises the provision required to meet the future payment obligations to the employees concerned, based on actuarial studies, with a charge against the consolidated income statement in the year that this happens. At present, 165 employees are on special leave and 257 employees have opted for voluntary termination.

Liabilities arising from these agreements are recognised as "Provisions for Obligations to Employees" under "Non-Current Provisions" in the consolidated statement of financial position (Note 10).

These liabilities were calculated on the basis of actuarial studies by independent actuaries using the projected unit credit method and based on a discount rate of 3.5% and PERM/F-2000 P mortality tables, assuming 2% growth in CPI.

5.13 Montepío de Previsión Social Loreto

The main purpose of the Montepío de Previsión Social Loreto is to pay retirement pensions to its members (who include the employees of Iberia, Líneas Aéreas de España, S.A.) and other welfare benefits in certain circumstances (death or permanent disability).

Under the current collective labour agreements, the Parent and its employees make the statutory contributions (defined contributions) to the Montepío, as established in these labour agreements. The Montepío's bylaws limit the Parent's liability to the payment of the statutory contributions established.

The Parent's contributions in 2009 and 2008 were EUR 24 million and EUR 22 million, respectively, which was recognised under "Employee Costs – Recurring" in the consolidated income statement.

5.14 Non-current assets and disposal groups held for sale

The Group classifies a non-current asset or disposal group as held for sale when it has taken the decision to sell it and the sale is expected to be completed within twelve months or as stated in a signed sale agreement.

These assets or disposal groups are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets held for sale are not depreciated, but rather at the date of each consolidated statement of financial position the related valuation adjustments are made to ensure that the carrying amount is not higher than fair value less costs to sell.

Income and expenses arising from non-current assets and disposal groups held for sale which do not qualify as discontinued operations are recognised under the corresponding heading in the consolidated income statement by nature.

5.15 Derivative financial instruments and hedging transactions

The derivatives held by the Group relate mainly to foreign currency, interest rate and fuel price hedges, the purpose of which is to significantly reduce these risks in the underlying hedged transactions.

Financial derivatives are initially recognised at cost in the consolidated statement of financial position, and remeasured to fair value thereafter. Increases in value are recognised under "Derivatives" and reductions in value under "Non-current or Current Borrowings – Derivatives" in the consolidated statement of financial position. Gains and losses from these changes are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument and the resulting hedge is highly effective, in which case the recognition criteria are as follows:

1. Fair value hedges: the hedged item and the hedging instrument are both measured at fair value, and any changes in their fair values are recognised in the consolidated income statement, netting their effects under the same heading.
2. Cash flow hedges: changes in the fair value of derivatives are recognised under "Equity – Valuation Adjustments". Gains or losses recognised in this heading are transferred to the consolidated income statement to match the underlying's impact (for the risk hedged) on the consolidated income statement; thus this effect is netted off under the same heading in the consolidated income statement.

The fair value of the derivative financial instruments is calculated using the valuation methods described in Note 12.1.

5.16 Current / Non-current classification

In the consolidated statement of financial position, assets and liabilities that are expected to be settled or fall due within 12 months from the reporting date are classified as current items and those which fall due or will be settled within more than 12 months are classified as non-current items.

5.17 Earnings per share

Basic earnings per share are calculated by dividing profit or loss for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies.

5.18 Consolidated statement of cash flows

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

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term investments that are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

5.19 Activities with an environmental impact

Environmental activities are generally considered to be those aimed at preventing, reducing or repairing damage to the environment.

Accordingly, investments deriving from environmental activities are measured at cost and capitalised as an increase to property, plant and equipment in the year they are carried out.

Costs arising from environmental protection and improvements are taken to the income statement for the year in which they are incurred, irrespective of when the associated monetary or financial flows take place.

Provisions for contingencies or liabilities, litigation in progress and indemnities or obligations of undetermined amount related to the environment that are not covered by insurance policies are made as soon as the contingency or liability giving rise to the indemnity or payment occurs.

6. Property, plant and equipment

The variations in 2009 and 2008 in property, plant and equipment were as follows:

2009

	Millions of Euros				
	31/12/2008	Additions or provisions	Transfers	Retirements	31/12/2009
Cost:					
Aircraft	1,549	46	25	(163)	1,457
	1,549	46	25	(163)	1,457
Other property, plant and equipment					
Land	3	-	-	-	3
Buildings and other structures	158	-	-	(3)	155
Machinery, fixtures and tools	450	16	4	(4)	466
Surface transport equipment	32	1	-	-	33
Furniture and fixtures	21	2	-	(1)	22
Computer hardware	112	5	-	(3)	114
Spare parts for property, plant and equipment	216	22	-	(29)	209
Flight simulators	3	-	-	-	3
Work in progress	21	29	(12)	(16)	22
	1,016	75	(8)	(56)	1,027
Depreciation:					
Aircraft	(731)	(105)	-	113	(723)
	(731)	(105)	-	113	(723)
Other property, plant and equipment					
Buildings and other structures	(118)	(4)	-	1	(121)
Machinery, fixtures and tools	(330)	(22)	-	5	(347)
Surface transport equipment	(23)	(3)	-	-	(26)
Furniture and fixtures	(16)	(1)	-	1	(16)
Computer hardware	(81)	(11)	-	2	(90)
Spare parts for property, plant and equipment	(105)	(10)	-	18	(97)
Flight simulators	(1)	-	-	-	(1)
	(674)	(51)	-	27	(698)
Provisions:					
Aircraft	(39)	(2)	-	24	(17)
Other property, plant and equipment	(3)	-	-	3	-
	(42)	(2)	-	27	(17)
Total, net	1,118				1,046

2008

	Millions of Euros				
	31/12/2007	Additions or provisions	Transfers	Retirements	31/12/2008
Cost:					
Aircraft	2,092	137	(315)	(365)	1,549
	2,092	137	(315)	(365)	1,549
Other property, plant and equipment					
Land	3	-	-	-	3
Buildings and other structures	159	-	-	(1)	158
Machinery, fixtures and tools	464	10	1	(25)	450
Surface transport equipment	36	-	-	(4)	32
Furniture and fixtures	21	-	-	-	21
Computer hardware	100	15	-	(3)	112
Spare parts for property, plant and equipment	207	19	-	(10)	216
Flight simulators	3	-	-	-	3
Work in progress	8	21	(6)	(2)	21
	1,001	65	(5)	(45)	1,016
Depreciation:					
Aircraft	(1,162)	(121)	280	272	(731)
	(1,162)	(121)	280	272	(731)
Other property, plant and equipment					
Buildings and other structures	(116)	(4)	-	2	(118)
Machinery, fixtures and tools	(329)	(24)	-	23	(330)
Surface transport equipment	(23)	(3)	-	3	(23)
Furniture and fixtures	(15)	(1)	-	-	(16)
Computer hardware	(73)	(11)	-	3	(81)
Spare parts for property, plant and equipment	(99)	(10)	-	4	(105)
Flight simulators	(1)	-	-	-	(1)
	(656)	(53)	-	35	(674)
Provisions:					
Aircraft	(139)	-	54	46	(39)
Other property, plant and equipment	(3)	-	-	-	(3)
	(142)	-	54	46	(42)
Total, net	1,133				1,118

6.1 Aircraft

Additions

The additions in each year related to:

	Millions of Euros	
	2009	2008
Aircraft	15	73
Engines	12	44
Refurbishment	19	20
	46	137

In 2009, the Group bought an aircraft for the A-320 fleet with two engines that were subsequently sold (see section on retirements). The Parent also bought one engine for the A-319 fleet and one for the A-340-600 fleet.

The additions to the fleet in 2008 consisted of two A-320s, which were sold the same year (see section on retirements), and two A-340s which had been operated under operating leases. A finance lease was arranged for one and the purchase option exercised on the other.

Transfers

Transfers for 2009 mainly concerned deposits previously put down for the acquisition of aircraft and engines, recognised in “Non-current Financial Assets – Other Financial Assets” (Note 7.1.3), and transfers of work in progress.

In 2008, the Group reclassified the aircraft in the MD fleet, which it no longer uses and which are under contract of sale to be delivered in the next few years, to “Non-current Assets Held for Sale”, in amounts of EUR 345 million under costs, EUR 280 million of cumulative depreciation and EUR 54 million of impairment provisions. Other transfers in 2008 mainly concerned deposits previously put down for the acquisition of aircraft and engines, recognised in “Non-current Financial Assets – Other Financial Assets” (Note 7.1.3).

Retirements

The retirements in each year related to:

Fleet	Millions of Euros					
	2009			2008		
	Cost	Accumulated depreciation	Provisions	Cost	Accumulated depreciation	Provisions
A-320	34	(8)	-	47	(10)	-
MD	-	-	-	152	(132)	(18)
A-340	3	(3)	-	15	(9)	-
B-747	126	(102)	(24)	148	(120)	(28)
MD-88	-	-	-	3	(1)	-
	163	(113)	(24)	365	(272)	(46)

A-320 aircraft:

In 2009, the Parent sold an A-320 that it had previously bought in the same year and had not brought into service. The sale of this aircraft generated a profit of EUR 2 million under “Impairment Losses and Gains (Losses) on Disposal Of Assets”. Also derecognised was an engine damaged during the year, for which EUR 1 million was recovered from the insurer and recognised under “Impairment Losses and Gains (Losses) on Disposal of Assets” in the consolidated income statement for 2009. The Group also derecognised the cost of overhauls carried out under the scheduled maintenance programme for the fleet which had been fully depreciated.

In 2008, the Parent sold two A-320s which it had bought earlier the same year and not brought into service. The gain from the sale was recognised under “Impairment Losses and Gains (Losses) from Disposal of Assets” on the consolidated income statement for 2008. The Parent also derecognised the cost of overhauls carried out under the scheduled maintenance programme for this fleet which had been fully depreciated.

MD-87 aircraft:

Retirements from the MD-87 fleets in 2008 refer to the sale of eight MD-87s and twenty engines. These retirements generated a profit for the Group of EUR 5 million, recognised under "Impairment Losses and Gains (Losses) from Disposal of Assets".

B-747 aircraft:

In 2008, the Group derecognised two aircraft and two engines from the B-747 fleet with a net carrying amount of zero.

Also in 2009 the Group derecognised another two aircraft from the same fleet which were grounded at 31 December 2008, also with zero net carrying amount.

Provisions on aircraft

To cover possible impairment losses on scheduled derecognition of aircraft, the Group makes provisions so that the net carrying amount of aircraft to be derecognised equals their net realisable value. The main provisions in 2008 and 2009 were:

Aircraft	Millions of Euros							
	Balance at 01/01/2008	Retirements	Transfers	Balance at 31/12/2008	Additions	Retirements	Transfers	Balance at 31/12/2009
B-747	63	(28)	-	35	-	(24)	-	11
B-757	3	-	-	3	-	-	(3)	-
MD	72	(18)	(54)	-	-	-	-	-
A-320	-	-	-	-	2	-	3	5
Other	1	-	-	1	-	-	-	1
	139	(46)	(54)	39	2	(24)	-	17

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 31 December 2009, the amount of the bond outstanding was USD 86 million and EUR 120 million (compared to USD 101 million and EUR 120 million at 31 December 2008).

The Parent is carrying out an aircraft renewal programme under various agreements with Airbus, covering the A-319, A-320, A-330 and A-340 fleets. Following updates to the Airbus agreement, the aircraft not yet delivered at 31 December 2009 and the years when they are scheduled to join the fleet are as follows:

Fleet	Number of aircraft				
	2010	2011	2012	2013	Total
A-320	-	3	-	7	10
A-340-600	2	-	-	-	2
	2	3	-	7	12

The terms of this renewal programme oblige the Parent to post EUR 188 million in deposits, of which it had already delivered EUR 119 million at 31 December 2009 (Note 7.1.3). The following table shows the schedule for delivery of the outstanding amounts:

	Millions of Euros
2010	21
2011	18
2012	29
2013	1
	69

Based on the basic prices in the agreements, the total cost of the aircraft subject to outright purchase commitments not yet delivered at 31 December 2009 was approximately EUR 719 million.

The Parent also has options on 14 A-320 aircraft, and has made a prepayment of EUR 3 million, recognised under "Non-current Financial Assets – Other Financial Assets" in the consolidated statement of financial position at 31 December 2009 (see Note 7.1.3).

The details above also exclude two A-319s, one A-320 and two aircraft from the A-340-600 fleet which were awaiting formal delivery. The prepayments made for these planes total EUR 114 million, recognised under "Current Financial Assets – Other Financial Assets" on the consolidated statement of financial position at 31 December 2009 (Note 7.2).

Aircraft in service

Following is a summary of the Group's aircraft in service at 31 December 2009:

Fleet	Number of aircraft			
	Owned	Under finance lease	Under operating lease	Total
A-319	-	-	22	22
A-320	2	6	28	36
A-321	-	4	15	19
A-340-300	6	1	13	20
A-340-600	-	-	12	12
	8	11	90	109

The foregoing table excludes one B-747 aircraft owned by the Group which was grounded at 31 December 2009 because it was to be sold or scrapped and which has a carrying amount of zero. It also excludes the MD aircraft discussed in Note 6.6 on "Non-Current Assets Held for Sale".

Also excluded from the table above, are eight A-320s owned by the Group, which the Group temporarily grounded in 2009 because of the falloff in air traffic. Nor does the table include one aircraft from the A-340-600 fleet whose operating lease was signed in 2009 but which had not yet come into service at 31 December.

Aircraft operated under operating and wet leases

In 2009, wet leases were cancelled on three A-340-300s which were moved onto operating leases.

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

Fleet	Year										No. of Aircraft
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
A-319	1	1	4	8	4	1	-	-	-	3	22
A-320	1	1	2	6	2	2	5	-	-	9	28
A-321	-	-	-	1	-	2	3	2	1	6	15
A-340-300	3	1	3	2	3	1	-	-	-	-	13
A-340-600	-	-	-	-	-	3	2	3	4	-	12
Total	5	3	9	17	9	9	10	5	5	18	90

As well as the aircraft shown in the table above, the Group has operating leases on a B-757 which at 31 December 2009 was sub-leased to another airline, an A-340-600 which was out of service on 31 December 2009 and an A-340-300 and an A-320 which at 31 December 2009 were out of service pending return to their respective lessors.

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 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.

Operating lease costs

The lease payments in 2009 and 2008 for aircraft operating leases and wet leases amounted to EUR 331 million and EUR 357 million, respectively, and are included under "Other operating costs - Recurring" in the consolidated income statement (Note 15.3). The approximate total for operating lease payments payable for these aircraft, calculated based on the interest rates and exchange rates prevailing at 31 December 2009 and 2008, is as follows:

Year	Millions of Euros	
	31/12/2009	31/12/2008
2009	-	292
2010	256	267
2011	242	252
2012	228	239
2013	177	190
2014 and beyond	606	588
	1,509(*)	1,828

(*) Equivalent to USD 2,174 million at the year-end exchange rate. The exchange rate and interest rate risks on these lease payments are partially hedged with derivatives (Note 12).

6.2 Other property, plant and equipment

The carrying amount of the buildings and facilities built on state-owned land, mainly at Spanish airports, was EUR 33 million and EUR 32 million, respectively, at 31 December 2009 and 2008. The Parent's directors do not expect any material losses to arise as a result of the reversion process since the maintenance programmes ensure that the items are always in good operating condition.

6.3 Assets held under finance leases

At 31 December 2009 the total cost of property, plant and equipment acquired under finance leases, mainly aircraft, was EUR 408 million with EUR 127 million of accumulated depreciation (EUR 408 million and EUR 104 million in 2008).

The schedule for lease payments outstanding at 31 December 2009, including purchase options, is shown in Note 11.2.

6.4 Fully depreciated items

At 31 December 2009 and 2008, the cost of the Group's fully depreciated items of property, plant and equipment was EUR 407 million and EUR 356 million, respectively, the detail being as follows:

	Millions of Euros	
	31/12/2009	31/12/2008
Aircraft	29	24
Buildings	62	59
Machinery, fixtures and tools	229	196
Furniture and fixtures	8	8
Computer hardware	66	57
Vehicles and other items	13	12
	407	356

6.5 Insurance coverage

Group companies have taken out insurance policies for their property, plant and equipment and intangible assets which provide adequate cover for their carrying amount at 31 December 2009. Also, the Group has taken out insurance policies to cover aircraft leased to third parties.

6.5 Non-current assets not in service

The Group keeps certain assets of property, plant and equipment in the consolidated statement of financial position at 31 December 2009, basically aircraft and engines, which are not in service. The cost of these assets, EUR 78 million (EUR 204 million at 31 December 2008), is covered by the related depreciation and provisions recognised. These amounts do not include the aircraft which were temporarily grounded in 2009 (see Note 6.1 "Aircraft in service").

6.6 Non-current assets held for sale

All balances recognised under this heading in the consolidated statement of financial position relate to the Parent's MD aircraft which are to be sold in the next few years under the sale contracts for this fleet. At 31 December 2009 these aircraft were not in service.

In 2009, the Group sold 11 engines from this fleet with a carrying amount of EUR 2 million, recognising gains of EUR 2 million under "Impairment and Gains (Losses) from Disposal of Assets" on the consolidated income statement for 2009. A damaged engine from the same fleet was also derecognised.

7. Financial assets

7.1 Non-current financial assets

The detail of "Non-current Financial Assets" at 31 December 2009 and 2008 is as follows:

31 December 2009

	Millions of Euros				
	Equity instruments	Loans to third parties	Derivatives (Note 12)	Other financial assets	Total
Loans and receivables	10	77	-	147	234
Available-for-sale financial assets:					
- At fair value	243	-	-	-	243
- At cost	16	-	-	-	16
Derivatives	-	-	4	-	4
Total	269	77	4	147	497

31 December 2008

	Millions of Euros				
	Equity instruments	Loans to third parties	Derivatives (Note 12)	Other financial assets	Total
Loans and receivables	12	123	-	238	373
Available-for-sale financial assets:					
- At fair value	219	-	-	-	219
- At cost	16	-	-	-	16
Derivatives	-	-	70	(6)	64
Total	247	123	70	232	672

7.1.1 Equity instruments

Movements in equity instruments in the consolidated statement of financial position during 2009 and 2008 were as follows:

2009

	% Ownership at 31/12/2009	Millions of euros					
		Balance at 31/12/2008	Additions	Retire-ments	Exchange differences	Valuation adjustments	Balance at 31/12/2009
Loans and receivables:							
Iberbus companies	40.00-45.00	12	-	(2)	-	-	10
Available-for-sale financial assets:							
- At fair value							
British Airways Plc	9.99	217	-	-	-	25	242
Other		2	-	(1)	-	-	1
- At cost							
Servicios de Instrucción de Vuelo, S.L.	19.90	9	-	-	-	-	9
Wam Acquisition, S.A.	11.57	7	-	-	-	-	7
		247	-	(3)	-	25	269

2008

	% ownership at 31/12/2008	Millions of euros					
		Balance at 01/01/2008	Additions	Retire-ments	Exchange differences	Valuation adjustments	Balance at 31/12/2008
Loans and receivables: Iberbus companies	40.00-45.00	25	-	(9)	(4)	-	12
Available-for-sale financial assets:							
- At fair value							
British Airways Plc	9.9	-	331	-	-	(114)	217
Other		1	-	-	-	1	2
- At cost							
Servicios de Instrucción de Vuelo, S.L.	19.90	9	-	-	-	-	9
Wam Acquisition, S.A.	11.57	7	-	-	-	-	7
		42	331	(9)	(4)	(113)	247

Iberbus companies

Airbus, the controlling shareholder of the *Iberbus* companies, has guaranteed the recovery of all the financial investments and loans made by Iberia, Líneas Aéreas de España, S.A. to these companies. For this reason, no provisions were taken against the stakes in these companies and they continue to be carried at their acquisition cost.

British Airways Plc

In 2008 the Group acquired shares giving it a 9.9% ownership stake in British Airways plc for EUR 331 million. At year-end they were valued at EUR 217 million. At 31 December 2009 the fair value of these shares was EUR 242 million and the EUR 89 million fall in value from their original cost was recognised, net of tax effects, as a charge to "Valuation Adjustments" in the consolidated statement of financial position.

In 2009, the boards of directors of Iberia, Líneas Aéreas de España, S.A. and British Airways plc approved the signature of a binding agreement setting the terms for a merger between the two companies, in order to create one of the world's leading airline groups. The agreement recognised the principle of parity on the board of directors and management bodies of the new Group. The planned merger involves the creation of a new holding company that will own 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 shareholders owning the other 55%.

In the first quarter of 2010, once the various stages in the process have been completed and the requisite authorisations obtained, it is planned to formalise a definitive merger agreement that will then be submitted to shareholders for approval.

Wam Acquisition, S.A.

The investment in Wam Acquisition S.A. was acquired in part exchange for 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.

On this point, Wam Acquisition, S.A. is currently in the process of obtaining a listing. Once this process is complete and it is officially listed, the Parent will remeasure its stake in Wam Acquisition, S.A. at fair value, which is likely to result in a significant increase in the value of the investment.

Other available-for-sale financial assets measured at fair value

During 2009 the Parent sold its stake in Opodo Ltd. at its carrying amount.

7.1.2 Loans to third parties

The changes in this heading in the consolidated statement of financial position in 2009 and 2008 were as follows:

2009

	Millions of Euros				
	Balance at 31/12/2008	Additions	Exchange differences	Transfers	Balance at 31/12/2009
Loans to Venezolana Internacional de Aviación, S.A. (a)	26	-	-	-	26
Loans to Iberbus companies	54	-	(1)	(15)	38
Loans to Aerolíneas Argentinas, S.A. (a)	36	-	-	-	36
Clickair, S.A.–Preference shares (Note 2.3)	76	-	-	(76)	-
Loans to Iberlease 2004 Ltd.	38	-	(1)	-	37
Other loans	1	1	-	-	2
Total cost	231	1	(2)	(91)	139
Provisions	(108)	-	-	46	(62)
Total, net	123				77

2008

	Millions of Euros				
	Balance at 01/01/2008	Additions	Exchange differences	Transfers	Balance at 31/12/2008
Loans to Venezolana Internacional de Aviación, S.A. (a)	26	-	-	-	26
Loans to Iberbus companies	78	-	4	(28)	54
Loans to Aerolíneas Argentinas, S.A. (a)	36	-	-	-	36
Clickair, S.A.–Preference shares	23	53	-	-	76
Loans to Iberlease 2004 Ltd.	36	-	2	-	38
Other loans	1	-	-	-	1
Total cost	200	53	6	(28)	231
Provisions	(84)	(18)	-	(6)	(108)
Total, net	116				123

- (a) The loans granted to Venezolana Internacional de Aviación, S.A. (VIASA) and Aerolíneas Argentinas, S.A. arose in prior years and had been provisioned in full at 31 December 2009 and 2008.

Iberbus companies

Iberia, Líneas Aéreas de España, S.A. has granted loans to each of the six Iberbus investees with which it has aircraft operating leases in force. The principal on these loans ranges from USD 11 million to USD 22 million. The loans were granted for a period equal to the term of the operating lease for the related A-340-300 aircraft and earn annual interest ranging from 4% to 6%. They are repayable in a one-off lump sum on maturity, which will take place in the period from 2010 to 2012. The loans maturing in 2010 were reclassified to "Current Financial Assets – Other Financial Assets" (Note 7.2).

The non-current amounts outstanding, by maturity, are as follows:

	Millions of Euros	
	31/12/2009	31/12/2008
Matures in:		
2010	-	29
2011	8	8
2012	30	17
	38	54

Iberlease 2004 Ltd.

Iberlease 2004 Ltd., the lessor of four aircraft held by the Parent under finance leases, is also the recipient of four loans granted by Iberia, Líneas Aéreas de España, S.A. with the same term as the finance leases and repayable in a single payment in December 2014. The principal of these loans is USD 54 million and interest is an annual 6% to 6.5% paid quarterly.

7.1.3 Other non-current financial assets

The changes under this heading in 2009 and 2008 were as follows:

2009

	Millions of Euros					
	Balance at 31/12/2008	Additions	Retirements	Transfers	Exchange differences	Balance at 31/12/2009
Deposits for acquisition of aircraft	216	40	(33)	(98)	(3)	122
Measurement of hedging transactions	(6)	-	(9)	-	15	-
Other	22	1	(3)	6	(1)	25
	232	41	(45)	(92)	11	147

2008

	Millions of Euros					
	Balance at 31/12/2007	Additions	Retirements	Transfers	Exchange differences	Balance at 31/12/2008
Deposits for acquisition of aircraft	201	81	(31)	(50)	15	216
Measurement of hedging transactions	3	4	-	-	(13)	(6)
Other	16	7	-	(1)	-	22
	220	92	(31)	(51)	2	232

Deposits

The amounts included in "Deposits for Acquisition of Aircraft" relate to the reimbursable advances paid for the acquisition of aircraft and engines (Note 6.1), the detail being as follows:

	Millions of Euros			
	2009		2008	
	Outright purchase	Under option/right to acquire	Outright purchase	Under option/right to acquire
A-320 family	62	3	70	3
A-340 family	55	-	137	-
Engines	2	-	6	-
	119	3	213	3

Based on scheduled aircraft deliveries, the Group considers that deposits of EUR 65 million will be used in 2009.

7.2 Current financial assets

The detail of this heading in the consolidated statement of financial position at 31 December 2009 and 2008 is as follows:

	Millions of Euros	
	Balance at 31/12/2009	Balance at 31/12/2008
Loans and receivables:		
Loans to companies	31	34
Other financial assets	1,002	1,638
Derivatives (Note 12)	55	79
Total	1,088	1,751

"Other financial assets" at 31 December 2009 includes deposits for aircraft acquisition totalling EUR 114 million (EUR 24 million at 31 December 2008) (Note 6.1).

At 31 December 2009 and 2008 the Group had EUR 874 million and EUR 1,579 million, respectively, in short-term financial assets. These were mainly deposits, eurodeposits, euronotes and fixed-term deposits and promissory notes and yielded an average return of 3.22% in 2009 and 4.74% in 2008.

The return on investments recognised under "Cash Equivalents" in the consolidated statement of financial position was 1.08% in 2009 and 4.70% in 2008.

8. Receivables

This heading in the consolidated statement of financial position at 31 December 2009 and 2008 includes mainly receivables from customers for sales made either directly by the Group or by passenger and cargo agents. It also includes receivables from airlines, mainly for services provided by the Parent on tickets sold by other airlines, and tax receivables (Note 13.1).

The collection periods of Group companies range between 20 and 45 days.

Provisions recognised by the Group following its analysis of the recoverability of receivables, considering the age and specifics of each case, are also included under this heading.

9. Equity

9.1 Share capital

At 31 December 2009 and 2008 the Parent had share capital of EUR 743 million, represented by 953,103,008 shares of par value EUR 0.78 each, all of the same class, fully subscribed, paid and held using the book entry system. The shares of the Parent are listed on the Continuous Market of the Spanish stock exchanges and all confer the same voting and dividend rights.

The owners of the Parent, at the end of 2009 and 2008, were as follows:

	31/12/2009		31/12/2008	
	Number of shares	% ownership	Number of shares	% 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.	49,594,518	5.20	-	-
Sociedad Estatal de Participaciones Industriales	49,212,526	5.16	49,212,526	5.16
The Bank of New York Mellon	38,072,751	3.99	-	-
El Corte Inglés, S.A.	32,151,759	3.37	32,151,759	3.37
B. Metzler seel. Sohn & Co	-	-	28,458,106	2.99
Other	439,651,510	46.14	498,860,673	52.34
	953,103,008	100	953,103,008	100

9.2 Share premium

The Amended and Consolidated Spanish Companies Law expressly permits the use of the share premium balance to increase capital and establishes no specific restrictions as to its use.

9.3 Legal reserve

Under the Amended and Consolidated Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At 31 December 2009 and 2008 this reserve represented 20% of the share capital.

9.4 Reserves at fully consolidated companies

The detail by company at 31 December 2009 and 2008 was as follows:

Company	Millions of Euros	
	31/12/2009	31/12/2008
Adjustments attributable to the Parent	(7)	(11)
Compañía Auxiliar al Cargo Exprés, S.A.	4	3
VIVA, Vuelos Internacionales de Vacaciones, S.A.	3	3
Iberia México, S.A.	1	-
	1	(5)

9.5 Reserves in companies accounted for using the equity method

The detail by company at 31 December 2009 and 2008 was as follows:

Company	Millions of Euros	
	31/12/2009	31/12/2008
Clickair, S.A.	-	(31)
Multiservicios Aeroportuarios, S.A.	1	3
Empresa Logística de Carga Aérea, S.A.	-	1
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A.	-	1
Handling Guinea Ecuatorial, S.A.	1	-
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	4	3
Serpista, S.A.	2	1
Air Miles Group	1	1
Total	9	(21)

9.6 Treasury shares of the Parent

The changes during 2009 and 2008 to "Treasury Shares" in the consolidated statement of financial position were as follows:

	2009		2008	
	Number of shares	Millions of Euros	Number of shares	Millions of Euros
At the beginning of the year	27,898,271	64	8,050,000	19
Additions	-	-	20,255,916	46
Retirements	-	-	(407,645)	(1)
At year-end	27,898,271	64	27,898,271	64

The treasury shares held by Iberia, Líneas Aéreas de España, S.A. at 31 December 2009 and 2008 represented 2.93% of the share capital, with an aggregate par value of EUR 22 million. The average acquisition price of Parent shares held by the Group at year-end 2009 and 2008 was EUR 2.31 per share. The average selling price of the shares of the Parent in 2008 was EUR 2.69 per share.

As part of the merger process described in Note 7.1.1 these treasury shares will be cancelled.

9.7 Earnings per share

Basic earnings per share for 2009 and 2008 were as follows:

	2009	2008
Profit for the year attributable to the Parent (millions of euros)	(273)	32
Weighted average number of shares outstanding (millions of shares)	925	929
Basic earnings/(loss) per share (euros)	(0.295)	0,034

9.8 Valuation adjustments

The detail and changes in this heading in 2008 and 2009 are as follows:

	Millions of Euros						
	Balance at 01/01/2008	Increase	Reduction	Balance at 31/12/2008	Effect of change in accounting policy (Note 3.2)	Reduction	Balance at 31/12/2009
Hedging instruments	127	335	(66)	396	-	(382)	14
Available-for-sale financial assets	-	114	-	114	-	(25)	89
“Iberia Plus” programme	-	-	-	-	36	(36)	-
Tax effect	(38)	(135)	20	(153)	(11)	133	(31)
Total	89	314	(46)	357	25	(310)	72

10. Non-Current Provisions

The detail of these provisions at year-end 2008 and 2009 and the main changes during the year are as follows:

	Millions of Euros					
	Balance at 31/12/2008	Additions	Provisions used	Transfers	Overprovisions (Note 14.2)	Balance at 31/12/2009
Provisions for obligations to employees	669	49	(20)	(55)	(45)	598
Provisions for restructuring costs	433	51	(114)	55	-	425
Provisions for major repairs (Note 5.2)	74	24	(2)	-	(10)	86
Other provisions (Note 5.12)	107	3	(10)	-	-	100
	1,283	127	(146)	-	(55)	1,209

10.1 Provisions for obligations to employees

The additions to “Provisions for Obligations to Employees” include the annual provision for the normal cost and for interest payments on provisions previously recognised, which are classified, respectively, under “Employee Costs – Recurring” (EUR 26 million) and under “Finance Cost” (EUR 23 million) in the consolidated income statement for 2009. Disbursements in this connection are amortised on an approximately straight-line basis.

The EUR 55 million reduction due to “Transfers” relates to the provisions accrued at 31 December 2008 for obligations to employees who took part in the collective redundancy programme in 2009 (Note 5.10). These EUR 55 million were transferred to “Provisions for Restructuring Costs” which includes all provisions related to the collective redundancy procedure.

The EUR 45 million in “Overprovisions” for 2009 relates to the option to remain active which was offered from May 2009 to pilots turning 60 that year (Note 5.12). Until then, “Provisions for Obligations to Employees” had included the estimated provisions for the future earnings of pilots on reserve (aged between 60 and 65). Since there is now an option to remain active, this provision is no longer necessary as remuneration of those who continue to fly will come under “Employee Costs” for the corresponding year. Since this is a new situation, with no precedents to indicate how many pilots will take up the option, the Parent opted to monitor take-up over the next two years and compare the actual results with assumptions made in the corresponding actuarial studies. It can then gradually adjust the remaining provision for this item in the consolidated statement of financial position at 31 December 2009.

The EUR 45 million derecognised from this provision were booked as income under “Other Operating Income – Non-recurring” in the consolidated income statement for 2009.

10.2 Provisions for restructuring costs

“Provisions for Restructuring Costs” relate to the present value of the liabilities arising from the voluntary collective redundancy procedure (Note 5.12) approved in 2001 and extended until 2010 (3,832 employees at 31 December 2009). On 20 April 2009, the Parent approved an extension to the term and scope of the redundancy procedure until 31 December 2013 to include pilots on the same terms and conditions.

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

10.3 Other provisions

“Other Provisions” includes the estimated amount required for probable liabilities of a diverse nature related mainly to litigation and unresolved tax assessments (Note 5.12).

11. Non-current and current borrowings

The detail by maturity of borrowings at 31 December 2009 and 2008 is as follows:

	Millions of Euros					
	31/12/2009			31/12/2008		
	Current	Non-current	Total	Current	Non-current	Total
At amortised cost:						
Bank borrowings	221	27	248	115	76	191
Finance leases	30	224	254	55	223	278
Other financial liabilities	17	2	19	22	1	23
At fair value:						
Derivatives (Note 12)	27	48	75	448	103	551
Total	295	301	596	640	403	1,043

11.1 Bank borrowings

The detail, by maturity, of bank borrowings, in the form of loans and credit facilities, at 31 December 2009 and 2008 is as follows:

31/12/2009							
Currency	Millions of Euros						
	Maturity						Total
	2010	2011	2012	2013	2014	2015 and beyond	
Euro	145	6	4	5	4	8	172
US dollar	76	-	-	-	-	-	76
	221	6	4	5	4	8	248

31/12/2008							
Currency	Millions of Euros						
	Maturity						Total
	2009	2010	2011	2012	2013	2014 and beyond	
Euro	57	3	4	4	4	8	80
US dollar	58	53	-	-	-	-	111
	115	56	4	4	4	8	191

These loans and credit facilities bore weighted average annual interest of 4.70% in 2009 and 4.86% in 2008.

The Group arranged credit lines with limits of EUR 193 million in 2009 and EUR 201 million in 2008 against which EUR 28 million remained undrawn at 31 December 2009.

11.2 Obligations under finance leases

At the end of 2009 and 2008 the Group was contracted to pay the following lease payments (including purchase options where applicable) under agreements in force:

	Millions of Euros			
	Euro borrowings		USD borrowings	
	2009	2008	2009	2008
Within one year	13	38	17	17
Between two and five years	100	90	110	124
Beyond five years	8	3	6	6
Total present value	121	131	133	147

Borrowings contracted by the Group are benchmarked to interest rates such as the Euribor or Libor.

The main finance leases entered into by the Group relate to aircraft (Note 6.1).

The terms of aircraft finance leases from their start date range from 7 to 16 years.

12. Financial instruments

12.1 Risk management policies

The Group 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 business lines.

Risk management is integrated within the Group's key management parameters and tools, including the income statement, gearing levels, investments and disposals and the development of the "Director Plan". This approach to risk allows the Group to optimise the income statement and gearing and take balanced decisions on the risk/return offered by new investments.

As for financial risks, the Group has a management programme to control and reduce the potential impact of fluctuations in exchange rates and fuel prices on earnings and to preserve sufficient cash for working capital and investments.

Capital management

The Group manages its capital to ensure that the Group companies are able to continue operating as profitable businesses whilst maximising shareholders' returns. One aspect of the policy implemented by the Group to meet its objectives is the maintenance of an appropriate balance between debt and equity. This policy reconciles the creation of value for shareholders with access to financial markets at a competitive cost to raise the funds required for its investment plans where these are not met from cash flow.

The Group manages its capital using three financial measures: equity and two measures of debt, debt on the statement of financial position and adjusted or equivalent debt which takes account of lease obligations:

- a) Equity includes share capital, reserves, earnings and exchange differences.
- b) Net borrowings reported in the consolidated statement of financial position include bank borrowings less cash and cash equivalents, excluding the measurements of derivatives.
- c) Adjusted or equivalent net borrowings includes capitalised aircraft leases, excluding the impact of derivatives, and eliminates capitalised interest on loans to *Iberbus* companies.

	Millions of Euros	
	2009	2008
Consolidated profit/(loss)	(273)	32
Equity	1,551	1,564
Net borrowings:	(1,417)	(1,803)
Interest-bearing borrowings	502	469
Cash and cash equivalents	(1,919)	(2,272)
Adjusted borrowings	1,229	1,012
Gearing (adjusted borrowings/equity + adjusted borrowings)	44.2%	39.3%

The description and amounts of these measures are as follows:

Foreign exchange risk

Due to the international nature of its business, the Group generates payments and receipts in non-euro currencies. The main risk is a strengthening of the US dollar against the euro as the Group has more expenses than income in dollars.

This risk is basically managed by a combination of two approaches: strategic hedges (with terms of up to 5 years) using currency swaps as well as options or other derivatives to cover a particular percentage of the positions, and shorter-term tactical hedges (up to 1 year) which can be adapted to market trends and which are matched to real dollar payment flows.

Interest rate risk

The Group's position as a net borrower (including aircraft operating leases) means it is exposed to a rise in the interest rates of the currencies in which its borrowings are denominated.

To manage this risk the Group keeps at least a percentage of its borrowings at fixed rates or hedged. Also, by diversifying the currencies it uses to raise finance (US dollar, euro, Swiss franc and pound sterling) it reduces the risk of a rise in interest rates affecting all the Group's borrowings.

Fuel-price risk

The Group manages the cost of aviation fuel through active risk-control policies and has a policy of directly hedging the price of kerosene (*JET Kero CIF-NWE*).

This risk is usually mitigated using swaps and options.

Liquidity risk

Due to the seasonal nature of its business and the need for investment and finance to renew its aircraft, the Group applies a liquidity policy of maintaining substantial amounts of cash and current financial assets.

This cash position is invested in highly liquid short-term instruments such as debt repos, eurodeposits and bank promissory notes from leading financial institutions, in accordance with the policy on counterparty risk. All cash placements and all derivatives are contracted with highly solvent financial institutions, rated between AA and A+ by Fitch IBCA.

Besides these current assets and cash position, the Group also has permanent credit policies in place that guarantee its cash requirements.

The Group exerts prudent management control over liquidity risk by using highly liquid short-term instruments: debt repos, eurodeposits and commercial paper, contracted with leading Spanish financial institutions.

The table below analyses the Group's liquidity based on its financial instruments at 31 December 2009. Figures are based on undiscounted net cash flows in the case of derivatives, which were determined using rates implied on the yield curve, when the settlement (receivable or payable) is not fixed. Figures for the other financial instruments were determined using forecast cash flows, undiscounted.

	Millions of Euros				
	< 6 months	6 months - 1 year	1 year - 5 years	>5 years	Total
Cash and cash equivalents	886	-	-	-	886
Financial assets					
Loans to third parties	-	31	77	-	108
Other financial assets	925	134	83	7	1,149
Receivables	478	-	-	-	478
Borrowings:					
Bank borrowings	(220)	(1)	(19)	(8)	(248)
Finance leases	(17)	(17)	(250)	(16)	(300)
Other financial liabilities	(5)	(12)	(2)	-	(19)
Trade and other payables	(1,075)	-	-	-	(1,075)
Derivative financial instruments:					
Aircraft lease hedges	(11)	(11)	(28)	-	(50)
Foreign exchange hedges (*)	9	5	-	-	14
Fuel hedges	4	21	-	-	25
	974	150	(139)	(17)	968

(*) Hedges of exchange rates, fuel costs, insurance and aircraft purchases

Credit risk

The Group's main financial assets are cash, equity instruments and other financial instruments, and trade and other receivables. These last two categories carry most of the insolvency and bad debt risk. In general, the Group controls its bad debt and insolvency risks by setting credit limits and applying strict conditions on collection periods.

The financial assets recognised in the financial statements, net of impairment losses, represent the Group's maximum exposure to credit risk, without taking account of any guarantees in place or other credit enhancements.

Trade and other receivables are mainly the amounts pending collection from travel and cargo agencies for the transport of passengers and goods as well as handling and maintenance services provided to customers. In transactions with national airlines and travel agencies the Group has an established policy of requiring bank guarantees in the form of pledges that hedge part of the credit extended to counterparties. Also, with some national travel agencies, the Group has a policy of requiring insurance cover for part of the credit offered.

In 2009, the charge for impaired trade credit was EUR 12 million (EUR 4 million in 2008) and cumulative provisions for impaired trade credit at 31 December 2009 and 2008 were EUR 35 million and EUR 28 million, respectively.

Valuation techniques and assumptions used to measure fair value

The fair value of financial assets and liabilities are determined as follows:

- Fair values of financial assets or liabilities with standard terms and conditions traded on active liquid markets are determined by reference to their quoted market price.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions and dealer quotes for similar instruments.

- c) The fair values of interest rate derivatives are determined using a discounted cash flow analysis based on the rates implied on the yield curve according to market conditions. The fair value of options is determined by applying a Black- Scholes valuation model or its variants, based on market volatilities for the strike prices and expiry dates of the options concerned.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- a) Level 1: measurements derived from quoted prices in active markets for identical assets or liabilities.
- b) Level 2: measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- c) Level 3: measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	Millions of Euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
Assets	-	59	-	59
Liabilities	-	(75)	-	(75)
Available-for-sale financial assets	242	-	1	243
	242	16	1	227

12.2 Derivative financial instruments

In accordance with the risk management policy set out in Note 12.1, Iberia Group mainly contracts exchange rate, interest rate and aviation fuel derivatives.

The most-used exchange rate derivatives are cross currency swaps, forwards and options. For interest rate derivatives the most used are interest rate swaps. Fuel price derivatives used are mainly swaps and options.

The Group classifies its derivatives into three types in accordance with International Financial Reporting Standards (IFRS):

1. Derivatives designated as cash flow hedges: these mainly hedge the cash flows from operating leases, ticket sales in non-euro currencies and fuel procurement.
2. Derivatives designated as at fair value: these hedge the market value of assets and liabilities recognised on the consolidated statement of financial position.
3. Other derivatives: those that have not been designated as a hedge or which fail to meet IFRS criteria for a hedge.

Foreign exchange hedges

At 31 December 2009, derivatives that hedged exchange differences, but were not specifically designated as a hedge under IFRS (being automatically offset in the consolidated income statement), and the underlying assets and liabilities they hedge, are as follows:

	Currency	Millions of dollars
		Amount
Underlying:		
<u>Assets:</u>		
Loan to Iberbus companies	USD	112
Prepayments on aircraft & engines	USD	332
Guarantees given	USD	1
Venezuela funds	USD	52
A-320 equity	USD	54
<u>Liabilities:</u>		
Borrowings 4 A-320/321	USD	(153)
Borrowings 5 A-340	USD	(101)
Total underlying		297
Derivative:		
Cross currency swap	USD	(7)
Fx Swaps	USD	302
Total derivatives		295

The fair value of these derivatives at 31 December 2009 was a negative EUR 0.2 million and the change in their value since 31 December 2008 of EUR 6 million was recognised in profit for the year after being offset against the fall in the value of the corresponding asset and liability items.

At 31 December 2009, the total notional value of cash flow hedges against exchange risks is as follows:

Underlying	Millions of dollars	Type of hedge	Cash flows hedged (millions of dollars)				
	Expected cash outflows		2010	2011	2012	2013	2014
Local currency cost	1,041	Cross currency swaps	206	171	153	95	40
		Options:					
		USD "Four Ways"	-	-	-	-	-
		USD "Tunnels"	435	-	-	-	-
		Fx Forwards	165	-	-	-	-
New aircraft	160	Fx Forwards	40	-	-	-	-
Insurance	14	Fx Forwards	7	-	-	-	-

The market value of exchange rate derivatives (FX forwards and options) at 31 December 2009 was a positive EUR 6 million (EUR 23 million positive in 2008). The net amount in 2009 is derived from EUR 26 million recognised under "Non-current Financial Assets – Derivatives" and "Current Financial Assets – Derivatives" and EUR 20 million recognised under "Non-current Borrowings" and "Current Borrowings" on the liabilities side of consolidated statement of financial position. These hedges are related to cash flows that will take place in 2010.

The changes in fair value of the ineffective portion of forward contracts, a negative EUR 200,000, were recognised as a cost in the consolidated income statement for 2009.

The change in the fair value of the exchange rate derivatives that are effective as cash-flow hedges was a negative EUR 17 million before considering tax effects, which was deferred and taken to equity, net of its tax effect.

Exchange rate and interest rate risks on aircraft leases were managed using cross currency swaps (CCS) which transform an original US dollar payment into euros.

The effect of a 10% increase in the EUR/USD exchange rate on the value of the Group's hedging positions at 31 December 2009 is approximately a negative EUR 70 million. In the event of a 10% decline the change in value of the hedging position at 31 December 2009 would be approximately a positive EUR 75 million.

Cash flow hedges at 31 December 2009

Instrument	Company	Company	Millions (*)				
			Nominal at 31/12/2009	Nominal at 31/12/2010	Nominal at 31/12/2011	Nominal at 31/12/2012	Nominal at 31/12/2013
Cross currency swaps:							
Floating to fixed	Receive USD	Pay EUR	340	305	244	172	40
Floating to floating	Receive USD	Pay EUR	343	126	-	-	-
Floating to floating	Receive EUR	Pay USD	386	77	-	-	-
Fixed to fixed	Receive USD	Pay EUR	246	124	116	87	44

(*) Figures in the currency paid by the Parent.

The fair value of cross-currency swaps entered into at 31 December 2009 was a negative EUR 41 million. The net amount for 2009 is composed of EUR 8 million in assets and EUR 49 million in liabilities. These hedges are related to cash flows that will take place between 2010 and 2014.

Interest rate hedges

The Parent uses cross currency and interest swaps to manage its exposure to fluctuations in interest rates arising from its aircraft financing activities, as follows:

Instrument	Currency	Nominal (millions of US dollars)			
		31/12/2009	31/12/2010	31/12/2011	31/12/2012
Interest Rate Swaps:					
Floating to floating (*)	USD	256	235	212	63

(*) The Parent pays floating interest rate with a cap and floor and receives floating interest rate.

The fair value of interest rate swaps entered into at 31 December 2009 was a negative EUR 6 million, recognised as a liability. These hedges are related to cash flows that will take place between 2010 and 2012.

The cumulative change in value by the effective portion of the swaps used for cash-flow and interest rate hedges, a total inflow of EUR 3 million, was recognised in equity, net of its tax effect. The cumulative change in value of the ineffective portion, a gain of EUR 1 million, was recognised in profit for the year.

The effect of a change of +50bp in the euro yield curve on the value of the Group's hedging positions at 31 December 2009 is approximately a positive EUR 5 million. A change of -50bp would produce a change in value of the hedging position at 31 December 2009 of approximately a negative EUR 5 million.

A movement of +/-50bp on the US dollar yield curve would have the following impacts: +50bp would increase the value of the hedges by approximately EUR 2 million. A movement of -50bp would reduce their value by approximately EUR 2 million.

For the purpose of these calculations the Parent considers the likeliest scenario to be a movement in the yield curves of this scale in the course of 2010. However, for reasons of simplicity, it has been assumed that the change interest rates happens at the end of 2009 and rates then remain stable throughout 2010.

Fuel price hedges

Underlying	Commodity	Tm	Type of hedge	Tm
				Nominal at 31/12/2009
Purchases of JET Kerosene fuel	JET Kero CIF-NWE	1,814,000	SWAPS	1,146,000

Fuel price risk is hedged with swaps that protect against changes in financial flows due to changes in the price of fuel.

The market value of fuel price derivatives was a positive EUR 25 million at 31 December 2009 (negative EUR 373 million in 2008), of this, EUR 24.8 million was recognised under asset items and just EUR 30,000 under "Current Borrowings" on the liabilities side of the consolidated statement of financial position.

The cumulative change in value of the effective portion of fuel hedges was a positive EUR 395 million before tax effects and was recognised under Equity, net of its tax effect. The cumulative change in value of the ineffective portion, a gain of EUR 3 million, was recognised in profit for the year.

The impact of a +10% change in the price of fuel on the value of hedges at 31 December 2009 would be a positive EUR 51 million. A change of -10% would reduce the value of the hedging position at 31 December 2009 by EUR 51 million.

13. Tax

13.1 Tax receivables and payables

Details of tax receivables at 31 December 2009 and 2008 are as follows:

	Millions of Euros	
	2009	2008
Non-current:		
Deferred tax assets	635	591
	635	591
Current:		
Foreign tax receivables	5	7
Value added tax	12	21
Other tax receivables	5	2
	22	30

Details of tax payables at 31 December 2009 and 2008 are as follows:

	Millions of Euros	
	2009	2008
Non-current:		
Deferred tax liabilities	7	1
	7	1
Current:		
Take-off and security charges at airports	35	35
Foreign tax payables	33	35
Social Security taxes	20	21
Personal income tax withholdings	30	29
Other tax payables	1	5
	119	125

13.2 Reconciliation of accounting profit to taxable income and income tax expense or (income)

Income tax on each company within the scope of consolidation is based on their financial or accounting profit. This may not be the same as their taxable income, which is the base on which tax is levied.

The reconciliation of consolidated accounting profit to taxable profit and income tax expense or income is as follows:

	Millions of Euros			
	2009		2008	
	Receivable / (payable)	Expense / (income)	Receivable / (payable)	Expense / (income)
Accounting profit for the year before tax	(435)	(435)	36	36
Consolidation adjustments (a)	(8)	(8)	-	-
Permanent differences:				
Increase	2	2	2	2
Decrease	-	-	(10)	(10)
Temporary differences:				
Arising in the year				
Increase (b)	151	-	117	-
Decrease (c)	(57)	-	-	-
Arising in prior years				
Increase	1	-	-	-
Decrease (d)	(222)	-	(210)	-
Taxable income	(568)	(441)	(65)	28
Tax rate of 30%	(170)	(132)	(20)	8
Tax credits	(6)	(6)	(6)	(6)
Deferred tax assets - tax credits	(176)	-	(26)	-
Income tax expense/(income)	-	(138)	-	2
Adjustment to income tax (Note 13.3)	-	(24)	-	2
Total income tax expense/(income)	-	(162)	-	4

(a) Consolidation adjustments mainly relate to profits from companies accounted for using the equity method.

- (b) Relating mainly to provisions for obligations to employees and other provisions for contingencies and charges and amounts received during the year in relation to memorandum credits and other deferred incentives.
- (c) Relating mainly to the use of the provision generated by the contribution of Clickair, S.A. shares to the capital increase of Vueling Airlines, S.A. and the deductible expense for the year arising from the restatement of "Iberia Plus" liabilities following the change in accounting policy detailed in Note 2.3.
- (d) Relating mainly to the use of provisions recorded in previous years for obligations to employees and the recognition in profit for the year of memorandum credits and other incentives received in previous years.

Current corporate income tax law provides certain tax incentives for investment and contributions to employees mutual funds. Consolidated companies have taken advantage of certain tax credits of this type, and plan to apply tax credits of EUR 4 million in the income tax return for 2009, following EUR 3 million in 2008.

Iberia Group also plans to justify tax credits of EUR 2 million in its 2009 income tax return for domestic and international double taxation having justified EUR 2 million in 2008.

In recent years, the amounts reinvested and corresponding tax credits were as follows:

	Millions of Euros	
	Reinvestment	Tax credit
2005	825	129
2006	1	-
2007	123	16
2008	-	-
2009	8	1

13.3 Detail of income tax expense

The detail of income tax expense for 2009 and 2008 is as follows:

	Millions of Euros	
	2009	2008
Current tax:		
Continuing operations	-	-
Deferred tax:		
Continuing operations	(138)	2
Adjustments to income tax	(24)	2
Total tax expense	(162)	4

Adjustments to income tax mainly relate to income tax rebates from the Spanish tax authorities and differences between the income tax expense estimated at end 2008 and the expense in the income tax return filed.

The reconciliation between income tax expense or income, the statutory Spanish tax rate and the Group's effective tax rate is as follows:

	Millions of Euros	
	2009	2008
Expense/(income) based on the Spanish statutory rate	(130)	11
Effect of:		
Permanent differences	-	(3)
Share of profit (loss) of associates	(2)	-
Tax credits	(6)	(6)
Income tax adjustments	(24)	2
	(162)	4

13.4 Deferred tax assets and liabilities recognised directly in equity

The detail of tax recognised directly in equity in 2008 and 2009 is as follows:

	Millions of Euros						
	Balance at 01/01/2008	Increase	Reduction	Balance at 31/12/2008	Effect of change in accounting policy (Note 3.2)	Reduction	Balance at 31/12/2009
Hedging instruments	38	101	(20)	119	-	(115)	4
Available-for-sale financial assets	-	34	-	34	-	(7)	27
“Iberia Plus” programme	-	-	-	-	11	(11)	-
Total	38	135	(20)	153	11	(133)	31

13.5 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under “Deferred Tax Assets” and “Deferred Tax Liabilities”, respectively, as follows:

	Millions of Euros			
	2009		2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	422	7	565	-
Tax loss carryforwards	199	-	20	1
Unused tax credits	14	-	6	-
	635	7	591	1

Deferred tax assets were mainly generated by provisions recorded to meet obligations to employees and other provisions, which will be deductible against tax in coming years, as well as income from memorandum credits and other deferred incentive income related to the aircraft. Also included are taxes recognised directly in Equity (Note 13.4).

Changes in deferred tax assets in 2009 and 2008 are as follows:

	Millions of Euros			
	Deferred tax assets			
	Temporary differences	Tax loss carryforwards	Unused tax credits	Total
Balance at 01/01/2008	476	-	-	476
Additions	158	20	6	184
Reductions	(69)	-	-	(69)
Balance at 31/12/2008	565	20	6	591
Effect of change in accounting policy (Note 3.2)	11	-	-	11
Balance at 01/01/2009	576	20	6	602
Additions	45	170	6	221
Reductions	(201)	-	-	(201)
Positive adjustment to income tax (Note 13.3)	2	9	2	13
Balance at 31/12/2009	422	199	14	635

At year-end 2009, based on estimated income tax for the year, the detail of the tax loss carryforwards and the maximum term for their recovery is as follows:

Year of origin	Millions of Euros		Recoverable until
	Taxable profit	Tax effect	
2008	97	29	2023
2009	566	170	2024
	663	199	

The deferred tax assets at 31 December 2009 are expected to be recovered as follows:

Year of recovery	Millions of Euros
2010	82
2011	36
2012 and beyond	517
	635

These deferred tax assets were recognised in the consolidated statement of financial position since the Parent's directors consider that, based on the best estimates of future results, it is likely that these assets will be recovered.

13.6 Tax audits

As a result of various tax audits, the tax authorities issued certain assessments for 1993 to 1997 (relating mainly to personal income tax withholdings), which were signed on a contested basis and appealed against by the Parent.

Also, the Parent filed an appeal against the assessments issued in connection with customs duties for 1998 (second half), 1999 and 2000 (first five months).

During the audit performed in 2007 and 2008, the authorities issued assessments in relation to income tax for the period 2002 to 2004, and VAT for the period 2003 and 2004, both uncontested. The authorities also issued assessments in relation to non-resident tax and personal income tax for 2003 and 2004, which the Parent appealed against.

The directors and tax advisors of Iberia, Líneas Aéreas de España, S.A. consider that no tax liabilities additional to those recognised under "Other Provisions" will arise from the resolution of the various appeals described above (Note 10.3).

In relation to the tax periods for which the limitation period has not expired, all years since 2005 for income tax and since 2006 for all other taxes applicable to the Group companies, the directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities to arise in addition to those recognised which might have a material effect on the consolidated financial statements.

14. Revenue

14.1 Revenue

The breakdown of the Group's revenue in 2009 and 2008 is as follows:

	Millions of Euros	
	2009	2008
Passenger revenue (a)	3,325	4,218
Cargo revenue	251	347
Handling (aircraft dispatching and services in airports)	266	275
Technical assistance to airlines	310	297
Other income	79	86
	4,231	5,223

(a) Including other income (recovery of unused tickets, commercial agreements, etc.) totalling EUR 188 million and EUR 327 million in 2009 and 2008, respectively.

The breakdown of passenger revenue excluding "Other Income", by network, is as follows:

	Millions of Euros	
	2009	2008
Domestic	709	929
Medium-haul	890	1,124
Long-haul	1,538	1,838
	3,137	3,891

14.2 Other operating income

The detail of "Other Operating Income" in the consolidated income statement is as follows:

	Millions of Euros	
	2009	2008
Recurring:		
Commissions	64	80
Rental income	15	18
Overprovisions (Note 10)	10	14
Other income	89	115
Non-recurring:		
Overprovisions (Note 10)	45	30
Other non-recurring operating income	4	35
	227	292

The income from commissions relates basically to the commissions on the sale of tickets for other airlines, the commissions arising from the franchise agreement with Air Nostrum and the sale of tickets for Clickair, S.A. and Vueling Airlines, S.A. under Iberia's code.

"Other Non-Recurring Operating Income" for 2008 includes mainly EUR 15 million of the settlement received from an insurance company.

14.3 Finance income

The detail of "Finance Income" in the consolidated income statement is as follows:

	Millions of Euros	
	2009	2008
Interest on short-term deposits	56	122
Interest on loans to associates	6	4
Other finance income	2	11
	64	137

15. Expenses

15.1 Procurements

The detail of "Procurements" in the consolidated income statement for 2009 and 2008 is as follows:

	Millions of Euros	
	2009	2008
Recurring:		
Aircraft fuel	1,184	1,666
Aircraft spare parts	191	160
Catering materials	19	21
Other purchases	16	17
	1,410	1,864

15.2 Headcount and other Employee Costs

The detail of "Employee Costs" in the 2009 and 2008 income statements is as follows:

	Millions of Euros	
	2009	2008
Wages, salaries and similar expenses	997	1,001
Employee welfare costs	300	319
Non-recurring Employee Costs:		
Provisions for extension of collective redundancy procedure (Note 10.2)	51	1
	1,348	1,321

In 2009 and 2008, the distribution of the workforce, measured as average equivalent headcount, by professional category, was as follows:

	Number of Employees	
	2009	2008
Senior management	10	10
Ground staff:		
Senior managers and other line staff	1,145	1,121
Clerical staff	5,394	5,694
Ancillary services	4,697	5,104
Aircraft maintenance technicians	2,930	2,875
Other	1,160	1,207
	15,326	16,001
Flight staff:		
Pilots	1,590	1,644
Cabin crew	3,745	3,923
	5,335	5,567
	20,671	21,578

At 31 December 2009 and 2008, the distribution of the workforce by gender and by professional category was as follows:

	2009		2008	
	Women	Men	Women	Men
Senior management	1	9	1	9
Ground staff:				
Senior managers and other line staff	436	681	433	719
Clerical staff	3,699	1,911	4,032	2,026
Ancillary services	457	4,695	479	5,071
Aircraft maintenance technicians	32	2,891	31	2,894
Other	520	640	552	679
	5,144	10,818	5,527	11,389
Flight staff:				
Pilots	60	1,580	60	1,608
Cabin crew	2,935	975	3,084	1,070
	2,995	2,555	3,144	2,678
	8,140	13,382	8,672	14,076

15.3 Other operating costs

The detail of "Other Operating Costs" in the consolidated income statement for 2009 and 2008 is as follows:

	Millions of Euros	
	2009	2009
Air traffic services	342	362
Aircraft lease payments:		
Dry lease	315	324
Wet lease	16	33
Cargo	11	16
Other	7	13
Navigation charges	252	258
Aircraft maintenance	202	228
Commercial expenses	151	200
Booking system expenses	134	137
Other rent	73	76
In-flight services	66	72
Other types of maintenance	46	49
Stopover expenses	34	37
Indemnities for passengers, luggage and cargo	22	33
Other recurring costs	319	314
Non-recurring expenses	6	5
	1,996	2,157

"Aircraft Maintenance" includes the expenses for subcontracted maintenance work and the provision for major repairs of aircraft operated under operating leases.

The fees for financial audit services provided to Iberia, Líneas Aéreas de España, S.A. and Group subsidiaries by the principal auditor were EUR 529,000 in 2009 and EUR 611,500 in 2008. Fees for non-audit services provided to Iberia, Líneas Aéreas de España, S.A. by the principal auditor and related companies in 2009 and 2008 were EUR 350,600 and EUR 428,000, respectively.

15.4 Finance cost

The detail of "Finance cost" in the consolidated income statement is as follows:

	Millions of Euros	
	2009	2008
Interest on employee liabilities (Note 10.1)	23	25
Interest on finance leases	14	15
Interest on loans	2	6
Other finance costs	1	6
	40	52

16. Contribution of subsidiaries and associates to consolidated profit

The contribution of the Group subsidiaries and associates to the consolidated profit or loss for 2009 and 2008 is as follows:

Company	Profit / (Loss)	
	Millions of Euros	
	2009	2008
Group subsidiaries:		
Iberia, Líneas Aéreas de España, S.A.	(282)	48
Compañía Auxiliar al Cargo Exprés, S.A.	-	1
Iberia México, S.A.	1	1
	(281)	50
Associates and jointly controlled entities:		
Handling Guinea Ecuatorial, S.A.	-	1
Sociedad Conjunta para la Emisión y gestión de Medios de Pago EFC, S.A.	1	1
Clickair, S.A.	-	(19)
Vueling Airlines, S.A.	7	
Air Miles Group	(1)	-
Madrid Aerospace Services, S.L.	(1)	-
Other	2	-
	8	(18)
Profit for the year attributable to the Parent	(273)	32

17. Business and geographical segments

Basis of segmentation

Segment reporting is structured on a primary basis by business segment and on a secondary basis by geographical segment.

Primary segments - business segments

The business lines described below were established on the basis of the Iberia Group's organisational structure at 2009 year-end and take into account the nature of the services provided and the customer segments at which they are targeted.

In 2009 the Iberia Group engaged mainly in the following major lines of business, which provides the basis for the Group's primary segment reporting:

1. Transport business (including passenger and cargo transport)
2. Airports business (including handling).
3. Maintenance and engineering business
4. Other business activities

Income and expenses that cannot be specifically attributed to any operating line or that are the result of decisions affecting the Group as a whole – including expenses incurred in projects or activities affecting several lines of business, or income from strategic investments, income tax expenses, etc. – are attributed to a “Corporate Unit”. Reconciliation items arising from the consolidation of the financial statements of the various business lines (prepared using a management approach) to the Group's consolidated financial statements are also allocated to the same “Corporate Unit”.

The costs incurred by the Corporate Unit are allocated among the various lines of business using an internal cost allocation system.

Secondary segments - geographical segments

The Group's activities are also classified into geographical segments: Domestic (Spain), Short- and Medium-Haul International (Europe, Africa excluding South Africa, and the Middle East) and Long-Haul markets.

Basis and methodology for segment reporting

The segment reporting below is based on monthly reports prepared by the Iberia Group. These are drawn from the Group's cost accounting system which classifies transactions carried out by the Group by business line and geographical segment.

Segment revenue relates to the external and internal revenue directly attributable to the segment and excludes finance income, dividends or proceeds from disposals.

The expenses of each segment are determined by the directly allocable expenses incurred in the operating activities of the segment plus the corresponding proportion of the corporate expenses which can be allocated to the segment using reasonable allocation bases. The expenses thus allocated do not include interest, losses from disposals or income tax expenses that are unrelated to the segments' operating activities and that, therefore, cannot be allocated using reasonable allocation bases.

Segment assets and liabilities are those directly related to each segment's operations, plus the assets and liabilities that can be directly attributed to them using the bases for allocation mentioned above. Segment liabilities do not include income tax payables.

Segment information about these businesses is presented below.

	Millions of Euros									
	Transport		Airports		Maintenance and engineering		Corporate Unit and Other Businesses		Group Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Operating income:										
External	3,780	4,813	283	289	322	309	24	39	4,409	5,450
Inter-segment	5	5	195	202	411	387	370	381	-	-
Operating expenses:										
External	3,579	4,239	451	480	644	616	198	194	4,872	5,529
Inter-segment	723	694	30	31	33	31	195	219	-	-
Operating profit (loss)	(517)	(115)	(3)	(20)	56	49	1	6	(463)	(80)
E.B.I.T.D.A.R.	(49)	413	13	(4)	80	73	18	17	62	499
Aircraft lease payments	(349)	(386)	-	-	-	-	-	-	(349)	(386)
E.B.I.T.D.A.	(398)	27	13	(4)	80	73	18	17	(287)	113
Depreciation and amortisation	(119)	(142)	(16)	(16)	(24)	(24)	(17)	(11)	(176)	(193)
Non-recurring profit							(12)	85	(12)	85
Financial profit							32	49	32	49
Share of profit/(loss) from companies accounted for using the equity method							8	(18)	8	(18)
Profit before tax							(436)		(435)	36
Income tax							162	(4)	162	(4)
Net profit/(loss)									(273)	32
Equivalent headcount (people)	8,408	8,776	7,132	7,769	3,845	3,767	1,286	1,266	20,671	21,578
Investments	88	231	4	5	42	27	14	22	148	285
Property, plant and equipment	754	829	61	74	180	172	51	43	1,046	1,118
Inventories	42	39	-	-	170	179	3	6	215	224
Other assets	-	-	-	-	-	-	3,785	4,292	3,785	4,292
Total assets									5,046	5,634
Customer prepayments	390	394	-	-	-	-	-	-	390	394
Remuneration payable	86	91	32	37	21	21	10	10	149	159
Other liabilities	-	-	-	-	-	-	2,956	3,517	2,956	3,517

Inter-segment sales are made applying an internal transfer pricing system based on market prices for equivalent areas and volumes.

The following table shows the geographical breakdown of the Group's revenue:

Secondary segments	Revenue	
	2009	2008
Domestic	1,686	2,076
Short- and Medium-haul international	940	1,272
Long-haul	1,783	2,102
	4,409	5,450

Nearly all the Group's assets can be allocated to the domestic market, except for aircraft, which have no defined geographical location. The percentages of use of aircraft in each geographical market, measured in terms of total block hours, are as follows:

Secondary segments	Percentage use	
	2009	2008
Domestic	25.55	25.07
Short- and medium-haul international	27.04	39.36
Long-haul	47.41	35.57
	100.00	100.00

18. Related party transactions

Balances and transactions with related parties

The following transactions took place with related parties in 2009 and 2008:

	Millions of Euros			
	2009		2008	
	Collected from Iberia	Paid to Iberia	Collected from Iberia	Paid to Iberia
Associates	46	86	47	100
Significant shareholders:				
British Airways Plc	13	24	16	37
El Corte Inglés Group	23	-	29	-
Caja Madrid	26	29	33	22
	108	139	125	159

The transactions with British Airways plc relate mainly to commissions on passenger tickets collected from and paid to this company, for tickets issued by one company with the related flight being flown by the other, collections and payments arising from loyalty programmes, and collections and payments for handling services provided

The main transactions with the El Corte Inglés Group relate to the supply of uniforms for flight staff, commissions and incentives for passenger ticket sales and computer software and hardware development.

Lastly, the transactions with Caja Madrid relate mainly to the interest on aircraft financing transactions, guarantees provided on aircraft, aircraft lease payments and returns on financial investments.

In addition, the consolidated statement of financial position at 31 December 2009 and 2008 includes the following balances with related parties that arose in the normal course of business:

	Millions of Euros	
	2009	2008
Associates	(6)	4
Significant shareholders:		
British Airways Plc	4	9
Caja Madrid	365	550
El Corte Inglés Group	7	5

At 31 December 2009 and 2008, the Group owed aircraft lease payments to Caja Madrid group companies in the amounts of EUR 194 million and EUR 224 million, respectively.

19. Remuneration of directors and Senior Executives

The detail of remuneration received in 2009 and 2008 by directors of Iberia, Líneas Aéreas de España, S.A. is as follows:

	Thousands of Euros	
	2009	2008
Fixed remuneration	783	780
Attendance fees	783	774
Compensation in kind	111	85
Total	1,677	1,639

Iberia, Líneas Aéreas de España, S.A. also incurred expenses relating to the performance of non-executive directors' functions of EUR 6,000 and EUR 5,000 in 2009 and 2008, respectively.

Two of the Parent's directors also have executive positions (one director in 2008), for which they were paid the following amounts:

	Thousands of Euros	
	2009	2008
Fixed remuneration	550	693
Variable remuneration	-	503
Compensation in kind	3	11
Social security and other costs	57	128
	610	1,335

In 2009, the former Chairman (director of the Parent Company until termination) received remuneration of EUR 838,000 and the social security and other costs paid by the Parent Company amounted to EUR 57,000. Also, upon termination he received EUR 3,167,000, of which EUR 277,000 were paid by the Parent Company and the remainder was covered by insurance.

In addition, in 2009 and 2008 premiums were paid in respect of an insurance policy to a value of approximately EUR 1 million and EUR 300,000, respectively.

In 2009 and 2008, no advances or loans were granted to the directors of Iberia, Líneas Aéreas de España, S.A.

Remuneration of senior executives

Remuneration received by members of senior management of the Parent Company in 2009 and 2008, excluding those who serve on the board of directors (see above), is as follows:

Item	Thousands of euros	
	2009	2008
Salaries (fixed and variable)	2,919	3,010
Indemnities	1,467	-
Compensation in kind	126	112
	4,512	3,122

In addition, in 2009 and 2008 premiums were paid in respect of an insurance policy and pension plans to a value of EUR 167,000 and 151,000, respectively.

In 2009 and 2008, no advances or loans were granted to the members of the Management Committee of Iberia, Líneas Aéreas de España, S.A.

20. Detail of the directors' investments in companies with similar business activities and performance by directors, as independent professionals or as employees, of similar activities

Pursuant to Article 127 ter.4 of the Spanish Companies Law, introduced by Law 26/2003, of 17 July, which amends Securities Market Law 24/1988, of 28 July, and the Amended and Consolidated Spanish Companies Law, in order to reinforce the transparency of listed corporations, the table below details the activities carried on in 2009 by directors that are identical, similar or complementary to the corporate purpose of Iberia, Líneas Aéreas de España, S.A. and its subsidiaries:

Name	Company	Activity	Tipo de Type of arrangement	Position/Function
Rafael Sánchez – Lozano	British Airways Plc	Air transport	Employee	Director
Roger Maynard	British Airways Plc	Air transport	Employee	Director of investments and alliances
	British Airways Citiflyer Ltd and British Airways European Ltd	Air transport	Employee	
Keith Williams	British Airways Plc	Air transport	Employee	CFO/Director
Jorge Pont Sánchez	Vueling Airlines, S.A.	Air transport	Employee	Director

Also, pursuant to the same Law, it is stated that the only directors who own any equity interests in companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Iberia, Líneas Aéreas de España, S.A. and subsidiaries are Roger Maynard, who has a 0.0004994% ownership interest in British Airways plc, and Keith Williams, who has a 0.00286% ownership stake in British Airways Plc.

Lastly, directors (or persons acting on their behalf) have not entered into transactions other than ordinary business transactions on normal market conditions with Iberia, Líneas Aéreas de España, S.A. or with other Iberia Group companies.

21. Environmental information

As part of its environmental policy, the Group continued various activities and projects in 2009 to guarantee the proper management of the main environmental impacts of the air transport business as a whole.

In 2009 and 2008 the Group incurred environmental expenses of EUR 5 million and EUR 4 million respectively, the detail being as follows:

	Millions of Euros	
	2009	2008
Environmental repair and maintenance	2	1
Employee costs relating to environmental management	1	1
Environmental taxes and other	2	2
	5	4

At 31 December 2009, the acquisition cost and accumulated depreciation of the Group's environmental assets, which include water-treatment plants, hazardous waste storage facilities, gas recharge and filter systems and water recycling infrastructure, amounted to EUR 78 million and EUR 57 million, respectively (2008: EUR 77 million and EUR 52 million, respectively).

With respect to its aircraft, the Group has a renewal policy in which the environment (minimising the impact of noise and atmospheric emissions) is an important factor. Accordingly, the Group is continuing to add new aircraft models that reduce fuel consumption by approximately 20% compared to earlier generation aircraft.

In its ground operations, the Parent achieved certification under the ISO 14001/AENOR Environmental Management System, including the Parent's aircraft maintenance facilities at Barajas airport in Madrid. As a result of this certification, together with the existing ones in handling and the Parent's other maintenance facilities, all of the Parent's significant environmental issues are covered by external certification.

Since 2009, the Parent has been a member of the European SESAR programme to reorganise European air space with the aim of reducing aircraft congestion and environmental impacts.

The Parent considers that any possible environmental contingencies that might arise are covered sufficiently by its third-party liability insurance policies and by the provisions relating to probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount.

Lastly, environmental investments in 2009 totalled EUR 1 million.

22. Cash flow hedges:

In preparing the statement of cash flows the Company included under "Cash and Cash Equivalents" not only the balance under "Cash and Cash Equivalents" in the statement of financial position but also part of the balances under "Current Assets - Other Financial Investments" (see Note 7.2) which met the conditions to be considered as highly liquid investments that are subject to an insignificant risk of changes in value.

The main items in the statement of cash flows relate to payments on investments related to aircraft purchases (Note 6) as well as finance received and payments made under "Other Collections (Payments)" which include payments made to employees arising from the provisions for restructuring and from obligations to employees (Note 10).

23. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Company that conform with IFRSs may not conform with other generally accepted accounting principles.