Financial Statements and Management Reports

IBERIA GROUP

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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 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.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Iberia, Líneas Aéreas de España, S.A.:

We have audited the consolidated financial statements of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. AND SUBSIDIARIES comprising the consolidated statement of financial position at 31 December 2009 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2009 for each item in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements, the figures for 2008. Our opinion refers only to the consolidated financial statements for 2009. On 27 February 2009, we issued our auditors' report on the 2008 consolidated financial statements, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated financial statements for 2009 present fairly, in all material respects, the consolidated equity and consolidated financial position of Iberia, Líneas Aéreas de España, S.A. and Subsidiaries at 31 December 2009 and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that of the preceding year.

The accompanying consolidated directors' report for 2009 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2009. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Iberia, Líneas Aéreas de España, S.A. and Subsidiaries.

DELOITTE, S.L.
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José Manuel Rodríguez
25 February 2010

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IBERIA

Consolidated Financial Statements

IBERIA GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2009 AND 2008

Millions of euros

ASSETS	Notes	31-12-09	31-12-08
NON-CURRENT ASSETS:			
Intangible assets	5.1	**50**	**52**
Property, plant and equipment	6	**1,046**	**1,118**
Aircraft		717	779
Other property, plant and equipment		329	339
Investments in associates	5.5	**134**	**17**
Non-current financial assets	7.1	**497**	**672**
Equity instruments		269	247
Loans to third parties		77	123
Derivatives		4	70
Other financial assets		147	232
Deferred tax assets	13	**635**	**591**
Total non-current assets		**2,362**	**2,450**
CURRENT ASSETS:			
Non-current assets held for sale	6.7	**9**	**11**
Inventories		**215**	**224**
Aircraft spare parts		170	176
Other inventories		45	48
Receivables	8	**478**	**586**
Current financial assets	7.2	**1,088**	**1,751**
Loans to third parties		31	34
Derivatives		55	79
Other financial assets		1,002	1,638
Accruals		**8**	**12**
Cash and cash equivalents	5.6	**886**	**600**
Cash		47	74
Cash equivalents		839	526
Total current assets		**2,684**	**3,184**
TOTAL ASSETS		**5,046**	**5,634**

LIABILITIES AND EQUITY	Notes	31-12-09	31-12-08
EQUITY:			
Share capital		**743**	**743**
Share premium		**120**	**120**
Reserves		**1,094**	**1,089**
Treasury shares		**(64)**	**(64)**
Profit for the year attributable to the Parent		**(273)**	**32**
Consolidated profit (loss) for the year		(273)	32
Profit attributable to minority interests		-	-
Valuation adjustments		**(72)**	**(357)**
Equity attributable to Shareholders of the Parent		**1,548**	**1,563**
Minority interests		**3**	**1**
Total equity	9	**1,551**	**1,564**
NON-CURRENT LIABILITIES:			
Non-current provisions	10	**1,209**	**1,283**
Non-current payables	11	**301**	**403**
Deferred tax liabilities	13	**7**	**1**
Long-term accruals	5.11	**215**	**78**
Total non-current liabilities		**1,732**	**1,765**
CURRENT LIABILITIES:			
Current payables	11	**295**	**640**
Customer prepayments	5.11	**389**	**394**
Trade and other payables		**1,075**	**1,254**
Trade payables		807	970
Remuneration payable		149	159
Payables to public authorities	13	119	125
Accruals		**4**	**17**
Total current liabilities		**1,763**	**2,305**
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

CONSOLIDATED INCOME STATEMENTS FOR 2009 AND 2008

Millions of euros

	Notes	2009	2008
CONTINUING OPERATIONS:			
Revenue	14.1	**4,231**	**5,223**
Other operating income	14.2	**227**	**292**
Recurring		178	227
Non-recurring		49	65
Procurements	15.1	**(1,410)**	**(1,864)**
Employee costs	15.2	**(1,348)**	**(1,321)**
Recurring		(1,297)	(1,320)
Non-recurring		(51)	(1)
Depreciation and amortisation charge	5.1 and 6	**(176)**	**(193)**
Other operating costs	15.3	**(1,996)**	**(2,157)**
Recurring		(1,990)	(2,152)
Non-recurring		(6)	(5)
Impairment losses and net gains on disposal of non-current 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)
Share of profits in associates	16	8	(18)
Other finance revenue and expenses		25	(34)
PROFIT BEFORE TAX		**(435)**	**36**
Income tax	13	162	(4)
PROFIT (LOSS) FROM CONTINUING OPERATIONS		**(273)**	**32**
Attributable to:			
Shareholders of the Parent		(273)	32
Minority 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 STATEMENTS OF COMPREHENSIVE INCOME FOR 2009 AND 2008

Millions of euros

	Notes	2009	2008
PROFIT FOR THE YEAR (I)		**(273)**	**32**
OTHER COMPREHENSIVE INCOME:			
Income and expenses recognised directly in equity			
From measurement of financial instruments:		**25**	**(114)**
Available-for-sale 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 (II)		**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 (III)		**267**	**46**
TOTAL COMPREHENSIVE INCOME (I+II+III)		**12**	**(236)**
Attributable to:			
Shareholders of the Parent		12	(236)
Minority interests		-	-

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR 2009 AND 2008

Millions of euros

	Share capital	Share premium	Legal reserve	Voluntary reserves	Reserves of companies consolidated by: Full consolidation	Reserves of companies consolidated by: Equity method	Treasury shares	Revaluation adjustments	Consolidated profit for the year	Total	Minority interests	Total equity
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:												
To reserves	-	-	1	192	7	(31)	-	-	(169)	-	-	-
To dividends	-	-	-	-	-	-	-	-	(158)	(158)	-	(158)
Change in treasury shares	-	-	-	-	-	-	(45)	-	-	(45)	-	(45)
Other changes	-	-	-	(3)	-	-	-	-	-	(3)	-	(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												
To reserves	-	-	-	44	6	(18)	-	-	(32)	-	-	-
Other changes	**-**	**-**	**-**	**(50)**	**-**	**48**	**-**	**-**	**-**	**(2)**	**2**	**-**
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.

CONSOLIDATED CASH FLOW STATEMENTS FOR 2009 AND 2008 (NOTE 22)

Millions of euros

	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)
EFFECT 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 cash flow statements for 2009

IBERIA GROUP
NOTES TO THE ACCOUNTS 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 **one**world 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:

Millions of euros

Name Registered Office Corporate purpose	% Ownership (direct and indirect)		Information on the subsidiary at 31-12-09				Carrying Amount of the investment
	2009	2008	Share capital	Profit (loss) for the year	Other equity	Equity	
GROUP COMPANY:							
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:

Millions of euros

Name Registered Office Corporate purpose	% Ownership (direct and indirect)		Information on the subsidiary at 31-12-09						Carrying amount of the investment
	2009	2008	Share capital	Profit (loss) for the year	Other equity	Equity	Total assets	Total revenue	
ASSOCIATED COMPANIES:									
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 Ibeca, 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 (Guinea Ecuatorial) 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
Grupo Air Miles 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 (Estados Unidos) 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 Tenencia y financiación de Sociedades Handling	40,00	40,00	-	-	-	-	3	3	-
Jointly controlled entities:									
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 Basis of presentation of the consolidated 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	Business Combinations	1 July 2009
Amended IAS 27	Changes in Investments	1 February 2010
Amended NIC 39	Eligible Hedged Items	1 February 2010
Amended IAS 32	Classification of Rights Issues	1 February 2010
IFRIC 12 (1)	Service Concession Arrangements	1 April 2009
IFRIC 15 (1)	Agreements for the Construction of Real Estate	1 January 2010
IFRIC 17 (1)	Distribution of Non-cash Assets to Owners	1 November 2009
IFRIC 18 (1)	Transfers of Assets from Customers	1 November 2009
Not approved for use in EU (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	Group Share-based Payments	1 January 2010
Revised IAS 24	Related Party Disclosures	1 January 2011
Amended IFRIC 14	Minimum Funding Requirements	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	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 "Minority 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 property, plant and equipment	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:

Millions of euros

2009	31-12-08	Additions or provisions	Transfers	Retirements	31-12-09
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**

Millions of euros

2008	31-12-07	Additions or provisions	Transfers	Retirements	31-12-08
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:

Millions of euros

Fleet	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:

Millions of euros

Aircraft	Balance at 01-01-08	Retirements	Transfers	Balance at 31-12-08	Additions	Retirements	Transfers	Balance at 31-12-09
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:

Number of aircraft

Fleet	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:

Number of aircraft

Fleet	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 6.7 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 lease*" 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:

Millions of euros

Year	31-12-09	31-12-08
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

	31-12-09	31-12-08
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.

6.6 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").

6.7 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:

Millions of euros

31 December 2009	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**

Millions of euros

31 December 2008	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:

Millions of euros

2009	% Ownership at 31-12-09	Balance at 31-12-08	Additions	Retirements	Exchange differences	Valuation adjustments	Balance at 31-12-09
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**

Millions of euros

2008	% Ownership at 31-12-08	Balance at 31-12-07	Additions	Retirements	Exchange differences	Valuation adjustments	Balance at 31-12-08
Loans and receivables: Iberbus companies	40.00-45.00	25	-	(9)	(4)	-	12
Available-for-sale financial assets: **- At fair value** British Airways Plc	9.99	-	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 *Iberbús*, 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:

Millions of euros

2009	Balance at 31-12-08	Additions	Exchange differences	Transfers	Balance at 31-12-09
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**

Millions of euros

2008	Balance at 31-12-07	Additions	Exchange differences	Transfers	Balance at 31-12-08
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

	31-12-09	31-12-08
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:

Millions of euros

2009	Balance at 31-12-08	Additions	Retirements	Transfers	Exchange differences	Balance at 31-12-09
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**

Millions of euros

2008	Balance at 31-12-07	Additions	Retirements	Transfers	Exchange differences	Balance at 31-12-08
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 31-12-09	Balance at 31-12-08
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:

	31-12-09		31-12-08	
	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	**100.00**	**953,103,008**	**100.00**

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:

Millions of euros

Company	31-12-09	31-12-08
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:

Millions of euros

Company	31-12-09	31-12-08
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 31-12-07	Increase	Reduction	Balance at 31-12-08	Effect of change in accounting policy (Note 3.2)	Reduction	Balance at 31-12-09
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 31-12-08	Additions	Provisions used	Transfers	Overprovisions (Note 14.2)	Balance at 31-12-09
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
Otras provisiones (Nota 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

	31-12-09			31-12-08		
	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:

Millions of euros

31-12-09							
	Maturity						
Currency	2010	2011	2012	2013	2014	2015 and beyond	Total
Euros	145	6	4	5	4	8	172
US dollar	76	-	-	-	-	-	76
	221	**6**	**4**	**5**	**4**	**8**	**248**

Millions of euros

31-12-08							
	Maturity						
Currency	2009	2010	2011	2012	2013	2014 and beyond	Total
Euros	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.

The description and amounts of these measures are as follows:

Millions of euros

	2009	2008
Consolidated profit/(loss)	(273)	32
Equity	1,551	1,564
In balance-sheet net debt	(1,417)	(1,803)
Interest-bearing borrowings	502	469
Cash and cash equivalents	(1,919)	(2,272)
Adjusted net debt	1,229	1,012
Gearing (adjusted net debt/equity + adjusted net debt)	**44.2%**	**39.3%**

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:

A. 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
B. 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:

Millions of US dollars

	Currency	Amount
Underlying:		
Assets:		
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
Liabilities:		
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 US dollars		Cash flows hedged (millions of US dollars)				
	Expected cash outflows	Type of hedge	2010	2011	2012	2013	2014
Foreign 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

Millions (*)

Instrument	Company	Company	Nominal at 31-12-09	Nominal at 31-12-10	Nominal at 31-12-11	Nominal at 31-12-12	Nominal at 31-12-13
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 rate swaps to manage its exposure to fluctuations in interest rates arising from its aircraft financing activities, as follows:

Nominal (millions of US dollars)

Instrument	Currency	31-12-09	31-12-10	31-12-11	31-12-12
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	Metric tonnes	Type of hedge	Metric tonnes Nominal at 31-12-09
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 31-12-07	Increase	Reduction	Balance at 31-12-08	Effect of change in accounting policy (Note 3.2)	Reduction	Balance at 31-12-09
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 31/12/2007	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:

Millions of euros

Year of origin	Taxable profit	Tax effect	Recoverable until
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:

Millions of euros

Year of recovery	
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 executives	**10**	**10**
Ground staff:		
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:		
Technical crew	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 executives	**1**	**9**	**1**	**9**
Ground staff:				
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:				
Technical crew	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	2008
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:

Millions of euros

Company	Profit / (Loss)	
	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		Total Group	
	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**
Average headcount (FTEs)	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
International short- and medium-haul	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 aircraft utilisation in each geographical market, measured in terms of total block hours, are as follows:

Secondary segments	Percentage of utilisation	
	2009	2008
Domestic	25.55	25.07
International short- and medium-haul	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:

Thousands of euros

Item	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	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 Alliances and Investments
	British Airways CityFlyer Ltd. and British Airways European Ltd.	Air transport	Employee	Executive/Director
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 statements

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 IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRS may not conform with other generally accepted accounting principles.

Consolidated Management Report

IBERIA GROUP

KEY DATA

IBERIA GROUP	2009	2008	% Change
Revenue and result (millions of euros)			
Recurring operating revenue	4,409	5,450	(19.1)
EBITDAR (1)	61	500	(87.8)
Recurring EBIT	(464)	(79)	nm
Profit (loss) from operations (2)	(475)	5	nm
Profit (loss) before tax	(435)	36	nm
Profit (loss) after tax	(273)	32	nm
Profit (loss) attributable to Shareholders of the Parent	(273)	32	nm
Basic earnings per share (euro cents) (3)	(29.5)	3.4	nm
Passenger traffic: operating statistics and revenue			
Available seat kilometres (ASK) (millions)	62,158	66,098	(6.0)
Revenue passenger kilometres (RPK) (millions)	49,612	52,885	(6.2)
Load factor (%)	79.8	80.0	(0.2 p.)
Passenger revenue (millions of euros)	3,137	3,891	(19.4)
Passenger revenue / RPK (euro cents)	6.32	7.36	(14.1)
Passenger revenue / ASK (euro cents)	5.05	5.89	(14.3)
Finance indicators and ratios			
Equity (millions of euros)	1,551	1,564	(0.8)
In-balance sheet net debt (millions of euros) (4)	(1,417)	(1,803)	(21.4)
Adjusted net debt (millions of euros) (5)	1,229	1,012	21.4
EBITDAR margin (%) (1)	1.4	9.2	(7.8 p.)
Recurring EBIT margin (%) (1)	(10.5)	(1.5)	(9.0 p.)
Profit (loss) after tax margin (%)	(6.2)	0.6	(6.8 p.)
ROE (%) (6)	(17.6)	2.1	(19.7 p.)
Operating revenue / ASK (euro cents) (1)	7.09	8.24	(14.0)
Operating cost / ASK (euro cents) (1)	7.84	8.36	(6.3)
Operating cost (non fuel) / ASK (euro cents) (1)	5.93	5.84	1.5
Resources			
Average headcount (FTEs) (7)	20,671	21,578	(4.2)
Operating revenue per employee (thousands of euros) (1)(8)	215	254	(15.3)
Productivity (thousands of ASK / employee) (8)	3,042	3,097	(1.8)
Number of aircraft at year-end	109	119	(8.4)
Fleet utilisation (block hours / aircraft / day)	10.3	10.0	3.7

nm: Not meaningful
(1) EBITDAR (earnings before interest, tax, depreciation, amortisation and fleet rentals), margins over recurring revenue, unit revenue and costs exclude non-recurring items.
(2) Profit (loss) from operations includes recurring and non-recurring operating results.
(3) Weighted average number of shares outstanding (in thousands): 925,205 in 2009 and 929,348 in 2008.
(4) Negative balance means cash equivalents in excess of interest-bearing debt (without including the measurement of hedges at year-end 2009 and 2008).
(5) Calculated as follows: in-balance sheet net debt + capitalised fleet leases – capitalised interest on Iberbus loans (at 4% in 2009, and at 6% before that).
(6) Return on Equity: Profit (loss) after tax / Equity.
(7) Includes the employees of Iberia, CACESA, ALAER and Binter Finance.
(8) Productivity stated for Iberia’s entire workforce.

1. Highlights

Iberia, Líneas Aéreas de España, S.A. (hereinafter, Iberia) is one of Europe's largest passenger and cargo airlines. It operates an extensive network of scheduled flights and its main hub is Madrid-Barajas airport where the carrier operates flights connecting with 83 international destinations across Europe, the Americas, Africa and the Middle East. Iberia carries the highest number of passengers between Europe and Latin America of any airline.

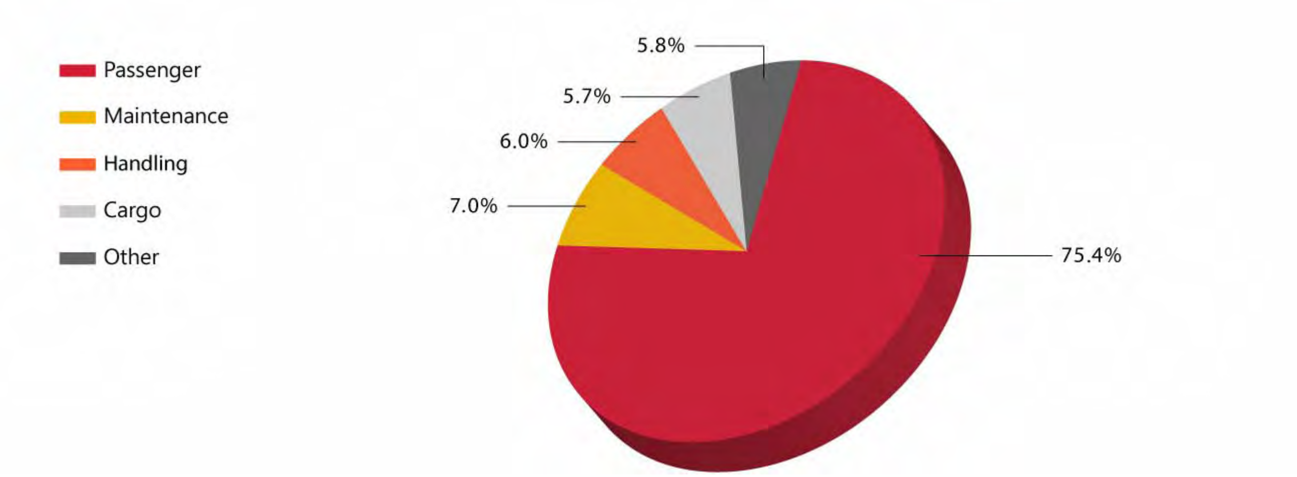
Iberia also engages in other businesses, with the aircraft maintenance and ground handling services standing out. In addition, over the years it has set up or invested in a series of companies that comprise the Iberia Group, whose business activities complement or are related to those of the parent company.

All of the company's services are provided under the umbrella of a commitment to satisfy its customers' expectations and to create shareholder value on an ongoing basis. The company manages its businesses based on the principles of respecting and protecting the environment, while actively engaging in community work. Iberia is part of the DJSI World and FTSE4Good IBEX sustainability indexes which track leading sustainability companies in terms of their economic, social and environmental strategies and management.

Iberia is a fully-fledged member of the **one**world alliance, one of the biggest airline alliances in the world.

Iberia's shares have been listed on Spanish Stock Exchange since April 2001. Its main shareholders are Caja de Ahorros y Monte de Piedad de Madrid, with a 22.99% shareholder interest, and British Airways, which owns 13.15% of the company. In November 2009, Iberia and British Airways signed a binding agreement setting the foundations for a merger of equals between the two companies.

IBERIA GROUP. BREAKDOWN OF RECURRING OPERATING REVENUE IN 2009



Economic climate

In 2009, the global economy suffered the worst recession since the 1930s. The economic contraction began mid-2008, reflecting the knock-on effects of the international financial crisis, with economic conditions rapidly deteriorating thereafter. The swift downturn gave rise to a dramatic contraction in industrial output, financial market paralysis, rising unemployment and highly-leveraged households, precipitating the risk of a deeper and more prolonged recession, which was sidestepped thanks to unprecedented intervention by governments and central banks, which rolled out a concerted battery of monetary and fiscal stimulus measures.

The International Monetary Fund (IMF) estimates that global gross domestic product (GDP) narrowed by 0.8% in 2009, compared to growth of 3.0% in 2008.

Real GDP growth (a)	2009	2008
Global (b)	(0.8)	3.0
US	(2.5)	0.4
Eurozone (b)	(3.9)	0.6
Japan	(5.3)	(1.2)
Latin America and Caribbean (b)	(2.3)	4.2
Spain	(3.6)	0.9

Source: IMF. World Economic Outlook (January 2010).
(a) Annual percent change in gross domestic product. constant prices.
(b) Global and regional growth aggregates reflect average GDP weighted according to purchasing power parity.

During the third quarter of 2009 certain economic indicators began to show signs of turnaround. Fourth-quarter economic figures confirmed the recovery in the main European economies and Japan, while the US economy posted its first quarter of growth since the start of the recession. Although uncertainty lingers as to the sustainability of this recovery, as it is heavily underpinned by economic stimulus measures, car purchase incentive schemes and inventory cycle factors, there is broad consensus that the international economy is set to improve. The expected pace of this recovery, however, varies significantly depending on the economic situation of each country. Members of the European Union are slated to post weak growth, while emerging and developing economies are expected to prove more dynamic, spearheaded by Asia, most notably China and India.

Turning to Spain, the combination of the global financial crisis with the collapse of the real estate market has had far-reaching economic consequences. In 2009, household spending and the construction sector, the drivers of the protracted economic boom that terminated abruptly in 2008, contracted sharply. Faced with slumping demand, inventory levels rose and this prompted losses, bankruptcies and a significant drop in investment in capital goods. Most notably, the crisis has had a profound impact on unemployment in Spain, where the jobless rate as a percentage of the economically-active population stood at 18.8% at year-end.

Spain’s GDP fell sharply during the first three quarters of 2009, albeit easing in the last quarter of the year to leave the annual year-on-year contraction at 3.6% according to the latest IMF estimates, for a decline of 4.5 points on the rate of growth registered in 2008.

The global economic crisis also had significant adverse ramifications for the Spanish tourist industry, which accounts for 11% of national GDP. Last year some 5.1 million fewer tourists visited Spain, a drop of 8.7% on 2008. However, the pace of year-on-year declines eased as the year progressed, after registering very high levels during the first half (down 16.3% in 1Q09 and 11.4% in 2Q09). The majority of international tourists visiting Spain last year flew: 40.2 million visitors arrived by plane (77.1% of the total), 9.3% fewer than in 2008.

Airline sector performance

The global recession had significant repercussions for the airline sector, one of the industries hardest hit by the cutbacks in household and corporate spending. Overall, in 2009 the airline industry suffered the largest declines in passenger and cargo traffic and revenues in its entire history.

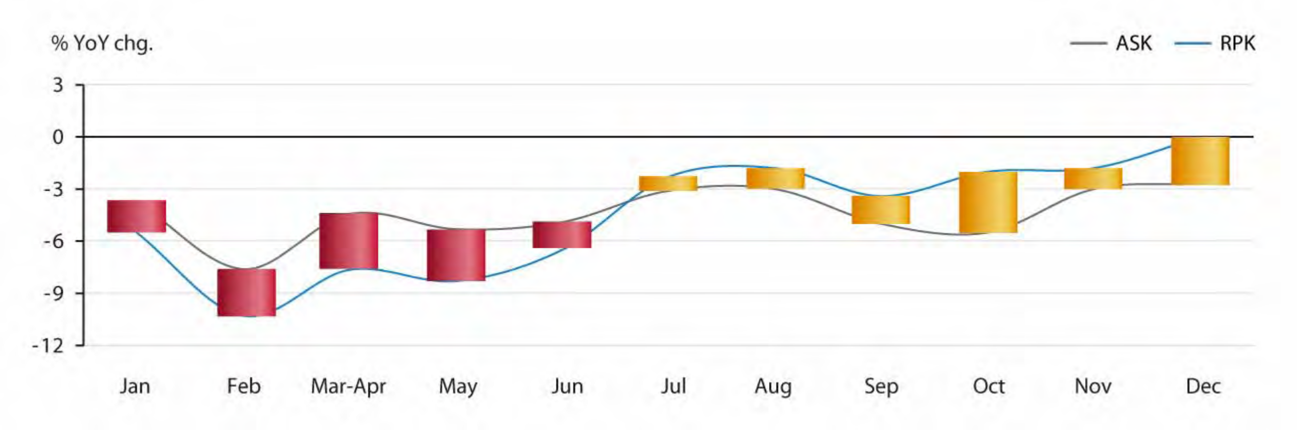
International passenger traffic across the global airline sector had begun to gradually wane in 2008, resulting in a moderate year-on-year contraction in the last quarter of that year. The situation worsened during the early months of 2009, when demand began to slacken at a record pace, reaching rates of over 10% in the months of February and March, easing gradually thereafter. During the last four months of 2009, international passenger traffic rose year-on-year, boosted by the incipient economic recovery, although also helped by an easier comparison. For the full year, international passenger travel, measured by revenue passenger kilometres (RPK), fell by 3.5% on 2008, according to International Air Transport Association (IATA) data, decreasing in virtually all regions of the world.

The European network carriers similarly sustained sharp drops in passenger traffic in the first months of 2009. Although the sharp pace of decline eased somewhat during the second half, the rebound in demand in Europe continues to lag that of other regions. According to the Association of European Airlines (AEA), the number of revenue passenger kilometres on scheduled flights fell 4.5% in 2009, underpinned by widespread declines in traffic that affected European routes as well as most long-haul routes.

Faced with weak demand, AEA carriers began cutting capacity at the end of 2008, cuts that were sustained throughout 2009. This meant that load factors began to improve year-on-year from July 2009. For the full year, the number of AEA available seat kilometres (ASK) narrowed 4.2%, yielding a load factor of 76.0%, 0.3 points below the 2008 figure.

Overall, the industry managed capacity astutely in 2009. However, unit revenue fell sharply.

SCHEDULED TRAFFIC AT AEA AIRLINES IN 2009
% YEAR-ON-YEAR CHANGE



The March-April figures are presented in aggregate to prevent the distortion arising from the fact that the Easter travel period was concentrated in different months in 2009 versus 2008.

In 2009, international air cargo traffic plummeted 10.1% on the back of the global trade crisis. Cargo traffic began to fall before passenger traffic, in mid-2008, and also fell more sharply (in December 2008 and January 2009 cargo traffic plunged by over 24%). This metric began to stage a gradual recovery mid-2009, underpinned by the improvement in the outlook for emerging Asian economies, registering positive growth from October on. Specifically, at AEA airlines, cargo traffic measured in revenue tonne kilometres (RTK) transported narrowed 16.5% year-on-year.

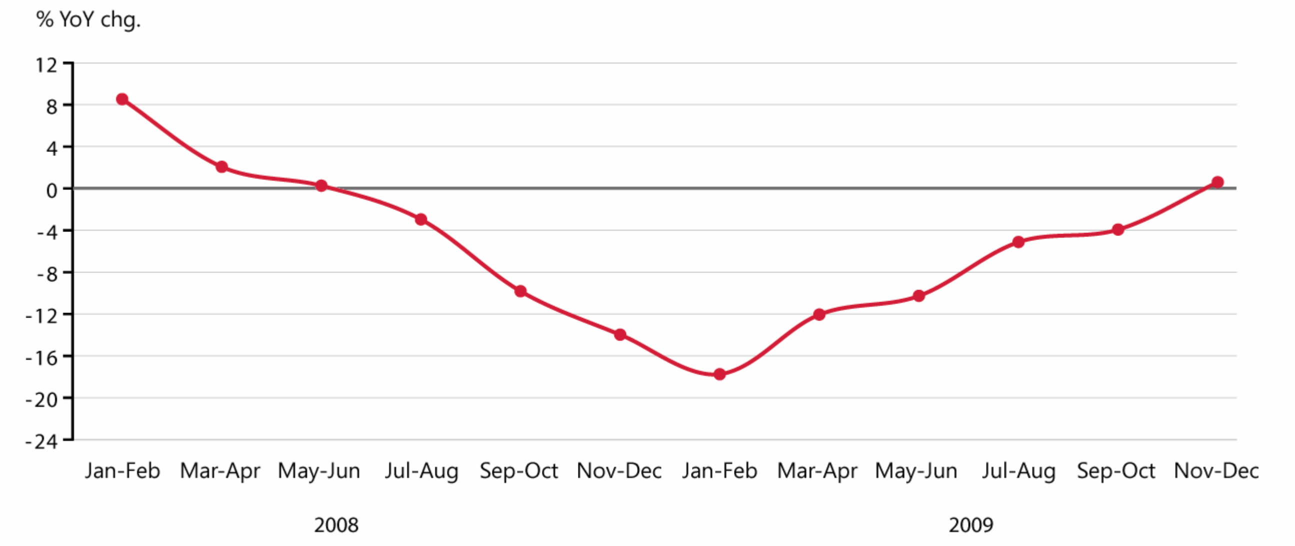
In addition to the significant drop in traffic volumes, the airline sector also suffered a sharp decline in unit passenger and cargo revenue in 2009. According to IATA estimates, the average decline in passenger fares on international flights in 2009 ranged between 10% and 15% compared to the previous year. At AEA carriers meanwhile, revenue per RPK narrowed 14.4% during the first nine months. One of the key drivers of this deterioration in unit revenue was the sharp drop in first and business class travellers, where traffic narrowed 17.1% through November according to the IATA.

Throughout 2009 the airlines intensified their cost cutting efforts, reduced flight frequency and took aircraft out of operation. However, new aircraft deliveries also took place, driving overall fleet utilisation lower across the industry. This did not benefit unit costs. On the other hand, fuel costs fell significantly on 2008 levels although kerosene prices rose sharply from mid-March 2009, climbing from $400/metric tonne to around the $670 mark by year-end. Escalating fuel prices also took their toll on the airlines' earnings, already hit hard by the slump in revenue.

As a result, the most recent IATA figures point to net losses across the entire sector last year to the tune of USD 11 billion. For its part, the AEA estimates its members will have notched up between EUR 3 and 3.5 billion in losses in 2009. Faced with these circumstances, many airlines were forced to scale back capacity and jobs. And some airlines, particularly smaller operators, also had to deal with liquidity issues. Merger and acquisition activity intensified as a result.

Logically, the Spanish airline sector was not immune to the effects of the economic crisis, as well as having to tackle the major roll out of railroad infrastructure, notably the consolidation of the Madrid-Barcelona high speed rail connection which started to operate in February 2008. According to the Spanish Public Business Entity Aena, passengers travelling through Spanish airports fell 8.0% in 2009 in relation to the previous year. The monthly declines narrowed as the year progressed, partly reflecting the gradual weakening in traffic in 2008, climbing 2.1% year-on-year in December, the first positive reading since May 2008.

TOTAL PASSENGERS AT SPANISH AIRPORTS IN 2008 AND 2009
% YEAR-ON-YEAR CHANGES



In short, air traffic volumes in the airline sector, having contracted sharply in the last quarter of 2008 and in early 2009, began to stage a gradual recovery during the second half of the year, equalling or bettering 2008 levels at the end of 2009.

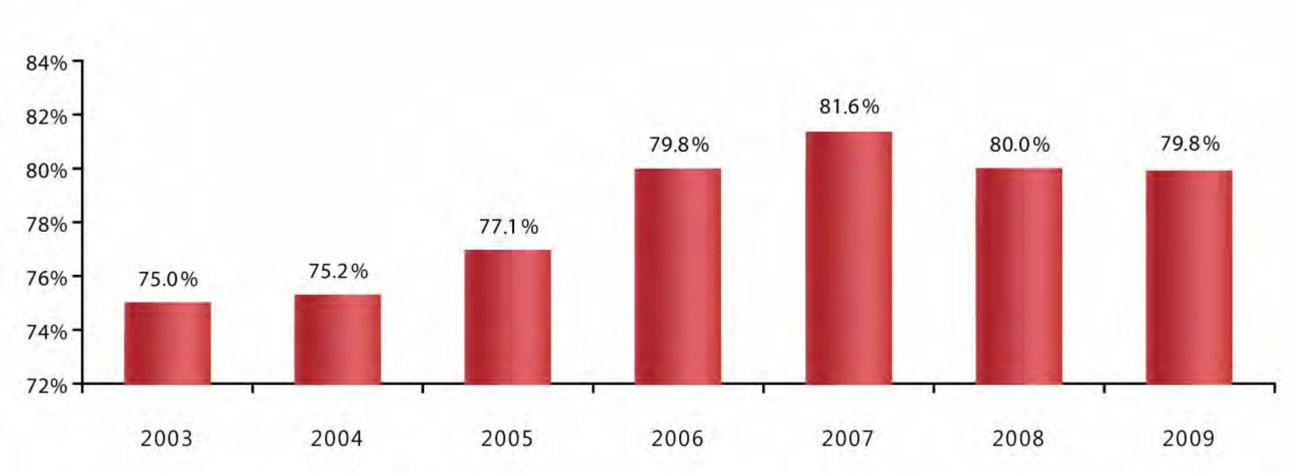
The Iberia Group's operating and financial performance

Capacity and demand

The adverse climate affecting the airline industry as a whole in 2009 naturally took its toll on the Iberia Group's business performance. Weak demand and the sharp drop in unit passenger and cargo revenues had a profound effect on the Group's profitability, pushing recurring operating result (EBIT) into the red by EUR 464 million. Recurring operating revenue narrowed 19.1% on 2008, albeit partially offset by an 11.9% reduction in recurring operating costs, thanks to cost control measures rolled out by the company and the drop in fuel prices.

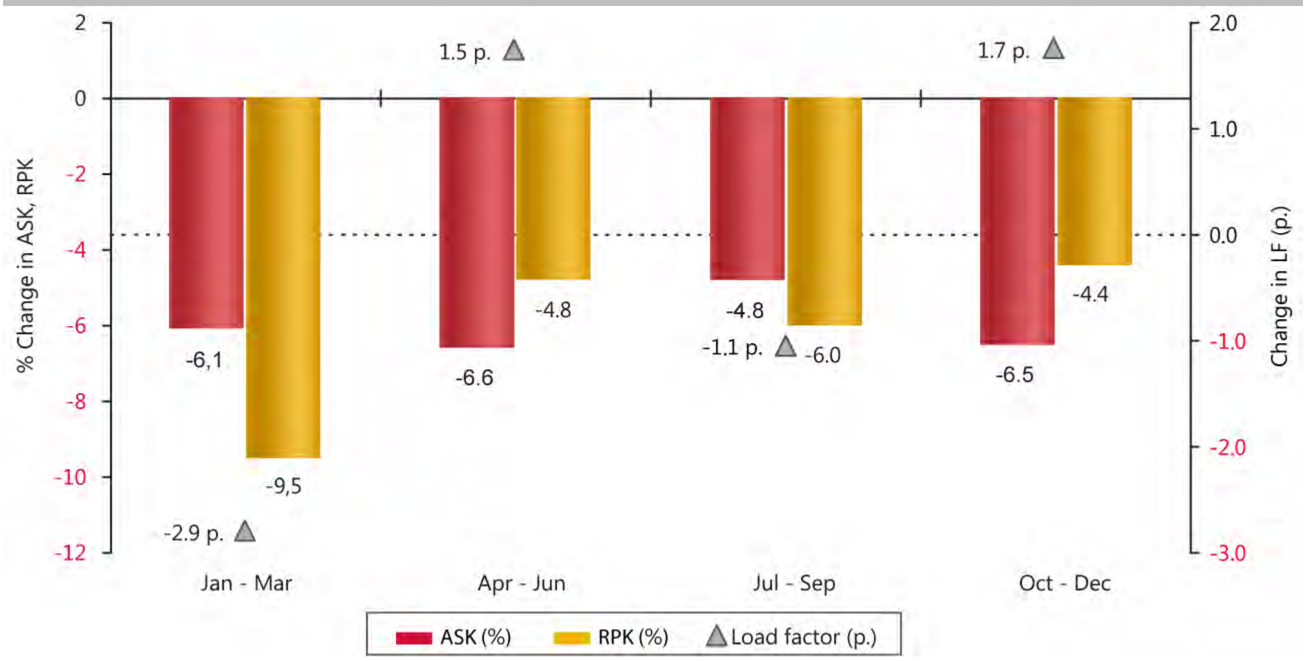
Throughout 2009, Iberia adjusted its flight capacity to the evolving and complex market conditions. The company reduced capacity, measured in available seat kilometres, by 6% with respect to 2008, while demand narrowed 6.2%. By maintaining capacity in line with demand, the company managed to keep its passenger load factor at 79.8%, very close to the 2008 level, remaining towards the top end of the range across full service European carriers.

TREND IN ANNUAL LOAD FACTOR. TOTAL NETWORK



Analysing Iberia's entire network, capacity cutting was fairly consistent throughout the year, while the best performance in terms of load factor came in the fourth quarter.

IBERIA GROUP PASSENGER CAPACITY AND DEMAND QUARTERLY TREND. YEAR-ON-YEAR PERCENTAGE CHANGES



The capacity adjustment was less pronounced in the long-haul segment (-3.3%), which once again increased its weight in the company's overall demand mix, accounting for 63.9% of total revenue passenger kilometres. All year demand in this segment was lower than in 2008, contracting 5.4% over the full year, albeit showing signs of recovery in the fourth quarter. The load factor in the long-haul segment was 83.4% in 2009, 1.8 points lower than in 2008, but improved 0.6 points in the last quarter. Iberia, with a market share of 20.1% in 2009, held onto the leadership spot in the Europe-Latin America market, which shrank by 8.8% on aggregate for all carriers.

In medium-haul international flights, the load factor improved by 2.5 points on 2008, reaching an average for the year of 75.6%, on the back of a 9.2% capacity adjustment, as the company fine-tuned its flight schedule in response to the challenging European market conditions. Demand was 6% lower in 2009, registering the largest drop in the first quarter (-10.7%), although slipping monthly by less than capacity from April onwards. The company continued to prioritise optimising connections through its Madrid-Barajas hub. Indeed, analysing medium-haul international flights departing from or landing at Madrid airport, the year-on-year decline in traffic narrows to 2.3% with respect to the previous year.

In accordance with strategic planning, Iberia continued to cut capacity on its domestic routes: this strategy resulted in an 11% reduction in ASK relative to 2008, pushing the load factor 0.4 points higher to 71.7%. Twenty per cent of capacity was taken off the Madrid-Barcelona route in 2009; capacity was slashed by 36.5% during the first quarter and by 11.7% during the next three quarters. Iberia began restructuring its flight schedule on this route in April 2008, primarily by introducing smaller aircraft following the start-up of the high speed train in February of that year. This explains the higher percentage decrease during the first quarter of 2009.

Since 9 September 2009 all Iberia and associate airline flights operate from the new Terminal 1 at Barcelona-El Prat airport. This new location saves time for shuttle passengers, while the new and extended installations have enabled the airline to raise customer service levels.

The global economic recession had an especially strong impact on business travel which fell sharply in all markets. On Iberia's long-haul flights, the number of passengers travelling in the Business Plus class fell 13.3% on 2008. Nonetheless, the company held on to its leadership of the business travel segment in the Europe-Latin America market, commanding a market share of 23.6%.

Operating revenue

Passenger revenue from flights operated by Iberia in 2009 were EUR 754 million lower than in 2008, which translates into an annual decline of 19.4%, driven by a 14.1% drop in passenger revenue per RPK and, to a lesser extent, slumping demand. The decline in unit revenue reflected the adverse trend in the class mix, more intense fare pressure in most markets, and the impact of the (4.4%) increase in the average passenger stage length.

The economic crisis had even greater ramifications in the air cargo segment. The airline's cargo traffic began to fall mid-2008, earlier than passenger demand, while the recovery also took place early: in the fourth quarter, cargo traffic climbed 10.5% higher year-on-year, although contracting 11.6% for the full year in terms of revenue tonne kilometres. The drop in demand, combined with a sharp drop in unit cargo revenue, resulted in a 27.4% decline in consolidated cargo revenues.

Iberia's revenue from handling services, despite the lower volume of airlines handled, narrowed moderately (easing 3.3% on 2008). Meanwhile, technical assistance revenue rose 4.2%, extending the healthy earnings performance of this business.

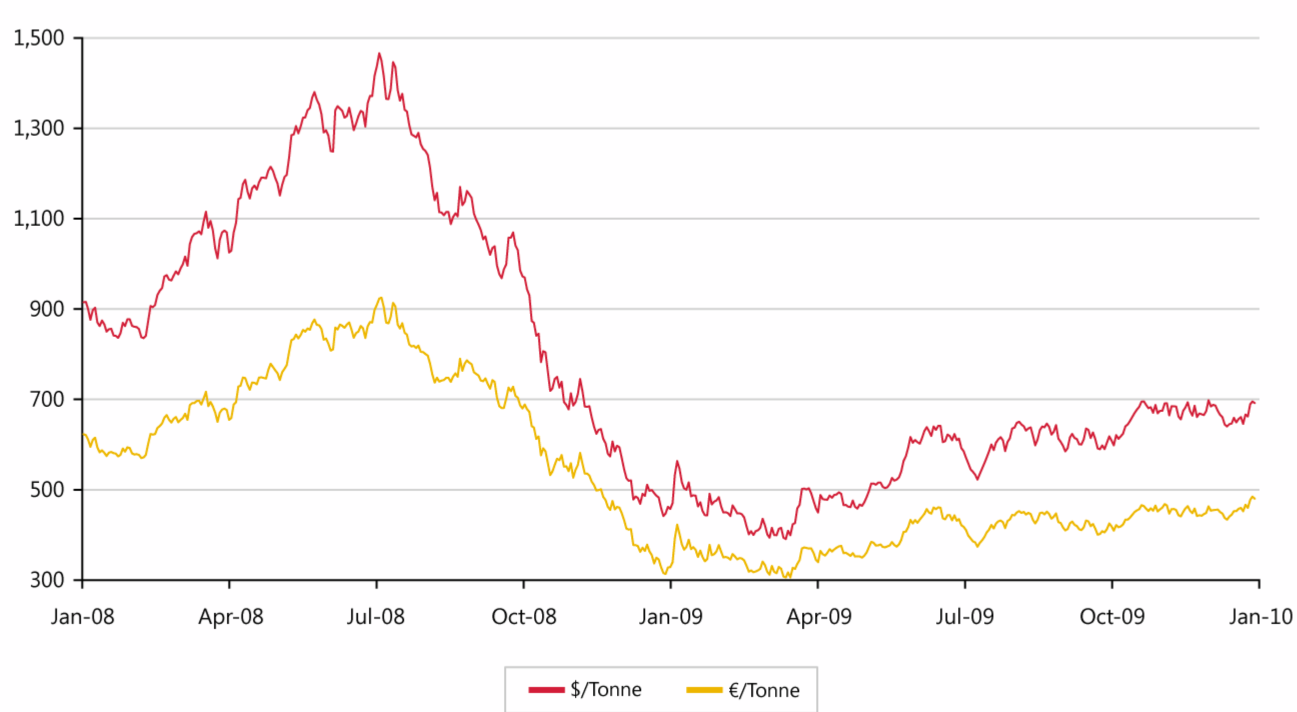
In all, Group operating revenue (including non-recurring items) were 19.2% lower in 2009, at EUR 4,458 million.

Operating costs

Last year fuel costs fell a noteworthy 28.9% to EUR 1,184 million, a reduction of EUR 482 million, due mainly to the sharp drop in average market prices and lower consumption (6.6% measured in litres) as a result of lower business volumes and increased fleet efficiency.

The prices for oil and refined products, including aviation kerosene, flirted with historical highs throughout 2008, proving highly volatile, hindering the risk management function. In July 2008, kerosene prices (according to the Jet CIF NWE index) surpassed $1,400/metric tonne. They then changed tack, unpredictably, falling sharply through March 2009. Since then kerosene prices have responded to the successive upward revisions to economic forecasts, rising in tandem with the growing perception that economic recovery was underway. By year-end 2009, kerosene prices had rallied 51% from January levels. However the average price for the year in dollars was 44% below the average 2008 level.

JET CIF NWE - PERFORMANCE 2008 - 2009



In 2009 non-fuel operating costs (recurring) narrowed 4.5% to EUR 3,689 million.

During the second quarter of 2009 Iberia began execution of its Contingency Plan in a bid to mitigate the profound impact the economic crisis was having on earnings. Under this program, the company scaled back capacity and personnel and general costs, selectively pruning planned capital expenditure.

Thanks to its flexible fleet management approach, Iberia was able to cut capacity more quickly and more significantly than its competitors. The company has temporarily taken out of operation eight owned short and medium haul aircraft (four since May, a fifth since June and the remaining three since October). In addition, mid-year it took back three long-haul aircraft operated under wet leases at the start of the year; these aircraft were accordingly operated using in-house resources during the second half. The company also agreed with Airbus to defer receipt of four aircraft to 2010, delivery of which was originally slated for 2009.

At year-end, Iberia's operating fleet comprised 109 aircraft, with an average age of 7.2 years, giving it one of the most modern fleets in the global airline industry, thanks to the strategic renovation pursued in recent years. This process has also resulted in significant aircraft standardisation: Iberia exclusively operates two families of Airbus aircraft, the A340 on long-haul flights and the A320 on short and medium-haul flights. This enables it to optimise the deployment of technical crews while providing operating management and cost control benefits.

In 2009, average fleet utilisation continued to improve, rising 3.7% on 2008 to 10.3 block hours per aircraft per day.

In 2009, Iberia put in place a series of measures to bring its personnel costs in line with the economic environment and the slump in volumes and revenues. These measures included: a salary freeze applicable to the management team and all personnel not included in the collective bargaining agreements; a cut in certain variable pay components; a hiring freeze and the non-renewal of temporary contracts; and application of early retirement, contract renegotiation and leave with guaranteed job security formulae under its workforce restructuring plan (hereinafter ERE for its initials in Spanish). In 2009 a total of 1,012 Iberia employees opted for one of these options.

In April the company signed the VII collective bargaining agreement for technical crew workers, valid from 2005 to 2009, providing for wage moderation and a series of measures designed to raise flexibility and productivity. The agreement also allows pilots to continue to work half-time between the ages of 60 and 65. This last measure lowered the net present value of the estimated technical crew pension fund provision, with a positive impact on 2009 earnings.

The Iberia Group's recurring personnel costs narrowed 1.8% year-on-year to EUR 1,297 million, thanks to wage control measures and, above all, a 4.2% reduction in the average headcount to 20,671 full-time equivalents (FTEs). In addition, in 2009 Iberia topped up its provision for workforce restructuring by EUR 51 million (non-recurring) to reflect the extension of its prevailing program.

Most of the other cost headings registered year-on-year declines due to lower volumes, fine-tuned procedures, consumption rationalisation and contract renewal with goods and service suppliers. In all, operating costs narrowed 10.9% on 2008 to EUR 4,930 million, a figure that includes EUR 57 million of non-recurring costs. Profit from operations amounted to a loss of EUR 475 million in 2009 compared to a profit of EUR 5 million in 2008.

Net finance income

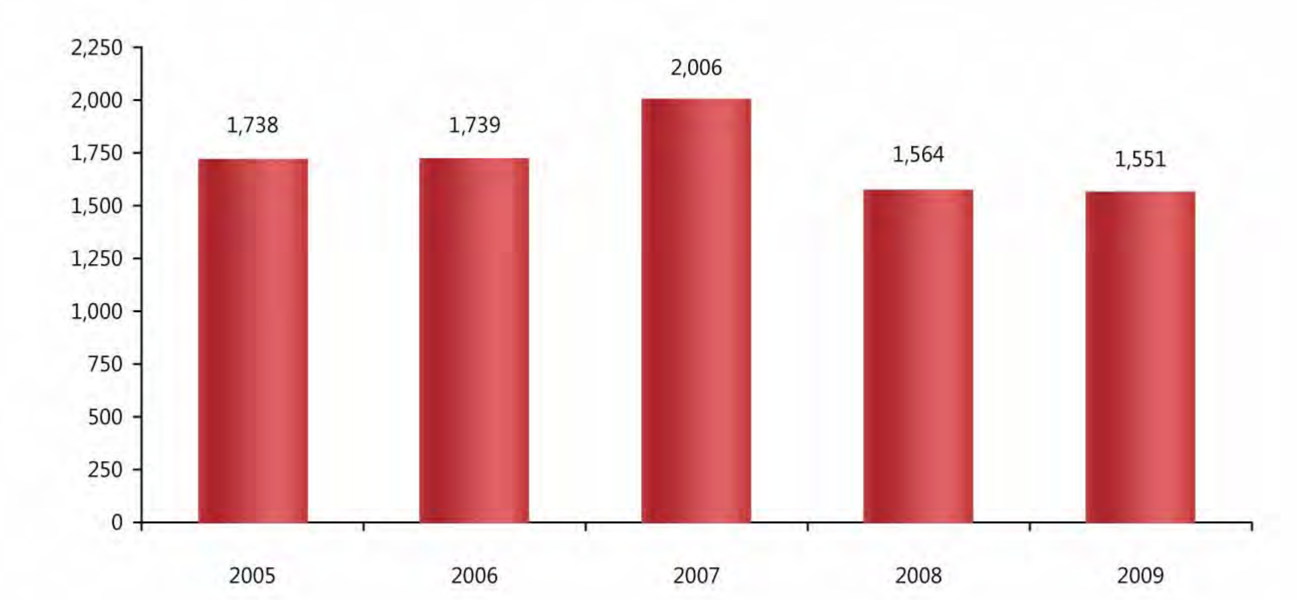
The merger between airlines Vueling and Clickair closed in July 2009 with Iberia taking a 45.85% stake in the merged entity. The transaction generated EUR 21 million in gains for Iberia. The Group's share of profits in associates amounted to EUR 8 million in 2009, a more than EUR 25 million improvement on the losses of 2008, mainly thanks to the profits generated by Vueling. Net finance income from other headings amounted to EUR 11 million in 2009, down EUR 38 million on 2008, due mainly to lower interest rates.

Net profit (loss) and balance sheet health

In 2009 the Group posted a pre-tax loss of EUR 435 million compared to profit in 2008 of EUR 36 million. In all, the Group loss after tax was EUR 273 million in 2009, compared to profit of EUR 32 million the previous year.

The consolidated year-end statement of financial position illustrates the company's healthy financial position. At EUR 1,551 million, equity was broadly similar year-on-year.

ANNUAL TREND IN THE IBERIA GROUP'S EQUITY



The adjusted liquid balance (current financial investments plus cash and cash equivalents and excluding the measurement of hedge arrangements) stood at EUR 1,919 million at 31 December 2009, down 15.5% on the 2008 year-end balance.

Adjusted net debt, including the capitalisation of operating lease costs, stood at EUR 1,229 million, up 21.4% on 2008. Leverage, measured as the ratio of adjusted net debt to total capital employed (the sum of equity and borrowings), stood at 44.2% at the end of 2009, up 4.9 percentage points on year-end 2008.

Plan 2012

In 2009 Iberia put in action an initial Contingency Plan with the aim of mitigating the significant slump in revenues sustained as a result of weak demand. This plan prioritised capacity cuts in a bid to match supply to demand, although also focusing on scaling back costs and capital expenditure.

Although the plan was on target, the greater than initially forecast fallout from the recession prompted the company to design what it has termed Plan 2012. The overriding goal of this plan is to maintain and even improve Iberia's leadership position in its core markets. The plan extends to franchisees and investees. The idea is to enhance the airline's strategic positioning as both an independent company and against the backdrop of sector consolidation.

Plan 2012 is designed to transform Iberia, boosting its long-haul business and shaping Group companies and/or associates to compete competitively in the short and medium haul segments going forward. Accordingly, the plan calls for growth in transcontinental routes and gradual capacity cuts on domestic and European routes.

Plan 2012 also calls for significant personnel cost savings, and therefore includes a wage freeze in 2010 and 2011. Other cost cutting measures will drive annual savings of EUR 37 million in 2011. Finally, the program calls for enhanced productivity across the company's entire workforce.

Capital expenditure under Plan 2012 amounts to EUR 200 million, EUR 120 million to upgrade business class on long-haul flights and EUR 80 million to extend the workforce restructuring measures already underway, which will result in the departure of around 325 employees.

Service quality

At the Iberia Group, customer orientation and service quality are core components of its strategic vision and competitive positioning. The company has prioritised investments that improve service quality based on its understanding that this yardstick sets it apart from its competitors. The airline takes a segmented approach to customer service.

In 2009, Iberia launched its **Total Customer Care Program.** This is a multi-year plan designed to achieve excellence in customer service and quality. It is a cross-departmental plan in which all management disciplines are engaged. It takes a three-pronged approach: (I) enhancing product and service levels; (II) overhauling all operational processes that affect the customer; and (III) a structured approach to systematically improving staff's attitude towards customers via both training initiatives and selective hiring. Based on feedback from its ongoing customer satisfaction evaluation systems and procedures, Iberia has been able to verify that customers indeed perceive an improvement in service quality, thanks to the host of initiatives rolled out during the year.

In 2009 Iberia embarked on a project to transform **Business Plus** cabins on its long-haul aircraft with a view to increasing passenger legroom and comfort. By the end of 2010 all its Airbus A340 aircraft will have been upgraded and business class customers will be able to enjoy up to 2.20 metres of personal space as well as the option of putting their modern seats into a fully reclined bed position. The new configuration of the business class cabin is rounded out with best of class communication and entertainment systems. In addition, the company is collaborating with prestigious chefs, sommeliers and renowned companies to update the broad range of Spanish cuisine and fine wines offered on board and in its VIP lounges.

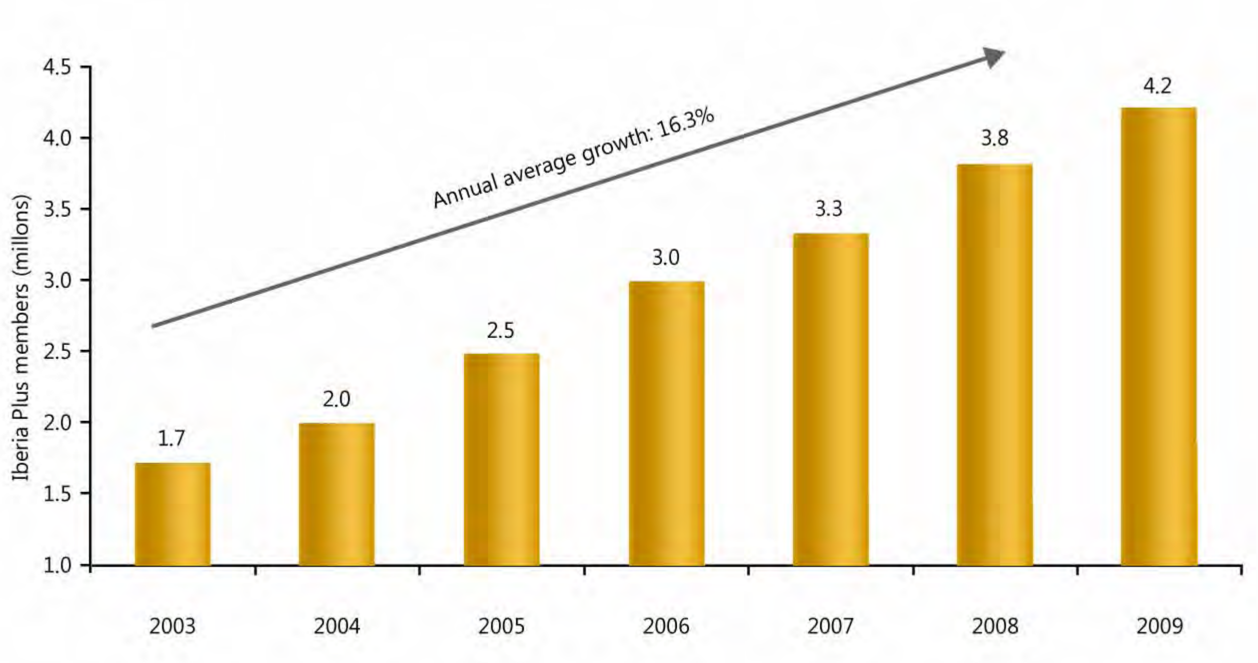
Iberia passengers can choose from a total of 65 **VIP lounges**, which are especially designed and fitted out to make the time spent in the airport by Iberia's Business Plus and Business Class passengers and **one**world alliance business class passengers more pleasant. Holders of Iberia Platinum, Gold and Club Fiesta cards are also entitled to use these facilities. Notably, the company has fully remodelled its VIP lounges in Madrid airport's Terminal 4: passengers can now enjoy a total of 4,600m2 equipped with meeting rooms, relaxation zones, showers, computers and internet connections, among other services and comforts. As part of its Total Customer Care Program, the company also upgraded its VIP lounges in Valencia, Bilbao, Santo Domingo and Frankfurt.

A very significant percentage of the tickets issued and passenger revenues booked by the company is generated by members of its **Iberia Plus** frequent flyer program, which the Iberia Group views as a valuable tool for interacting with and acknowledging the loyalty of its best customers. At the end of 2009 Iberia Plus had 4.2 million members, growth of 10.5% for the year, located across 200 countries worldwide. Over half of these have signed up for Iberia Plus online, a direct channel accessed via the Iberia website.

Throughout its 18-year history, the frequent flyer program has been incorporating leading companies from a range of sectors. In December 2009 the number of corporate affiliates totalled 89, following the addition of 12 new members last year, including: Fiesta Hotels, Rusticae, Heineken, Mutua Madrileña, Cortefiel and Vueling.

Iberia Plus is the best-rewarding frequent flyer program. According to a report carried out by international consultant IdeaWorks on how easy it is to find reward seats and other services online, querying ten US and European airlines' websites, Iberia's frequent flyer program topped the chart on seat availability.

IBERIA PLUS MEMBERS



Iberia's **punctuality** (industry standard, flights departing within 15 minutes of schedule) was 81.2% for the overall network in 2009, similar to the 2008 figure (81.4%). The company's punctuality performance was undermined in January and December of last year by adverse weather conditions at Madrid-Barajas airport.

Innovation and technology

The Iberia Group has always prioritised innovation, viewing this driver as a value that takes in all the important business elements: strategy, processes, services and products. The company has pioneered the use of emerging technologies, viewing them as essential tools for raising competitiveness and quality in the airline industry. This innovation is reflected in the company's investment in technology. Specifically, in 2009, Iberia received recognition for 34 innovation projects through certification or independent appraisals from public bodies such as the Ministry of Industry, Tourism and Commerce, the Ministry of Science and Innovation and the Centre for the Development of Industrial Technology, among others, spanning different areas relating to information technology and aircraft and engine maintenance and engineering.

Iberia.com, the company's website and online marketing tool, is one of the most comprehensive and innovative e-commerce sites in Spain, as evidenced by the numerous prizes it has received in recognition of its quality and design. In Spain it is the highest grossing e-commerce site. Outside Spain 42 country-specific websites are available in seven different languages. Average daily visits in 2009 amounted to 343,000.

Passengers can reserve flights and book tickets at www.iberia.com. Thanks to agreements in place with other companies, customers can also purchase other products and services, such as hotel bookings, car rental, tour packages, travel insurance, excursions, airport transfers and even Business Plus wines.

In 2009, revenue from online flight bookings (tickets and fees) approached EUR 588 million, up 10% on 2008. Iberia's international websites registered the highest growth: ticket issuance via these sites jumped 21.0% compared to growth of 10.2% in Spain. Adding in other products and services purchased, total revenue from online purchasing amounted to EUR 600 million.

The company provides a wide range of information on its website (flight schedules, fares, arrivals and departures, weather conditions at destination) as well as other services, including, notably, self check-in online from any computer, allowing passengers to go straight to the boarding gate without passing by a check-in desk if not checking in luggage. In 2009, Iberia passengers issued around 14,500 boarding passes via the website each day. Iberia has also added new functionality such as the ability to download boarding passes onto a mobile phone or PDA for scanning at the gate. This innovative system was available at 13 of Iberia's airports at year-end. New destinations will be added as the airports are fitted out with the enabling technology.

The company continually renews and extends the functionality of its website in a bid to provide an increasingly interactive and efficient service. Noteworthy developments and upgrades added in 2009 include: a destination map featuring special offers; the ability to buy tickets from any city in all markets; last minute availability information; access to detailed and personalised flight information, enabling reservation changes, seat selection and special requests; adaptation for access and use by the visually or hearing impaired; a new tool for advance payment of excess baggage; family discounts; lost luggage enquiries; and integration of ticketing and billing for Vueling flights, among others.

Last year the company created a new portal, **iberiacorporate.com**, to provide an open channel enabling travel staff at over 1,300 companies to access all the information relating to the agreements in place with Iberia. The new portal includes exclusive offers and provides practical information on all aspects of business travel, among other features.

Iberia has joined the most recent tool for introducing electronic ticketing for interline travel of airline staff, myIDTravel, which enables Iberia employees to self-issue tickets on any airline associated with this program.

Iberia's cargo management team and the International Air Transport Association (IATA) continued to implement the IATA ***e-Freight*** initiative in Spain. e-Freight, or paperless electronic cargo documentation, entails a series of electronic records that store all information relating to each dispatch, eliminating the need to send as many as 13 hard copy documents, thereby shaking up process, improving speed and reliability and lowering costs. In 2009 the e-Freight system was rolled out in new European and US destinations.

Iberia's airport management team implemented a new baggage handling and control system in Madrid which significantly raises passenger service levels and reduces the costs incurred by the company in relation to lost luggage incidents. This initiative, developed with the Orión-BRS/SAMB group, is an innovative solution for automatically reconciling luggage with its owner and his or her corresponding flight.

Corporate Transactions

Agreement with British Airways

On 12 November 2009 the boards of Iberia and British Airways approved a binding agreement that sets the foundations for a merger between the two airlines, theoretically allocating equal participation on the enlarged group's board and other governing bodies.

The merger agreement contemplates the creation of a newco, **TopCo**, owned by both Iberia and British Airways, under which each company will continue to operate existing brands and rights, remaining responsible for daily operations management.

TopCo will be owned by the current shareholders of Iberia and British Airways. Under the terms of the planned merger, the shareholders of the British company will receive one ordinary share in TopCo for every share currently owned in British Airways, while Iberia shareholders will receive 1.0205 ordinary shares in TopCo for every common share held in the Spain airline. Based on this exchange ratio, and following cancellation of Iberia's treasury shares and prior to cancellation of the current cross shareholdings between British Airways and Iberia, Iberia shareholders will own 45% of Topco's equity, with British Airways shareholders holding the remaining 55%.

TopCo's registered business address will be Madrid and it will be a tax resident of Spain, while the financial and operational head office will be in London where the group's main functions will be located, although the necessary Madrid offices will be maintained. There will be 14 seats on the Board of Directors of TopCo, to be appointed in equal proportion by both airlines. Antonio Vázquez will chair the new group while Martin Broughton will serve as vice-chair.

The two companies are continuing to make progress, having set a deadline of one year from signature of the letter of intent to close the merger which will create one of the world's biggest airlines. The merger will benefit both airlines' shareholders and employees who will be partners in a more robust, global company. Meanwhile, the carriers' passengers will have more flight and destination options, among other benefits under the deal.

Merger between Vueling and Clickair

The publicly notarised deeds to the merger of Clickair and Vueling (with the former merging into the latter) were filed with the Barcelona Companies Register on 16 July 2009, having been ratified by both companies' shareholders in general meeting on 5 May. Registration of the merger deeds resulted in the official dissolution of Clickair (an Iberia investee) and the transfer en bloc of its assets and liabilities to Vueling, which acquired all the rights and obligations of Clickair by universal succession.

In accordance with the terms of the merger, and after receipt of the pertinent waiver from the securities market regulator exempting Iberia from having to launch a tender offer, Clickair converted outstanding privileged shares into common shares, leaving a single series of shares with a face value of EUR 10 each. Subsequently, Clickair increased capital by EUR 25 million and Iberia bought out the remaining Clickair shareholders, except for Nefinsa, at the updated acquisition price. Vueling also increased capital by enough to cover the share exchange in a rights issue reserved exclusively for Clickair shareholders. As a result of the merger and agreed exchange ratio, Iberia is now the largest shareholder and strategic partner in Vueling, with a 45.85% shareholding.

Changes in Iberia's governing bodies

On 9 July 2009 the Board of Directors of Iberia accepted the voluntary resignation of its Chairman, Mr. Fernando Conte García, agreeing to name Mr. Antonio Vázquez Romero Chairman of the Board and Chief Executive Officer of the company. At the same meeting, the Board of Directors agreed to appoint Mr. Rafael Sánchez-Lozano Turmo, who had served on the airline's Board since 2007 as representative of Valoración y Control, S.L., as Chief Operating Officer.

At the Iberia Board of Directors' meeting held on 17 December 2009, Mr. Keith Williams was appointed director at the proposal of British Airways.

At the end of August 2009 Iberia shook up its top management, simplifying the management structure with a view to reinforcing the company's competitive positioning. As a result, two major areas have been set up within the transport business: a Sales and Customer Department focused on revenue generation and run by Mr. Manuel López Aguilar, former managing director of Maintenance and Engineering, and the Production Department, oriented towards enhancing operations and raising productivity, and headed by Mr. Juan Manuel Bujía Lorenzo. This restructuring led to the elimination of the Airline Department under the stewardship of Mr. Enrique Donaire Rodríguez.

A Purchasing and Services Department was also set up and entrusted to Mr. José María Fariza Batanero, former Head of Control and Administration, with the overriding task of streamlining costs. The administrative and control functions have been brought under the remit of the Finance Department; the Chief Financial Officer is still Mr. Enrique Dupuy de Lôme Chávarri. Lastly, Mr. José Luis Ruíz de Castañeda de la Llave was appointed Managing Director of Maintenance and Engineering.

Events after the statement of financial position date

At Iberia's Board of Directors' meeting held on 12 February 2010, Mr. Rodrigo de Rato Figaredo was appointed member of the Board at the proposal of Caja Madrid, to fill the vacancy left following the voluntary resignation of Mr. Miguel Blesa de la Parra. As such, he will act as Vice Chairman of Iberia and will be a member of the Executive Committee of the company's Board of Directors.

No events have taken place after the statement of financial position date.

2. Operating Performance

2.1. Transport

Passenger and cargo air transport is the Iberia Group's core business. In 2009 this activity generated 81.1% of total recurring operating revenue.

The following section analyses passenger capacity, traffic and revenue statistics for Iberia, Líneas Aéreas de España, S.A. (hereinafter, Iberia) in 2009 and 2008, broken down into three commercial segments, as follows: (i) domestic, which takes in connections among Spanish airports; (ii) medium-haul, which includes international routes between Spain and destinations in Europe, the Middle East, North Africa and Central Africa; and (iii) long-haul, which includes connections with the Americas and South Africa.

2.1.1. Capacity and passenger traffic

In the early months of 2009 global passenger demand slumped heavily year-on-year, extending the pattern unfolding since mid-2008, reflecting the fallout from the global economic recession. According to International Air Transport Association (IATA) data, during the first half of 2009 international passenger traffic, measured by revenue passenger kilometres (RPKs), fell by 7.5% in comparison to the previous year. During the second half, demand recovered dramatically, posting positive year-on-year growth during the fourth quarter. This turnaround was driven by the brightening economic outlook in some countries and the stimulus provided by widespread fare cuts.

The dip in business class travel was proportionately higher than the headline figure in virtually all markets, exacerbating airlines' losses. According to IATA data through November 2009, the number of tourist class passengers on international flights narrowed 2.9% year-on-year while first and business class passengers plunged 17.1%, driving an overall drop in aggregate passengers in all classes of 4.3%.

Aggregate traffic for the airlines comprising the Association of European Airlines (AEA), measured in RPK, narrowed 4.5% on 2008, compared to a 4.2% reduction in capacity, so that the load factor deteriorated by 0.3 percentage points to 76.0%. For European network carriers, the rebound in demand from the trough (traffic plummeted 10.3% year-on-year in March 2009) has proven slower, with the first positive year-on-year register coming in December 2009. The European full service airlines have been harder hit by the recession than their low-cost no frills competitors as demand elasticity has increased.

The Spanish airline sector was hit by the global economic crisis and, more specifically, the severe recession gripping the Spanish economy (GDP is estimated to have contracted by 3.6% in 2009). According to the Public Business Entity Aena, commercial traffic passing through Spain's airports (measured in passengers) fell 8.0% in 2009, with international and domestic travel declining at similar rates. Passenger numbers plunged by around 18% during January and February 2009, easing throughout the rest of the year to register growth of 2.1% by December.

At Madrid airport, passenger numbers were down 5.0% in 2009, following a similar recovery pattern as the year progressed.

Domestic air travel in Spain is also tackling the competition posed by the development of the nation's high speed rail network. Specifically, on the all-important Madrid-Barcelona route, the high speed train, which began operations in February 2008, registered rapid growth during its first year of operation, stabilising throughout last year, commanding a market share of 45.7% in 2009. The number of passengers across all airlines operating this route fell 18.3% on 2008.

Under these adverse circumstances, Iberia managed to keep its passenger load factor at 79.8% in 2009, very close to the prior year's level and once again one of the highest levels seen at any European full service carrier. Throughout the year the company fine-tuned its flight schedule in order to bring capacity in each segment into line with weakened demand. Over its entire network, capacity in terms of available seat kilometres (ASK) fell 6.0% on 2008.

At the beginning of 2010 Iberia directly operated flights to 79 destinations: 56 international cities (with four additional destinations operated during summer 2009) and 23 national destinations. Factoring in cities serviced by franchisee Iberia Regional Air Nostrum, this number rises to 104 (within another 12 in high season). In addition, its code sharing agreements with other carriers (American Airlines, Avianca, British Airways, Japan Airlines, Mexicana de Aviación, LAN, Royal Air Maroc, Qantas and Vueling, among others) meant that at the end of 2009 Iberia offered its customers flights to almost 230 destinations.

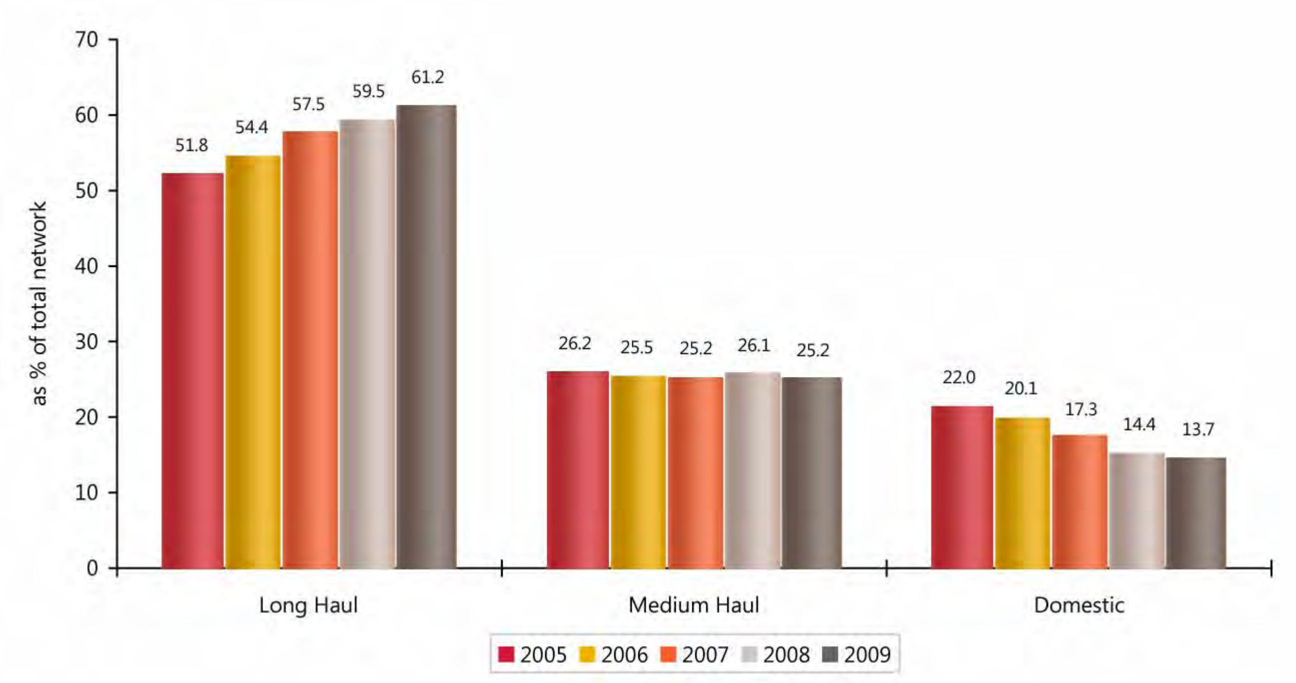
For the full year and across all segments, available seat kilometres totalled 62,158 million. The breakdown by segment is as follows:

Millions

ASK	2009	2008	% Change
LONG-HAUL	38,023	39,330	(3.3)
MEDIUM-HAUL	15,643	17,223	(9.2)
Europe	13,586	15,192	(10.6)
Africa & Middle East	2,057	2,031	1.3
DOMESTIC	8,492	9,546	(11.0)
TOTAL	**62,158**	**66,098**	**(6.0)**

The capacity adjustment was less pronounced in the long-haul segment (-3.3%), which once again increased its weight in the company's overall supply, accounting for 61.2% of total ASK. Capacity on short and medium haul routes fell by 9.8% on aggregate in 2009.

ANNUAL TREND IN CAPACITY MIX (ASK)



Capacity fell by 1,307 million ASK in the long-haul segment in 2009. A little over two-thirds of this decline was accounted for by Central American flights, where capacity was scaled back by 5%, mainly due to a sharp cut on Mexican destinations (-28%), in part due to the impact on demand of the outbreak of swine flu from the end of April. Traffic plummeted so sharply than in May and June Iberia had to cut capacity on these routes by almost half. Capacity narrowed 2.9% year-on-year on North American routes while available seat kilometres fell a slight 0.3% on South American routes, where reduced capacity on Argentine destinations (-5.5%) was offset by increased flight frequency to Brazil and Uruguay.

In Europe, capacity was reduced by 10.6% in relation to 2008, with cuts on most destinations, reflecting the company's attempt to match capacity to falling demand in highly competitive markets and the ongoing streamlining of point to point routes. Analysing international flights to European destinations departing from or landing at Madrid airport, the year-on-year decline in capacity (ASK) narrows to 6.2%. Last year Iberia added one new destination, the Croatian capital Zagreb, to its proprietary flight schedule during the summer months.

Capacity on flights to Africa and the Middle East rose 1.3% on 2008, with the biggest increases in absolute terms on flights to Israel, Senegal and Egypt.

In keeping with its strategic plan, Iberia continued to cut capacity on its domestic routes last year (by 11.0%). These cuts were higher in the first quarter of 2009 (-20.9%) than in the rest of the year (-7.3% between April and December) due in part to the capacity restructuring initiated on the Barcelona-Madrid route in April 2008 in response to the start-up of the high speed rail connection. In 2009, capacity operated directly by the company on all connections between these two cities fell by 20.0%, while capacity on all other domestic flights taking off or landing in Madrid narrowed 8.2%. Meanwhile, domestic flights suffered most cancellations as a result of the pilot strike during the first three weeks of 2009, and the four days of strike action by cabin crew in October and November.

Production, measured in block hours, was 7.3% lower in 2009, primarily in response to slumping demand. Block hours under wet lease regime (aircraft and crew) dropped by 66.9% in comparison with 2008. No aircraft has been operated under this formula since September 2009. The number of block hours operated with proprietary aircraft and crew fell 4.6% on 2008. Circumstantially Iberia had to increase the number of hours leased from third parties, in part to mitigate the impact on operations of the aforementioned strike action.

Passenger fleet block hours	**2009**	**2008**	**% Change**
OWNED AIRCRAFT	424,941	445,331	(4.6)
WET LEASE	6,920	20,891	(66.9)
OTHER LEASES	729	422	72.6
TOTAL	**432,590**	**466,645**	**(7.3)**

In 2009 Iberia carried 20.9 million passengers across its entire network, of which 4 million corresponded to long-haul flights.

The breakdown of Iberia's traffic, measured in RPK, is depicted in the following table:

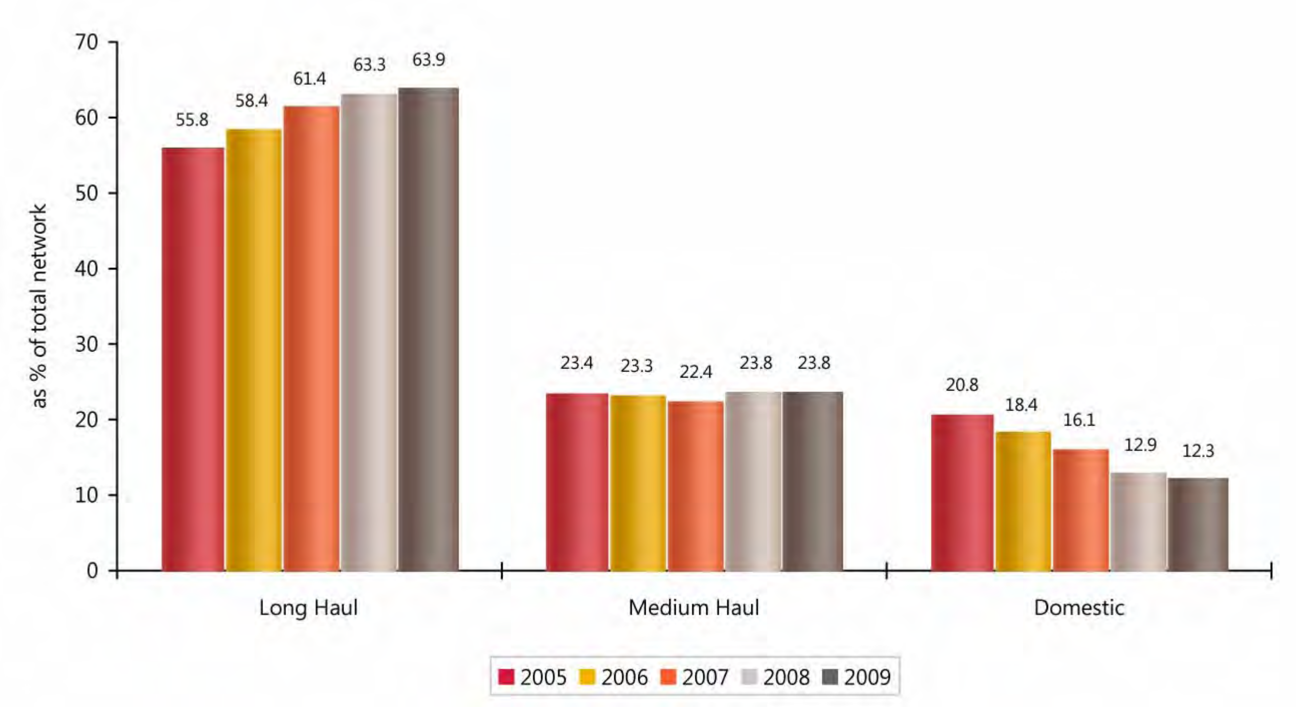
Millions

RPK	**2009**	**2008**	**% Change**
LONG-HAUL	31,698	33,490	(5,4)
MEDIUM-HAUL	11,823	12,584	(6,0)
Europe	10,314	11,049	(6,7)
Africa & Middle East	1,510	1,535	(1,6)
DOMESTIC	6,091	6,810	(10,6)
TOTAL	**49,612**	**52,885**	**(6,2)**

Across the entire network, traffic narrowed 6.2% on 2008, due to streamlining of the short and medium haul flight schedule and weak demand for air travel throughout the year, although signs of recovery were noted during the last few months. Iberia's traffic dropped 4.4% in the fourth quarter of 2009, compared to a decline of 6.7% during the first three quarters of the year.

Aggregate traffic across the medium haul international and domestic segments slipped 7.6% in comparison to 2008, outstripping the dip in RPK on long-haul routes, at 5.4%. As a result, the trend of recent years continued, with the contribution of long-haul to total network traffic increasing 0.6 percentage points to 63.9%.

ANNUAL TREND IN DEMAND MIX (RPK)



Last year the biggest declines in demand in the long-haul segment in absolute terms were sustained in Argentina and, most notably, Mexico. Demand plummeted by 35% in the latter market, partly due to the outbreak of swine flu at the end of April, driving overall traffic on Central American routes down by 6.5% last year. Demand in North America and South America narrowed by 3.7% and 4.1%, respectively.

Iberia, garnering a market share of 20.1% in 2009 as a whole, held on to its leadership of the Europe-Latin America market, where demand contracted by 8.8% for all operators in 2009. Looking exclusively at first and business class travel, the Europe-Latin America market shrank by 21.0% on 2008, although Iberia held onto the same market share (23.6%), giving it leadership of this segment also.

In Europe, Iberia's traffic fell 6.7% due to the fallout from the widespread recession, intense prevailing competition and, to a lesser extent, capacity cuts on point to point routes. Analysing international European flights originating or arriving at Madrid airport, the year-on-year decline in traffic narrows to 2.8%. On African and Middle Eastern routes, demand tapered off by 1.6%.

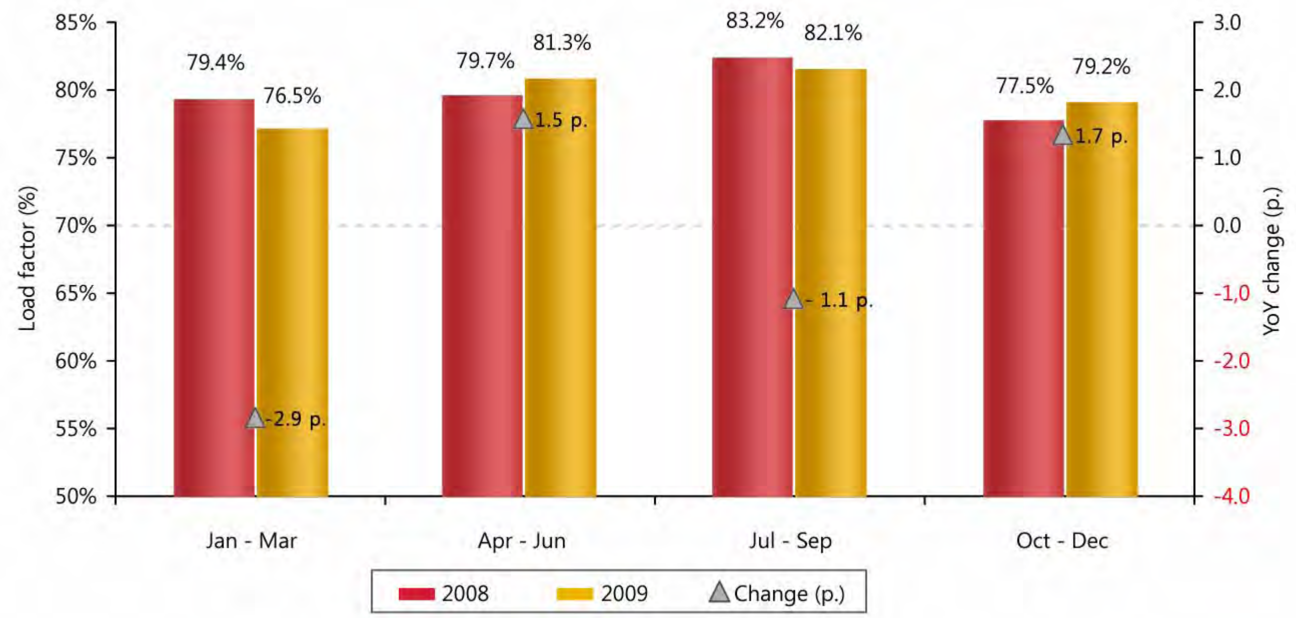
Traffic on domestic routes declined 10.6%, in line with the volume of capacity taken off stream last year (-11.0%). The biggest drop in relative terms was evidenced on the Barcelona-Madrid route (RPK down 27.6% considering the shuttle plus scheduled flights) following the start up of the high speed rail connection in 2008.

The table below breaks down the load factor by segment:

Load factor (%)	2009	2008	% Change
LONG-HAUL	83.4	85.2	(1.8)
MEDIUM-HAUL	75.6	73.1	2.5
Europe	75.9	72.7	3.2
Africa & Middle East	73.4	75.6	(2.2)
DOMESTIC	71.7	71.3	0.4
TOTAL	**79.8**	**80.0**	**(0.2)**

Thanks to capacity fine-tuning, the company managed to register an overall network load factor of 79.8% in 2009, a mere 0.2 percentage points below the 2008 register. The load factor improved 1.5 points in the second quarter, although the year-on-year comparison was partially boosted by the timing of Easter (in April in 2009 and in March in 2008). In contrast, this same phenomenon hurt the first-quarter load factor which deteriorated by 2.9 points, although it was also hurt by operational challenges in January as a result of adverse weather conditions in March and labour disputes. The gradual recovery in traffic underpinned the biggest improvement in the load factor in the fourth quarter (up 1.7 points on 4Q08).

QUARTERLY TREND IN LOAD FACTOR



Relative to 2008, the load factor improved in both the domestic and medium-haul segments, with a noteworthy 3.2 point increase in Europe to 75.9%. Aggregating all European flights (international and domestic), the load factor climbed 2.1 points to 74.3% in 2009, significantly higher than at the company's main European full service competitors.

In the long-haul segment, the load factor slipped 1.8 points on 2008. In a bid to consolidate its strategic leadership on Latin American routes, Iberia cut capacity in this market by relatively less than elsewhere, generating a higher imbalance relative to demand. Nevertheless, traffic performed well during the last quarter.

2.1.2. Passenger traffic revenue

In 2009 the yield (revenue per RPK) across the entire network narrowed 14.1% due to the significant deterioration in the class mix, more intense fare pressure in most markets, and the impact of the (4.4%) increase in the average passenger stage length. The lower yield, combined with a slight drop in load factor, drove a 14.3% decline in passenger revenue per ASK. The impact of exchange rate movements on unit revenue accounted for a slight 0.8 percentage point increase in this metric.

In response to the sharp declines in traffic, from the second quarter of 2009 fares were slashed in a widespread effort on the part of the airlines to stimulate demand. Iberia's unit revenue per ASK declined 15.5% year-on-year in the second quarter, recovering somewhat during the second half, with a year-on-year decline of 8.9% in December.

The following tables break down unit revenue per RPK and per ASK by segment:

Euro cents

Yield	2009	2008	% Change	% Change(*)
LONG-HAUL	4.85	5.49	(11.6)	(12.9)
MEDIUM-HAUL	7.53	8.94	(15.7)	(16.2)
DOMESTIC	11.65	13.64	(14.6)	(14.8)
TOTAL	**6.32**	**7.36**	**(14.1)**	**(14.9)**

(*) At constant currency

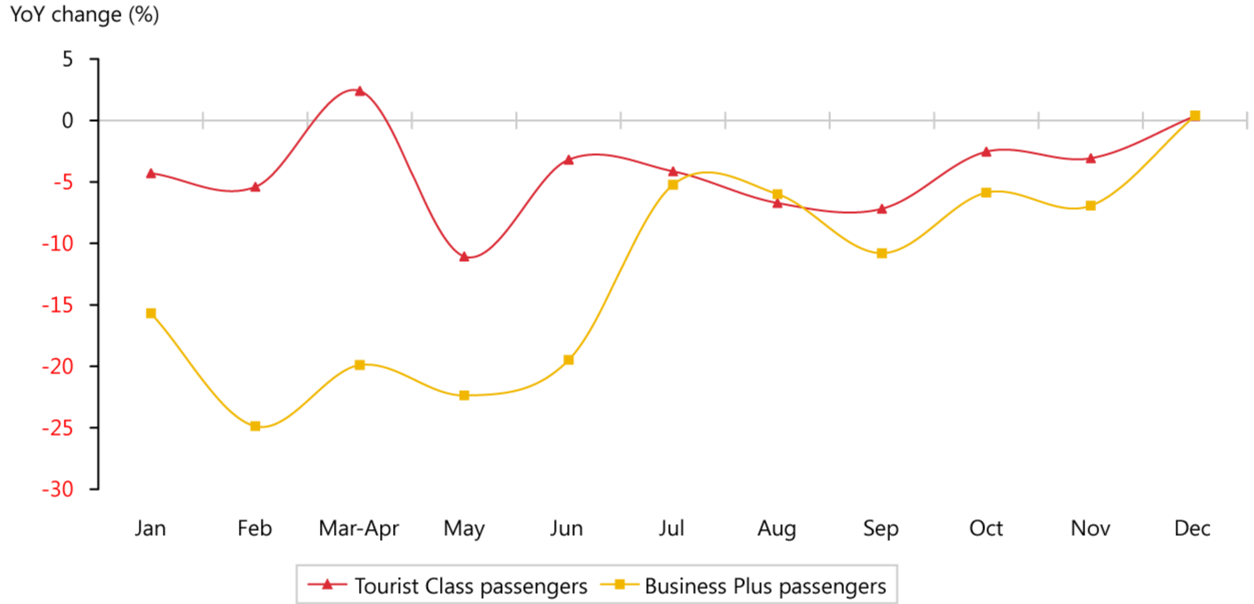
Euro cents

Revenue per ASK	2009	2008	% Change	% Change(*)
LONG-HAUL	4.04	4.67	(13.5)	(14.7)
MEDIUM-HAUL	5.69	6.53	(12.8)	(13.3)
DOMESTIC	8.35	9.73	(14.2)	(14.4)
TOTAL	**5.05**	**5.89**	**(14.3)**	**(15.1)**

(*) At constant currency

In the long-haul segment, the *yield* fell 11.6% in 2009 as a result of more intense competition on the back of slumping demand. More specifically, the 13.3% year-on-year drop in Business Plus passengers had a significant impact on yield, even though business traffic has been staging a recovery since the summer, in part stirred by sales and marketing efforts. As a result, Business Plus traffic slid 6.0% during the second half compared to a drop of 20.4% in the first half. Revenue per ASK narrowed 13.5% on 2008, compounded by the drop in the load factor in this segment.

TREND IN LONG-HAUL TRAFFIC IN 2009



The yield across the overall medium-haul segment declined 15.7% in 2009 due to the collapse in business class travel at all airlines operating in the Spain-Europe market (off 32.0%), mirroring fierce competition on European routes and the impact of the (3.2%) increase in the average passenger stage length. The improvement in the load factor meant that revenue per ASK fell by almost three points less than the *yield* (-12.8%).

In the domestic segment, the yield fell 14.6% year-on-year due to a 3.3% increase in the average stage length, the sharp deterioration in the class *mix*, and the reduction in fuel surcharges, while revenue per ASK ended down 14.2%.

The table below depicts the trend in passenger revenues broken down by segment:

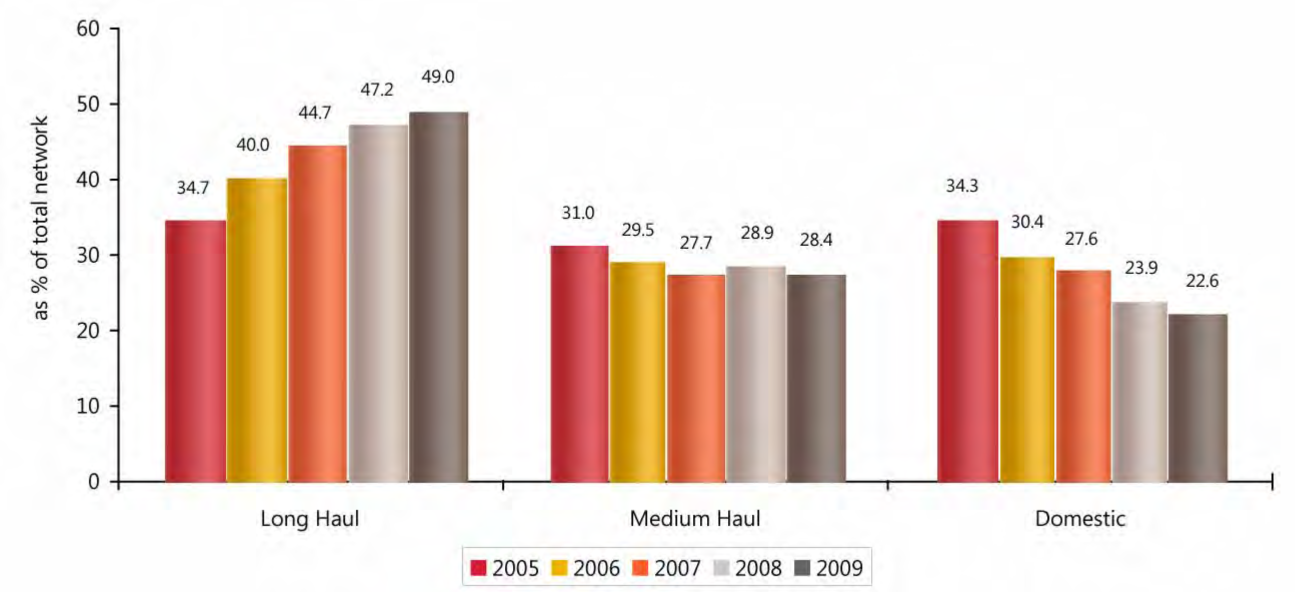
Millions of euros

Passenger revenue	2009	2008	% Change
LONG-HAUL	1,538	1,838	(16.4)
MEDIUM-HAUL	890	1,124	(20.8)
DOMESTIC	709	929	(23.6)
TOTAL NETWORK	**3,137**	**3,891**	**(19.4)**
Other passenger revenue	188	327	(42.6)
TOTAL	**3,325**	**4,218**	**(21.2)**

Passenger revenue for the entire network (tied to production for the year) was 19.4% lower than in 2008, at EUR 3,137 million. The segment split reveals the gradual increase in the weight of the long-haul segment; this segment's contribution to total network passenger revenue climbed 1.8 points on 2008 to 49% (up 9.0 points on 2006).

"Other passenger revenue" includes revenue from unused expired tickets, from frequent flyer programs and adjustments and restatements of an accounting nature.

ANNUAL TREND IN PASSENGER REVENUE SPLIT BY SEGMENT



2.1.3. Cargo

Worldwide, cargo traffic was hit very hard by the recession, which had a profound and prolonged impact on all markets. The drop in international trade prompted a dip in demand from mid-2008. According to AEA data, revenue tonne kilometres (RTK) across European carriers narrowed 16.5% in 2009, registering declines of 22% in the first two quarters, 16% in the third quarter and 6% in the last quarter, illustrating both the scale of the downturn and a gradual recovery during the second half.

At Iberia, freight and mail RTK totalled 1,021.5 million in 2009, a drop of 11.6% on 2008, compared to a decline of 1.8% in total available tonne kilometres (ATK). These trends drove a 6.8 percentage point deterioration in the annual load factor, albeit with a 7.9 point improvement during the last quarter. A year-on-year comparison of second half traffic statistics reveals a 1.2% increase in RTK.

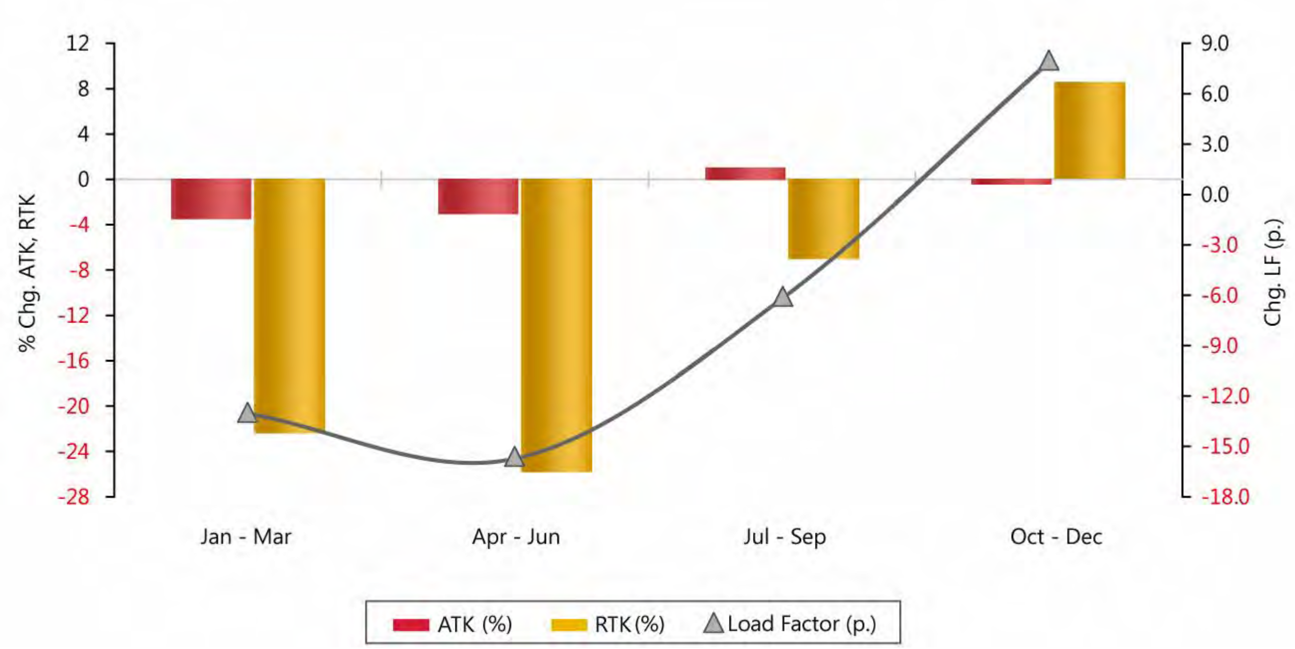
94.4% of total cargo traffic was carried in the Iberia passenger aircraft holds, a slight increase on the 2008 balance (93.5%).

Cargo traffic declined 11.2% on long-haul routes (the Americas and South Africa), accounting for 87.9% of the network total in 2009. In the short and medium haul segments, traffic, measured in RTK, slumped 14.7% on 2008.

In 2009, revenue from freight and mail transport at Iberia fell 29.9% to EUR 208 million, although, driven by the aforementioned recovery in demand, this decline narrowed to 19.7% in the last quarter, compared to 33.4% during the first nine months. The figures reported by the benchmark sector players reveal topline contractions in the order of 35%-40% for the full year.

The *yield* (revenue per RTK) stood at 20.4 euro cents, a drop of 20.6% on 2008, due to three factors: (I) widespread price cuts across the sector as a result of surplus capacity, (II) the drop in fuel prices, and (III) the decision to maximise utilisation of Iberia's holds by pursuing a very aggressive price strategy.

CARGO TRAFFIC IN 2009. YEAR-ON-YEAR CHANGE



In order to improve its position in central and eastern Europe, Iberia extended the scope of its agreement with Air Logistics Group in May 2009, selecting it as exclusive cargo agent in seven new countries: the Czech Republic, Croatia, Hungary, Poland, Slovakia, Rumania and Greece. The agreement between Iberia and Scandinavian firm Air Logistics Group started up a month earlier, covering the Nordic countries (Denmark, Sweden, Norway and Finland). As a result, Air Logistics Group now provides a comprehensive sales and customer support service in Iberia's cargo division on flights to Madrid from Athens, Bucharest, Prague, Warsaw and Zagreb. Iberia also markets cargo services beyond Madrid on all scheduled destinations in Spain, Europe, the Americas, Africa and Asia.

In 2009, the company renewed its AENOR ISO 9001:2008 quality certification for cargo activities.

Work also continued on extending the electronic paperless cargo ticketing initiative under the framework of the IATA e-Freight project. Iberia ranks fourth in the world on use of electronic documentation.

Implementation of the *Cargo Yield Management* Project, designed to optimise cargo revenues, concluded in 2009.

The key performance indicators for this business are as follows:

Cargo	2009	2008	Change
ATK (millions)	1,683.9	1,714.2	(1.8)
Holds	1,597.8	1,591.6	0.4
Freighters	86.1	122.6	(29.8)
RTK (millions)	1,021.5	1,156.1	(11.6)
Holds	964.7	1,080.7	(10.7)
Freighters	56.7	75.4	(24.8)
Load factor (%) (a)	60.7	67.4	(6.8 p.)
Holds	60.4	67.9	(7.5 p.)
Freighters	65.9	61.5	4.4 p.
Revenue / RTK (euro cents)	20.37	25.67	(20.6)
Cargo Transport revenue (millons of euros) (b)	208	297	(29.9)

(a) Year-on-year difference expressed in percentage points,
(b) Revenues from freight and mail transport services (excluding excess luggage)

2.2. Handling

Iberia Airport Services is the management unit responsible for providing ground handling services at Spanish airports to both third party carriers and Iberia itself.

In 2009, the company continued to act as ramp handling agent at 36 airports by virtue of 21 concessions in effect since 2007. The company also operates in Barcelona, Lanzarote and Fuerteventura airports through its interests in the joint venture concessionaires (holding 32% of the Barcelona JV and 30% of the Canary Island airports).

Since July 2008 the company also provides meet and greet services to persons with reduced mobility (PRM) under concession, operating directly at the airports where Iberia is the sole ground handler and in JV in Madrid, Palma de Mallorca and Alicante (with shareholdings of 51%, 50% and 50%, respectively). This business line made a EUR 2.5 million contribution to lberia Airport Services' income statement.

2009 will go down in history for the widespread fallout on productive sectors from the economic crisis. This fallout was particularly harsh in commercial aviation and related businesses. The overall Spanish ground handling market, measured in aircraft operations, shrank 10.8% on 2008, although the volumes handled by Iberia Airport Services fell by a narrower 7.8% (including handling for Iberia and measured in terms of notional aircraft handled). The number of passengers handled by Iberia Airport Services fell from a total of 80 million in 2008 to 73 million 2009, implying a drop of 8.7%.

In 2009, third party handling operations accounted for 56.6% of total production, measured in terms of the number of equivalent notional or standard aircraft handled, slightly above the 2008 level (56.2%). Despite the adverse economic climate and the handling market conditions, the company managed to pick up market share from 30.7% in 2008 to 31.5% in 2009 by shoring up its customer portfolio with 22 new airline adds.

Handling revenues (including the JVs and services provided to Iberia aircraft) tapered off 2.5% on 2008 to EUR 478 million, owing to the drop in volumes. Unit revenue rose 2.7%.

The average headcount for the year was 7,132 full time equivalents (including the 515 transferred to the Barcelona JV concession), 637 fewer than in 2008. The number of man-hours worked declined in line with production, so that employee productivity held steady (+0.2%), despite the higher number of incidents (cancellations and delays due to cabin crew strike actions, adverse weather conditions, etc.).

The rollout of the IT Gaudí project RealTime module at Madrid airport continued last year, with completion of the hub control centre, leaving only coordination of boarding and deplaning for 2010. This application enables real time centralised operation planning, facilitating enhanced response to traffic incidents and the redeployment of staff and equipment, all entailing significant cost savings and paving the way for productivity and management improvements.

2.3. Maintenance

Iberia Maintenance provides engine, aircraft and part maintenance, repair and overhaul (MRO) services for the company and other aircraft operators. Iberia is presently a significant player in the aviation maintenance business.

Iberia Maintenance carried out a total of 220 C and D inspections, weighted for value, which marks a drop of 2.3% on last year. Of these, 56.6% were performed for third parties (2008: 59.7%). In engine maintenance, weighted production (for Iberia and third parties) declined 11.9% to 214.

Total operating revenue from maintenance work to other airlines (which includes technical support services and also other work undertaken by the company, renting and selling) amounted to EUR 322 million in 2009, surpassing the 2008 figure by 4.1%.

Last year Iberia Maintenance signed important sales agreements with a number of operators and manufacturers across all operating areas, enhancing its positioning in the industry and boosting third party revenues. The following agreements stand out for their economic or strategic significance:

- Line maintenance agreement for the B757 fleet operated by DHL Air in Spain. The agreement expands the scope of the existing maintenance agreement signed in May 2008 covering Rolls Royce RB211-535 C37 engines.
- Component support agreement with Finnair Technical Services for the provision of spare components and related repair services for Finnair's Airbus A330 and Airbus A340 aircraft.
- Exclusive contract from SAS for the provision of major maintenance operations (C and D checks) for the MD80s and Airbus A330s and A340s operated by the Scandinavian airline.
- Two new contracts to repair and maintain Rolls Royce aircraft engines, one for the provision of MRO services on Rolls Royce RB211-535E4 engines belonging to Russian airline Yakutia, and an MRO contract on the engines powering the B757-200 aircraft owned by India’s Blue Dart Aviation Ltd.
- Renewal of the contract with Xiamen Airlines for the overhaul of the RB211-535E4 engines installed in its B757-200 fleet.
- Overhaul contract with Federal Express (Fedex) for its RB211-535E4 engines.
- Binding agreement with SR Technics for component maintenance for different aircraft.
- Agreement with Airbus Military for the conversion, in Iberia Maintenance’s Hangar 5, of A330 passenger aircraft to Multi-Role Tanker Transport (MRTT) configuration with in-flight refuelling capacity.

It is worth noting that with respect to the RB211-535 engine, Iberia Maintenance is one of the few MRO support centres in the world, and the only one in Europe. Also the engine subdivision is the only centre in Spain and one of just three in Europe equipped to provide maintenance on General Electric’s CF34 engine.

In 2009, Iberia Maintenance fully overhauled its first CF34-3A engine belonging to Air Nostrum, successfully concluding bench tests.

Iberia Maintenance's customer portfolio includes nearly all the Spanish carriers, where it is market leader, as well as a significant number of international companies: Aero Fan, Aerogal, Air Comet, Air Europa, Air Finland, Airbus, Alitalia, Audeli, Aurora Airlines, Belair Airlines, Berkut, Blue Dart Aviation, Caesa, Conviasa, Dana Airlines, Dubrovnic Airlines, Eurofly, European Air Transport, Finnair Technical Services, Gestair, Iberworld, ILFC, Interjet, MAeS, Meridiana, Olympic Airways, Pluna, Precision Conversions, Presidencia Mexicana, Primaris, Privilege Style, Pullmantur, Southwest Sports Jet, Spanair, SR Technics, Swiftair, Titan, Tunisair, Varig, Vueling and Yakutia Air Company, among others.

In 2009, the average headcount at Iberia Maintenance was 3,845 full time equivalents, an increase of 2.1% on 2008.

On 19 May 2009 Iberia Maintenance, together with ST Aerospace, inaugurated its landing gear maintenance repair workshop for Airbus' A320, A330 and A340 aircraft in Madrid. The new venture, called MAeS (Madrid Aerospace Services) marks an important strategic milestone, opening the door to new markets in Europe, Africa and the Middle East.

Iberia Maintenance has invested a total of EUR 14 million to upgrade its facilities and services in 2009. Within the capex program the following initiatives stand out: development of technology to handle compressors in the engine workshop and the installation of a new vertical vacuum furnace; the upgrade and remodelling of Hangar 5, dedicated to the A330 MRTT project, and of the Hangar 4 painting booths; and kitting out of a component test bench. In addition, in a joint venture with the Barcelona free trade consortium, a hangar is being built at Barcelona-El Prat airport which will entail investment of an estimated EUR 24 million.

2.4. Project development

2.4.1. Total Customer Care Program

At the beginning of 2009 Iberia launched its Total Customer Care Program (TCCP) with the goal of perfecting every aspect of the customer service experience: during flight reservations and ticketing, at check-in and during passage through the airport, on-board, in the baggage lounge, in resolving any potential incidents and in relation to the frequent flyer program. This all-encompassing approach to customer service requires the commitment and involvement of all areas of the company. The program's overriding goal is encourage passengers to choose Iberia over its competitors because of its higher quality service.

The measures designed under the umbrella of the TCCP are grouped into three main lines of initiative: (i) ongoing product enhancement, (ii) operating process overhaul, and (iii) taking customer services to the next level. During 2009 Iberia launched over 50 specific initiatives, some of which have already been successfully executed; others will be fleshed out throughout the life of the current Plan 2012. The initially-budgeted outlay is EUR 150 million through 2011, a figure that is set to rise as new measures are added. In any event, many of the initiatives imply first and foremost a change in attitude and processes more than a significant investment.

A brief description of some of the key initiatives follows.

Iberia is in the process of remodelling its **Business Plus** cabins to give business class passengers more leg room and privacy. The seat-beds fitted can now be fully reclined into a horizontal position. An entire row of seats is being taken out of the wide-body aircraft, increasing the separation between rows by 30cm so that each passenger will have 2.20 metres of personal space in the business class cabin, making travel more enjoyable and comfortable. The transformation of all the A340 aircraft is being performed on a gradual basis by Iberia personnel. The process began last October and is slated for completion by March 2010.

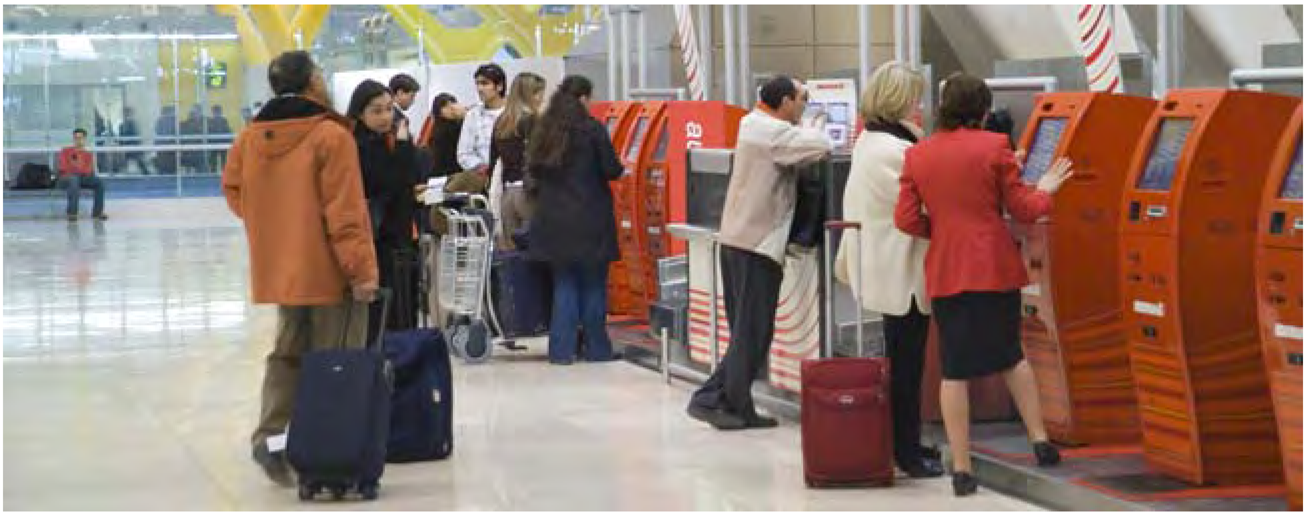
In parallel to the seat and space modifications, the company is working on designing and selecting the elements that will make up the **new business class** on long haul flights from 2012. This new product implies not only upgrading the aircraft's interior design but enhancing passengers' entire in-flight experience.

Another TCCP initiative related to the long haul fleet, already formulated and pending execution, entails upgrading tourist class on the A340/300 by installing more modern and more comfortable seats.

In terms of **in-flight service** measures, gastronomic improvements have been made on long haul flights in all classes. In tourist class, for example, the main meal menus (lunch or dinner) were updated in July 2009, a second meal has been added (breakfast or afternoon snack), alongside a new service between meals (water, juice and snacks). Some service processes have also been modified on intercontinental flights. The catering service has also been improved on short and medium haul flights.

Also in July, the company made style changes to in-flight intercom messages, making them simpler and more customer-friendly. Meanwhile, a campaign was conducted among pilots to encourage them to communicate with passengers in order to improve their perception of the airline.

The TCCP has also drawn up initiatives to enhance customer relations before and after flights. For example, new features were added to the airline's website last year. The process of buying a ticket on **Iberia.com** was simplified and website access for persons with disability was improved. Also, to facilitate **self check-in online**, the graphic design of this feature was upgraded and this functionality was extended to all of the company's flight destinations (as a result, 21 new international destinations were added last year to the extensive list of options).



In order to reduce the amount of time passengers need to spend checking in and to make the time spent in the airport more pleasant, gate access has been enabled via scanning of electronic boarding passes downloaded onto mobile phones/PDAs, luggage tagging desks have been set up and the desks dealing with ticketing and customer service have been integrated.

The remodelling and expansion of Iberia's three **VIP lounges** (Dalí, Goya and Velázquez) in the state-of-the-art Terminal 4 at Madrid-Barajas airport was completed in July, enabling enhanced passenger service. In collaboration with the prestigious Spanish chef, Sergi Arola, a new food and drink line has been designed and tailored to flight traffic and schedules. The Velázquez lounge, earmarked for passengers on Iberia's transcontinental flights, located in the satellite building, is now open 24 hours a day.

The VIP lounges in Valencia, Bilbao, Santo Domingo, Guatemala and Frankfurt have also been remodelled in recent months. In London, following Iberia's move to Heathrow's Terminal 3, passengers are offered access to the Galleries Club Lounge which is shared by **one**world alliance members. There are also plans to remodel the Mexico City, Sao Paulo and Buenos Aires lounges.

The **limousine service** has been extended (chauffer-driven limos on transfers to and from airports for value added customers) to Buenos Aires, Mexico and Sao Paulo; this service was already available in Madrid, Barcelona and Santiago de Chile.

Meanwhile, the company is looking at alternatives to speed up the boarding process. One of the options is to enable two doors for boarding: one for business class travellers and another for tourist class passengers. To date this initiative has been implemented in Brussels and in Madrid where the boarding gates permit two distinct access routes.

Elsewhere, the company is looking for ways to better manage connections through Madrid airport, such as the self-service transfer desk, meet and greet on transfers, and SMS notification when a passenger will not make his or her connection.

The airline is also working on speeding up **baggage reclaim**, and on informing passengers via SMS of their luggage status in the event of separation. Most baggage handling incidents occur when passengers have two or more flight connections. To prevent this from happening the company is testing separate baggage holding on certain flights.

One of the most recent initiatives rolled out is the new baggage tagging for priority customers (business class travellers and Iberia Plus platinum, gold, silver or fiesta cardholders). This tag features priority status prominently along the sides, enabling ready visual identification of these passengers' bags and faster delivery to the carousels.

At the end of 2009 a door-to-door baggage pick-up and delivery service, which has been outsourced to CACESA, was rolled out.

The **Iberia Plus** frequent flyer program now has 4.2 million members and is an excellent tool for getting to know customers and rewarding them for their loyalty to the airline. For this reason, the TCCP includes several initiatives designed to improve the program and the service provided to its members: new companies from other sectors are being incorporated; all the information sent to club members has been digitalised; the ability to buy points online will be enabled; a new procedure has been set up to enable the provision of personalised service to Iberia Plus gold and platinum cardholders in the event of contingencies; and, lastly, the Iberia Plus Platinum 10 card has been launched to reward those passengers that have flown most frequently with Iberia since Iberia Plus was set up.

2.4.2. Implementation of sales agreements

***one**world*

oneworld is a global alliance made up of 11 prestigious airlines with international reach: American Airlines, British Airways, Qantas, Iberia, Cathay Pacific Airways, LAN, Finnair, JAL Japan Airlines, Malév Hungarian Airlines, Royal Jordanian and Mexicana de Aviación.

oneworld allows passengers to enjoy and benefit from a series of advantages, such as: access to a network of over 700 destinations across 150 countries, the ability to earn and redeem miles in any frequent flyer program of any **one**world alliance member, access to around 550 VIP lounges worldwide and assistance from the allied airlines' more than 300,000 employees.

The tenth anniversary of the **one**world alliance was marked in Madrid in February 2009 with a meeting of all airline CEOs. In conjunction with the celebrations, the alliance organised a series of promotional, communication and sales events, noteworthy among which was the creation of the Circle Atlantic fare and the decision to paint the **one**world logo onto all member airline aircraft.

On 10 November 2009, Mexicana de Aviación (along with its two subsidiary airlines, Mexicana Click and Mexicana Link), became a fully fledged member of **one**world having completed its integration process, which was overseen and coordinated by Iberia. **one**world forged ahead with its expansion plans last year, inviting Russian airline S7 (Siberia Airlines) to join the alliance. S7 is slated to become a member of **one**world at the end of 2010.

The **one**world alliance offers member airline passengers a broad product portfolio designed to meet individual needs, ranging from around the world trips to trips to one or more continents, all leveraging the **one**world network.

Agreement with American Airlines and British Airways

In 2009, American Airlines, British Airways and Iberia continued preparatory work to guarantee execution - as swiftly as possible once the go-ahead from the authorities has been secured - of the cooperation agreement on transatlantic flights signed in August 2008. Under this agreement the three carriers will jointly market flights between the United States, Mexico and Canada, on the one hand, and the European Union, Switzerland and Norway, on the other. Nonetheless, the three airlines will continue to operate as standalone carriers. The three airlines will extend existing code sharing agreements on flights between the European Union and the United States, generating a significant increase in the number of flight destinations offered to their respective passengers.

American Airlines, British Airways and Iberia filed their application for anti-trust immunity with the US Department of Transportation in 2008. Once all the requested information had been filed, the Department of Transportation declared the application complete on 27 April 2009, leaving only the final decision from this body pending. A similar process is being pursued simultaneously with the European authorities and all the documentation required by the European Commission was submitted in 2009. This application is also in the final stages of approval.

The cooperation agreement will benefit passengers by enabling them to fly to more destinations, making easier connections. In addition, the three carriers will be able to fine-tune their flight schedules to better suit passenger needs and to enhance their frequent flyer programs. Tighter cooperation between the three airlines will boost customer choice and enable the **one**world alliance to compete effectively and on an equal footing with the other two rival alliances which have already been granted anti-trust immunity: the six airlines comprising SkyTeam and the nine making up Star Alliance have already been granted immunity.

Code sharing agreement with American Airlines

In January 2009, Iberia and American Airlines extended the scope of their code sharing agreement. Iberia began to sell seats under its own code on flights operated by American Airlines between Chicago and Toronto and Montreal, and between Boston and Toronto. Meanwhile, American Airlines began to market under its code the flights operated by Iberia between Madrid and Asturias, Granada, La Coruña, Ibiza, Santa Cruz de la Palma, Tenerife, Amsterdam, Athens, Brussels, Milan, Paris, Rome, Stockholm, Venice, Vienna and Warsaw.

Subsequently, in May 2009, the agreement was extended further, with Iberia selling coded seats on the flight operated by American Airlines between Madrid and Dallas.

In all, Iberia offers flights to 47 US destinations, five of which are operated directly by Iberia (Boston, Chicago, Washington, Miami and New York, the latter two also operated by American Airlines) with the rest under code sharing agreements operated by the US airline.

Franchise agreement with Air Nostrum

Iberia Regional Air Nostrum operated a total of 184 routes (some seasonally) throughout 2009, of which 128 were domestic, and 56 were international routes to 10 European and North African destinations. At year-end 2009 this carrier's fleet comprised 54 aircraft, including CRJ-200, CRJ-900 and ATR72-500 regional jets, among other models. Until last October, ten DH3s were also in operation. In 2009, the carrier transported 4.68 million passengers.

In 2009, Iberia Regional Air Nostrum added new domestic routes connecting Extremadura with Gran Canary Island and Valencia. It also operated flights between the Canary Islands and Salamanca and Leon, between Ibiza and Valladolid, between Menorca and Leon and between Salamanca and Valladolid. Two new international destinations were added from Bilbao: Marrakech and Funchal. Routes were also added between Valencia and Marrakech and Funchal, as well as with Dubrovnik and Venice, while a Badajoz-Paris flight was added. Bari, Corfu and Malta were added to the international flight destinations.

Code sharing agreements

Iberia has code sharing agreements with 25 airlines. The following carriers stand out: American Airlines, British Airways, Finnair, Grupo Lan, JAL, Avianca, Mexicana de Aviación, Qantas, Royal Air Maroc, Grupo TACA, Avianca, El Al, Malev and Vueling.

A new code sharing agreement was signed with Air Bulgaria in April 2009 under which Iberia will sell seats on the flights operated by the Bulgarian airline between Sofia and Spain.

In July 2009, when the merger between Spanish airlines Vueling and Clickair was completed, Iberia cancelled its code sharing agreement with Clickair (absorbed by Vueling), transferring it to Vueling. This agreement has enabled Iberia to offer new domestic and international flight destinations.

Also in July a code sharing agreement was implemented with Australia's Qantas on the Madrid – Sydney routes via Heathrow and Frankfurt.

Lastly, in November 2009 a code sharing agreement was signed with Brazil's GOL Transportes Aéreos, under which Iberia can sell as many as ten Brazilian connections from its Sao Paulo and Rio flights under its own code.

Frequent Flyer agreements with airlines

Iberia currently has 15 frequent flyer programs in place with the ten **one**world members, the TACA group, Royal Air Maroc, Avianca, Binter Canarias and Vueling.

2.4.3. Management support platforms and systems

The following is a summary of the key modules developed and implemented specifically by Iberia's IT department in 2009, although most fall under the umbrella of projects started in 2007 and rolled out during 2008. The modules are grouped in accordance with the company's strategic targets and broken down by the sponsoring business functions which ultimately have to leverage these applications to improve business processes.

Projects to improve quality and optimise revenues

In the passenger transport area the Enhanced Revenue Management project was completed, optimising revenues from ticket sales as a function of origination and destination instead of by segment. This tool will be rounded out with a specific model for markets where low cost carriers predominate. Development of this software began in 2009 and is slated for completion in 2010.

Within the cargo unit the implementation of the new revenue management tool was also finished, while rollout of the e-AWB, equivalent to the passenger e-ticket, is being gradually extended.

Also in the area of revenue optimisation, work began on defining all the IT requirements posed by the joint business agreement (JBA) between American Airlines, British Airways and Iberia. The plan is to complete development and implementation of all requirements that are vital to implementing the agreement by mid-2010, although a second phase of upgrades will be ongoing throughout 2011.

In 2009, the important development work undertaken to enhance Iberia's online presence was completed. These initiatives included rolling out the website targeted at large corporates (***www.iberiacorporate.com***) a new version of en ***iberia.com*** with enhanced features such as the mobile handset boarding barcode, simplification of reservation mechanisms, enhanced accessibility and affinity shopping.

Projects to raise productivity and cut costs

In the handling business, the rollout of the Gaudí real time modules continued as part of the process of increasing staff and resource efficiency and control. This rollout is being performed inside the airport and is slated for completion in 2010.

In maintenance, work on the Paperless project designed to fully eliminate the paper trail in management processes, concluded. The resulting system will be rolled out gradually over the course of 2010. Under this system all work orders will be generated, filled out and signed digitally.

In the operations management area a new version of the flight programming and arrivals and departure information was implemented. This system compiles information on aircraft movement, slots, cargo, passengers and fuel on all flights within the Iberian network and for those airlines that Iberia handles. New features were added such as automatic licence allocation. This project is scheduled for completion in 2010.

2.5. Corporate Responsibility

2.5.1. Corporate culture

Iberia’s corporate principles form part of its corporate governance policy and include the mission, vision and values shared by all.

Iberia’s **mission** is to offer air transport, aircraft maintenance and ground handling services that satisfy our customers’ expectations and create sustainable economic and social value.

Vision: Iberia aspires to being the leader on customer satisfaction in its strategic markets, providing the best value in terms of price and service quality. Iberia wants to provide its shareholders with sizeable and stable returns, to lead by example in supplier dealings and to bring out the best in its employees via career development.

Among its **values**, Iberia advocates quality, innovation, continual improvement and management excellence as the key tools for creating value and guaranteeing the company’s sustainability. The company aims to be associated with transparency and acknowledged for its unwavering commitment to society and the environment.

Iberia maintains as direct contact as possible with its **stakeholders** in order to respond to their demands and incorporate their suggestions into the initiatives for improving the company’s processes, products and services. To this end Iberia has established procedures and communication channels for gathering feedback on its **stakeholders'** expectations.

2.5.2. Environmental protection

Iberia applies a global environmental protection policy that takes in all its activities on the ground and in the air. Its activities on the ground are guided by measures designed to eke out continual improvements via certified the environmental management systems in place in the handling and maintenance divisions. As regards flight operations, fleet renewal via the retirement of less fuel-efficient aircraft, the adoption of new operational measures and matching the flight program to evolving demand, enabled the company to cut emissions once again last year, especially the greenhouse gas emissions associated with climate change.

In 2009m the company received AENOR certification for cutting CO2 emissions on the *Puente Aéreo* (Barcelona-Madrid shuttle). This certification, the first in its class in Spain, testifies that Iberia has cut CO2 emissions on the Madrid-Barcelona shuttle thanks to fleet renewal and new cabin interiors.

Iberia collaborates on various national and international taskforces that analyse, promote and disseminate best environmental practices in the airline sector. Here it is worth noting the airline's participation in the pan-European SESAR (Single European Sky ATM Research) R&D program, an initiative sponsored by the European Commission and Eurocontrol with a view to easing air traffic congestion and make flying more environmentally friendly. The new air traffic management system will reduce fuel consumption, thereby slashing the European aviation industry's carbon emissions by between 6% and 12%.

Also notable was Iberia's collaboration last year with Aena and INECO on research conducted at Barajas airport to verify the environmental benefits in the airport arena of the use of continuous descent approach (CDA) in takeoff and landing, particularly in relation to the reduction of noise levels and air pollution.

All these initiatives evidence the high level of involvement across the company in improving its environmental record.

2.5.3. Community work

Iberia is a founding member of the Spanish chapter of the Global Pact (since 2004), through which it promotes application of the ten basic human rights through an Ethics Guide adapted for the company's culture which is provided to all company employees. Iberia is also committed to promoting and achieving the Millennium Development Goals through projects related to workforce integration for disabled persons, meet and greet services for special needs passengers and the donation of hold space for the transportation of humanitarian aid.

Additionally, Iberia supports public and private institutions that carry out community work to raise living conditions. Iberia encourages its customers and suppliers to engage in these initiatives and stimulates active employee collaboration. Here, the company's collaboration with two NGOs born within the heart of the company thanks to the charitable volunteer work of its employees, **Mano a Mano** (hand-in-hand) and **APMIB** (Iberia association of employees with disabled children), stand out. Iberia earmarks most of its donations to these initiatives. In 2009 Iberia earmarked over EUR 1 million to charitable projects.

In terms of sponsorship arrangements, the company continues to back the institutions with which it has a long standing history of collaboration, such as the Spanish cancer research society and the Spanish international cooperation agency, to which it facilitated EUR 830,000 worth of cargo and passenger space in 2009. The company also collaborates closely with Fundación Ilusiones, Instituto Cervantes, Fundación Príncipe de Asturias and Casa de América, among many other institutions, trusts and foundations. In 2009, Iberia joined the "Donate your mobile" campaign sponsored by the Red Cross and the Entreculturas Foundation, making all its work centres in Spain (offices and airports) and airport customer attention desks available to the initiative.

The company safeguards its workers' rights in accordance with the ILO's fundamental conventions. Iberia employees enjoy among the best and broadest legal representation. The company guarantees workplace health and safety and equal opportunities and is working to help its employees achieve work-life balance.

Iberia's efforts on these fronts have been acknowledged: in 2009 it was selected, for the fourth year running, for inclusion in the *Dow Jones Sustainability Index (DJSI World) and the FTSE4Good index*, two of the world's most prestigious sustainability indices. These indices track the performance of the companies with the best records on economic, social and environmental practice. This year, in its assessment for inclusion in the DJSI World index, which includes just three airlines, Iberia obtained the highest marks for its environmental dimension.

The company's Corporate Responsibility Report provides in-depth information on all these matters.

3. Resources

3.1. Fleet

At the end of 2009, the Iberia Group had a total of 109 passenger aircrafts in operation, 32 for long-haul travel, with the remaining 77 airplanes earmarked for short and medium haul flights. The table below breaks down the fleet by aircraft type and ownership regime:

Aircraft type (a) (b)	Owned outright	Finance lease	Wet lease	Wet lease	Total operated
A340/300	6	1	13		20
A340/600			12		12
Long-haul	**6**	**1**	**25**		**32**
A319			22		22
A320	2	6	28		36
A321		4	15		19
Short/medium-haul	**2**	**10**	**65**		**77**
TOTAL	**8**	**11**	**90**		**109**

(a) The number of passenger jets in operation by Iberia at 31 December 2009, excluding aircraft temporarily grounded or grounded pending sale.
(b) In addition, at 31 December 2009, Iberia had leased one Boeing B757 to another carrier.

At the end of 2008, Iberia had a total of 119 passenger aircraft in operation. Operating fleet additions and retirements during 2009 are listed below:

Additions

- One A320 under operating lease (leased out at the end of 2008).

Returns

- Two A320s under operating lease.
- One A340/300 under operating lease.

Grounded

- Eight owned A320s (temporarily grounded).

In February, Iberia added one A320 to its short/medium haul fleet under an operating lease arrangement. This plane had formerly been leased out to another carrier.

One of the measures contemplated under the **Contingency Plan** is to cut capacity to match declining market demand. As a result, in the short and medium haul fleet, the company has temporarily grounded eight owned A320s (four since May, a fifth since June and the other three since October). In April and October, the company ceased operating two A320s leased under operating lease arrangements. In the long haul fleet, the company retired one leased A340 in October.

Also throughout the course of the year, fleet ownership and lease arrangements shifted considerably. The three A340/300s that Iberia was operating under wet lease at the start of 2009 were switched to operating lease regimes, two in the first half and the third at the end of August. The number of block hours operated under wet lease declined 66.9% in 2009.

At present over 80% of the passenger fleet is held under operating lease, providing the company with greater flexibility to match capacity to unfolding market circumstances without jeopardising its financial health.

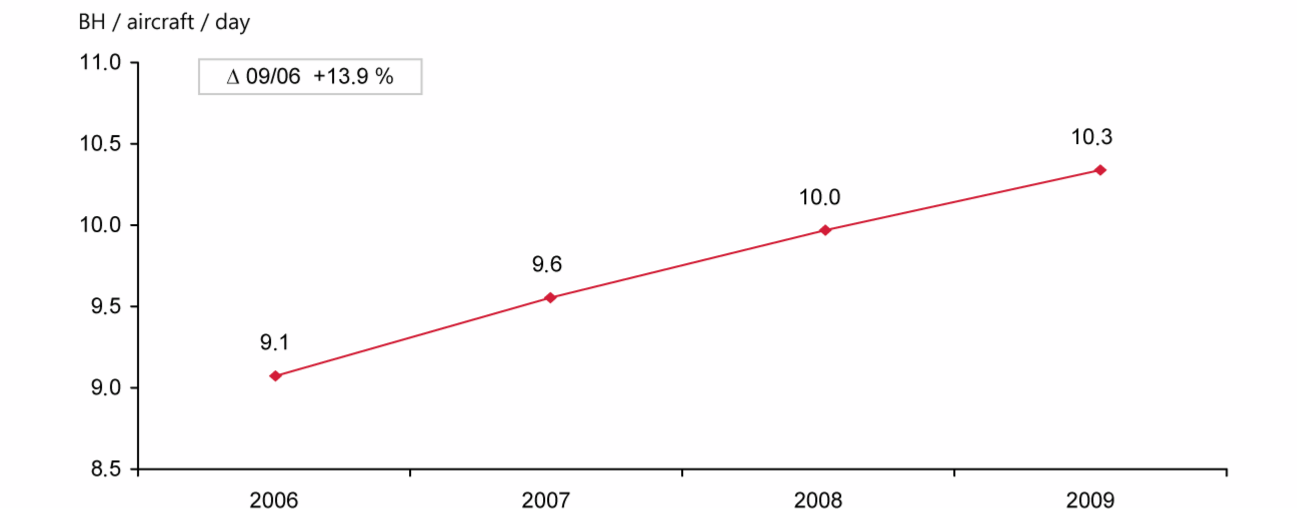
One of the company's greatest achievements in recent years has been to standardise its fleet into two families of aircraft: the Airbus A340 for long haul flights, with an average age of 8.8 years, and the Airbus A320 (which includes the A319, A320 and A321 models) for short and medium haul flights, where the average age of the fleet is 6.6 years.

One of the highlights of 2009 is the improvement in average fleet utilisation: this metric improved 3.7% on 2008. Considering only the aircraft operated by Iberia crew (namely, excluding wet leases), the year-on-year increase is 4.5%.

BH / aircraft / day	**2009**	**2008**
Average fleet utilisation, short and medium haul	8.8	8.4
Average fleet utilisation, long haul	14.3	14.5
Average fleet utilisation, Iberia crew	**10.3**	**9.8**
Average fleet utilisation, wet lease (a)	14.5	13.4
Average fleet utilisation, total	**10.3**	**10.0**

(a) In 2009 three A340/300s were operated under wet lease for Iberia. These contracts ended in June and August.

TREND IN FLEET UTILISATION AT IBERIA



3.2. Personnel

3.2.1. Headcount

The table below depicts the Iberia Group's average total headcount, measured in terms of full time equivalents, in 2009 and 2008.

	GROUND		IN-FLIGHT		TOTAL	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
IBERIA	15,100	15,778	5,335	5,567	20,435	21,345
CACESA	114	120			114	120
ALAER	118	110			118	110
BINTER FINANCE	4	3			4	3
IBERIA GROUP	**15,336**	**16,011**	**5,335**	**5,567**	**20,671**	**21,578**
Year-on-year change (%)	(4.2)		(4.2)		(4.2)	

Iberia's senior officers (ten in both years) are included in "Ground".

The Group's average headcount decreased by 907 employees with respect to 2008, a decrease of 4.2% to 20,671 equivalent employees. The decrease in the average headcount of ground staff and flight personnel fell by the same proportion (-4.2%).

The average headcount at Iberia, which in 2009 represented 98.9% of the Group total, fell 4.3%. Iberia ground staff (FTEs) fell 4.3% in 2009, with greater headcount reductions in Spain (-4.4%) than abroad (-2.6%). The drop in headcount at Iberia Airport Services (handling), 637 FTEs or 8.2%, is noteworthy. Iberia's in-flight staff accounted for 25.8% of the Group total, at 5,335 FTEs. By union member categories, the average technical crew headcount narrowed 3.3% on 2008, while passenger cabin crew were 4.5% fewer.

At 31 December 2009, 38% of total Iberia Group employees were female.

Iberia continued to execute its workforce reduction program in a bid to bring its human resources into line with the sector's plight. Most of last year's employee departures came under the company's workforce restructuring programs (EREs for their initials in Spanish) which are voluntary on the part of both employee and employer. The labour authorities authorised the extension of ERE 72/01 covering ground and cabin crew staff to 31 December 2010. The rollover of ERE 35/05, specific to Iberia handling staff, to 31 December 2014 was similarly authorised.

In April 2009 representatives of the company's management and of the pilot union SEPLA agreed to request inclusion of pilots under the framework of extended ERE 72/01, in this particular instance extending validity until 31 December 2013. Once authorised, a total of 236 technical crew members over 60 years of age, on reserve, left the company in 2009.

In 2009, 185 passenger crew employees and 591 Iberia ground staff opted for one of the options afforded under ERE 72/01, with most choosing early retirement or leave with guaranteed job security. A further 44 ground staff left the company, 16 under the Spanish employment plan, while the remaining 28 worked abroad and will not be replaced.

The table below provides a breakdown of employee departures at Iberia under the auspices of its workforce restructuring programs:

Iberia workforce. Departures in 2009	Technical crew	Passenger cabin crew	Ground	TOTAL
Early retirement	236	16	342	594
Leave with job security	-	98	190	288
Paid leave	-	1	14	15
Contract renegotiation	-	70	45	115
Total ERE 72/01	**236**	**185**	**591**	**1,012**
ANE (national employment agreement)	-	-	16	16
Personnel located outside Spain	-	-	28	28
TOTAL	**236**	**185**	**635**	**1,056**

These come on top of the 462 employees that left the company in 2008 (339 ground staff and 123 cabin crew), mostly during the second half of the year, just over half of which took early retirement under the scope of ERE 72/01.

In April 2009, management of Iberia and the company section of pilot union SEPLA signed the VII technical crew workers' collective bargaining agreement which was valid through 31 December 2009. The XV passenger cabin crew agreement, initially valid from 2005 to 2007, was extended to 31 December 2008. Meanwhile, the XVIII collective bargaining agreement covering Iberia ground staff (signed in July 2008) ended on 31 December 2008. Talks are currently underway to hammer out new agreements with all three union groups.

3.2.2. Productivity

Iberia's workforce productivity was 3.04 million ASK per employee in 2009, an annual decline of 1.8%.

Iberia Airport Services (34.5% of total Group headcount in 2009) managed to maintain productivity (measured in block hours per equivalent aircraft handled) despite the drop in business volumes.

In the maintenance segment, workforce productivity rose 3.2% on 2008.

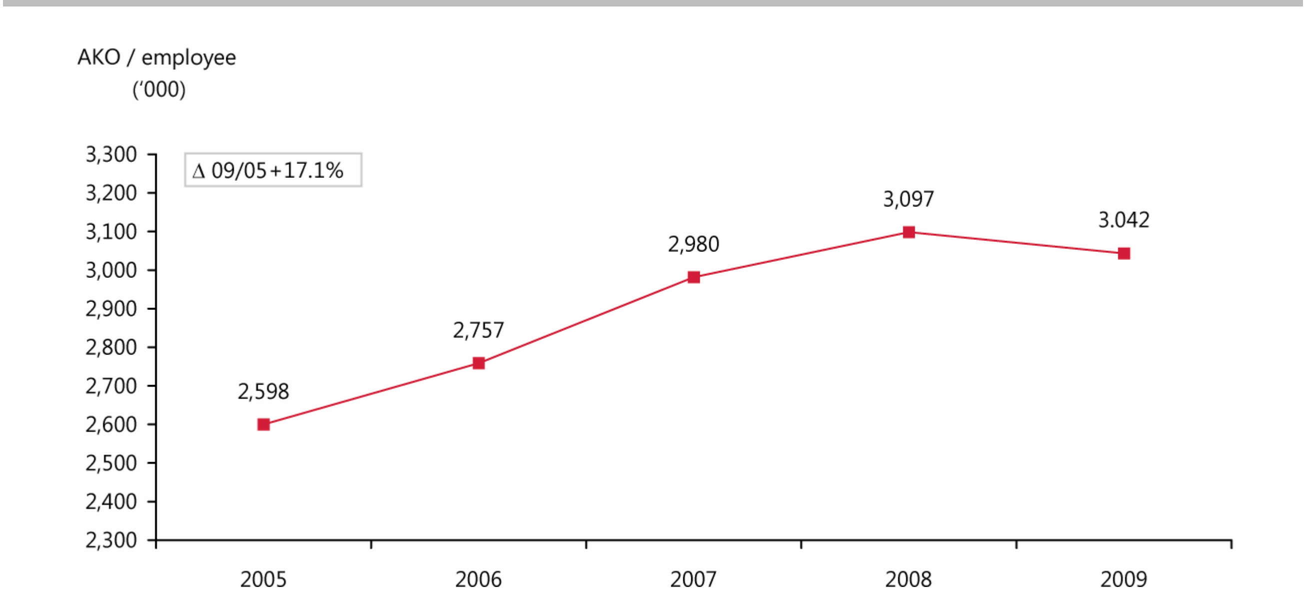
The table below shows the trend in productivity broken down by segment and by group:

Iberia workforce productivity	2009	2008	% Change
Total workforce ('000 ASK per employee)	3,042	3,097	(1.8)
Ground staff ('000 ASK per employee)	2,101	2,139	(1.8)
Technical crew (BH per crew member)	267,3	270,9	(1.3)
Auxiliary crew (BH per crew member)	115,3	118,8	(3.0)
Handling (man hours per notional aircraft)(a)	32,68	32,75	(0.2)
Maintenance (operating revenue per employee) (€, '000)	19,052	18,457	3.2

(a) A lower number of man hours per equivalent aircraft handled means an improvement in productivity

Iberia's workforce productivity, measured in ASK per employee, has climbed 17.1% in four years.

PRUCTIVITY TREND. TOTAL IBERIA WORKFORCE



In 2009, productivity dropped by 1.8% year-on-year, due to the reduction in capacity (ASK down 6.0% vs 2008) implemented by Iberia in response to slumping demand, which was only partially offset by the reduction in headcount.

4. Financial Performance

4.1. Application of IFRS and changes in Group composition

Application of IFRS

The 2009 consolidated financial statements have been prepared in accordance with European Union-endorsed International Financial Reporting Standards (hereinafter IFRS). Iberia has applied the same accounting rules, interpretations and principles as used to draw up the 2008 consolidated financial statements and has applied for the first time those standards and interpretations that took effect in 2009.

IFRIC 13 on customer loyalty programs stands out on account of its significance. IFRIC 13 addresses recognition of the customer obligations assumed by the company under these programs, establishing a single accounting criterion. This new interpretation requires recognition of part of the proceeds from the initial sale corresponding to the value of the points, or miles, as a liability so that this portion is recognised as revenue once the company has fulfilled its obligations under the program.

Under IFRIC 13, Iberia accounts for miles awarded under its Iberia Plus frequent flyer program separately, as an identifiable component of flight ticket sales. The points or miles are measured at fair value and are initially recognised as deferred revenue on the liability side of the statement of financial position. Up until the year ended 31 December 2008 the value assigned to these points was recognised as an expense under “Commercial costs” in the income statement. From 2009 onwards revenue is recognised when frequent flyers redeem the points.

Iberia has applied IFRIC 13 prospectively from 1 January 2009 as it was not possible to measure all the effects of retroactive application. Adoption of this interpretation had a negative net effect of EUR 25 million (including fiscal impact) on reserves in the consolidated statement of financial position as a result of restating liabilities for the new measurement of points granted prior to 2009.

Application of **IFRS 8** on operating segments, which replaces IAS 14, is mandatory from 1 January 2009. The main change lies with the requirement under IFRS 8 that an entity adopt a ‘management approach’ to reporting on its operating segments. For the Iberia Group the application of IFRS 8 has meant extending disclosures on its operating segments in its half-yearly financial statements but has not had any impact on the information presented in the 2008 consolidated financial statements or on the Group’s financial performance or financial situation.

A number of other standards, amendments and new interpretations have been applied since 1 January 2009, implementation of which has not had any significant impact on the Iberia Group.

Changes in Group composition

In July 2009 the merger between **Vueling Airlines, S.A.** (Vueling) and **Clickair, S.A.** (Clickair) closed. This transaction altered the Iberia Group’s consolidation scope: Clickair, hitherto an Iberia associate, was deconsolidated and Vueling was consolidated. Vueling absorbed Clickair and the latter company was dissolved without liquidation and all its assets and liabilities were transferred en bloc to the former, which acquired all the rights and obligations of Clickair by universal succession. Also in July, as a result of a series of ensuing transactions, Iberia increased its ownership interest in Clickair to 91.7%. Iberia contributed all its shares of Clickair in a capital increase undertaken by Vueling, giving it a 45.85% equity interest in the latter. Since then this investment has been consolidated under the equity method.

On 23 December 2009, as part of the merger with British Airways, Iberia registered two new companies in the Companies Register. This first, **IB OPCO Holding S.L.**, has share capital of EUR 3,006; its corporate object is the management and administration of securities representing the equity of resident and non-resident entities in Spain via the corresponding organisational structure of physical and human resources. The second company registered is **Iberia Líneas Aéreas de España Sociedad Anónima Operadora**. It has subscribed share capital of EUR 60,102 and its corporate object is the provision of passenger, freight and mail air transport and the provision of aircraft ground handling services and aviation consultancy services.

4.2. Earnings performance

As a result of the global recession, 2009 was one of the worst years in aviation history. The entire airline sector suffered an unprecedented contraction in traffic and a significant drop in revenue. Against this backdrop, the Iberia Group's revenue fell 19.2% on 2008. The impact was partially cushioned by continual rationalisation of capacity in response to unfolding market weakness and the introduction of new cost cutting measures.

The Group posted a loss at the operating level of EUR 475 million in 2009. The loss narrows to EUR 464 million if we strip out non-recurring items.

The table below details Group recurring EBIT by company during the last two years:

Millions of euros

Recurring EBIT	2009	2008
IBERIA	(464)	(88)
CACESA	(0)	1
ALAER	0	0
BINTER FINANCE	0	0
IBERIA GROUP (a)	**(464)**	**(79)**

(a) The Iberia Group totals include consolidation adjustments.

Below is the consolidated income statement for the Iberia Group for 2009 and 2008, including the breakdown of the most significant revenue and cost headings:

Millions of euros

IBERIA GROUP	2009	2008	% Change
PROFIT (LOSS) FROM OPERATIONS	**(475)**	**5**	**nm**
OPERATING REVENUE	**4,458**	**5,515**	**(19.2)**
REVENUE	**4,231**	**5,223**	**(19.0)**
Passenger revenue	3,325	4,218	(21.2)
Cargo revenue	251	347	(27.4)
Handling revenue	266	275	(3.3)
Technical assistance to airlines	310	297	4.2
Other revenue	79	86	(7.4)
OTHER OPERATING INCOME	**227**	**292**	**(22.3)**
Recurring	178	227	(21.8)
Non-recurring	49	65	(24.3)
OPERATING COSTS	**4,930**	**5,535**	**(10.9)**
PROCUREMENTS	**1,410**	**1,864**	**(24.4)**
Aircraft fuel	1,184	1,666	(28.9)
Aircraft spare parts	191	160	19.0
Catering materials	19	21	(6.8)
Other purchases	16	17	(9.3)
EMPLOYEE COSTS	**1,348**	**1,321**	**2.0**
Of which: non-recurring	51	1	nm
DEPRECIATION AND AMORTISATION	**176**	**193**	**(8.9)**
OTHER OPERATING COSTS	**1,996**	**2,157**	**(7.4)**
Aircraft leases	349	386	(9.5)
Other rentals	73	76	(4.1)
Aircraft maintenance	202	228	(11.5)
Commercial costs	151	200	(24.9)
Traffic services (a)	397	413	(3.9)
Navigation charges	252	258	(2.3)
In-flight services	66	72	(7.3)
Booking systems	134	137	(2.7)
Other costs	372	386	(3.4)
Of which: non-recurring	6	5	43.7
IMPAIRMENT LOSSES AND NET GAINS ON DISPOSAL OF NON-CURRENT ASSETS	**(3)**	**25**	**nm**
RECURRING EBIT	**(464)**	**(79)**	**nm**
Operating revenue (recurring)	4,409	5,450	(19.1)
Operating costs (recurring)	4,873	5,529	(11.9)
EBITDA	**(288)**	**114**	**nm**
EBITDAR	**61**	**500**	**(87.8)**

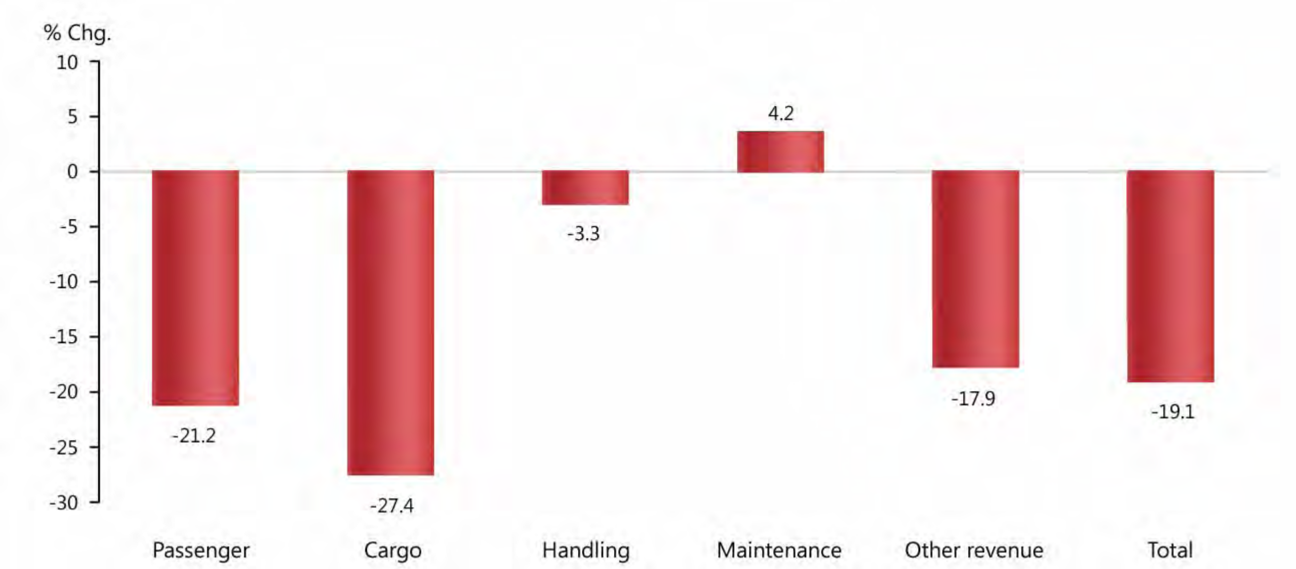
nm: Not meaningful
(a) Includes air traffic services and expenses relating to stopovers and incidents.

The Iberia Group generated positive EBITDAR (earnings before interest, taxes, depreciation, amortisation and aircraft rentals) of EUR 61 million in 2009.

4.2.1. Operating revenue

In 2009 operating revenue were 19.2% lower than in 2008. Excluding non-recurring items, the drop in operating revenue was 19.1%, due mainly to the slump in passenger and cargo transport revenue (-21.7%), hit hard by the drop in unit revenue and traffic. The limited decline in handling revenue (-3.3%) should be viewed against the backdrop of the sharp contraction in airport flight volumes. Technical assistance to airlines revenue rose yet again last year, climbing 4.2% on 2008.

IBERIA GROUP'S RECURRING OPERATING REVENUE COMPONENTS % YEAR-ON-YEAR CHANGES



Passenger revenue

Total passenger revenues fell 21.2% on 2008 to EUR 3,325 million. This income statement heading includes passenger revenues from actual flights every year (as reflected in the "Key Data" table) and revenue from expired unused tickets, revenue from frequent flyer programs and adjustments of an accounting nature.

Passenger revenue from used tickets totalled EUR 3,137 million, down 19.4% on 2008, driven by price erosion (which accounted for a 12.6% decline in revenue) and, to a lesser extent, lower traffic volumes. All three segments (long haul, international medium haul and domestic) were affected by the drop in yield, especially European flights, due to competitive pressure and the deterioration in the class mix. The slump in traffic was also widespread, with the domestic segment contracting the furthest in relative terms. Iberia cut capacity by 11% in response to this.

Other passenger revenue, which in aggregate accounted for 5.6% of total passenger revenue in 2009, declined 42.6%, in part due to the application of IFRIC 13 which has changed how frequent flyer points are recognised from 2009 on (this change also entails a reduction in commercial costs).

Section 2.1 of this management report includes a more detailed analysis of passenger revenue.

Cargo

The Iberia Group's cargo revenue (which includes invoicing of freight and mail transport services, fuel and security charges or top-up charges and excess baggage fees) fell 27.4% in 2009 to EUR 251 million, driven by the decline in traffic (RTK: -11.6%), a sharp drop in yield (-20.6%), due partly to lower fuel surcharges. Revenue at subsidiary CACESA also dipped, while revenue from excess baggage rose 8.6%.

Handling

Revenue from third party ground handling (passengers and aircraft) declined by EUR 9 million on 2008, due to the drop in ramp handling for third party airlines (-7.3% measured in equivalent notional aircraft), partially mitigated by an increase in unit revenue (2.1%) and higher revenue from other airport handling services. The latter include meet and greet services for passengers with reduced mobility under the JV concessions in which the company has ownership interests. During the second half of 2009, handling revenue climbed 1.0% on 2H08, as the drop in third party handling was stemmed at 2.9% following the addition of Vueling to the customer portfolio.

Maintenance

Although the recession also drove aviation maintenance prices lower, revenue from third party technical assistance services at the Iberia Group rose EUR 12.5 million to EUR 310 million in 2009, in part due to dollar appreciation relative to the average 2008 exchange rate. The growth in third party invoicing was driven mainly by engine inspections (particularly on the CFM56), maintenance work performed for the Spanish department of defence and landing gear MRO work.

Other revenue

"Other revenue" narrowed by 7.4% on 2008. Revenue from the use of booking systems, where Amadeus stands out, fell 7.4% to EUR 59 million as a result of the decline in booking volumes. Revenue from the cargo terminals and other cargo services also fell.

Other operating income

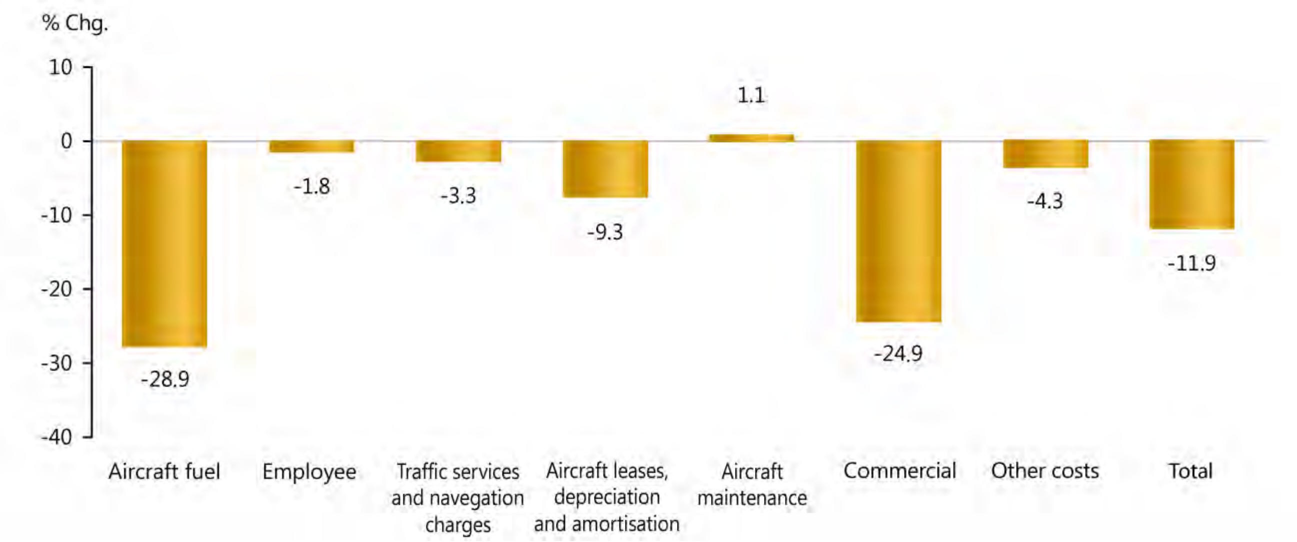
"Other recurring operating income" (fees, deferred revenue, income from assigning employees to JV concessions, rental income and sundry other items) fell on aggregate by 21.8% on 2008, with the decline in passenger fees and sundry revenue items standing out.

In 2009, the company booked one-off revenue of EUR 49 million, most of which (EUR 45 million) corresponds to the reversal of a portion of the provisions recognised to cover pension obligations vis-à-vis technical crew members as a result of actuarial studies completed following execution of the VII Collective Bargaining Agreement, which gives pilots the chance to keep flying until the age of 65. In 2008 the company recognised EUR 65 million in non-recurring revenue related mainly to the reversal of a number of provisions and an aircraft insurance settlement.

4.2.2. Operating costs

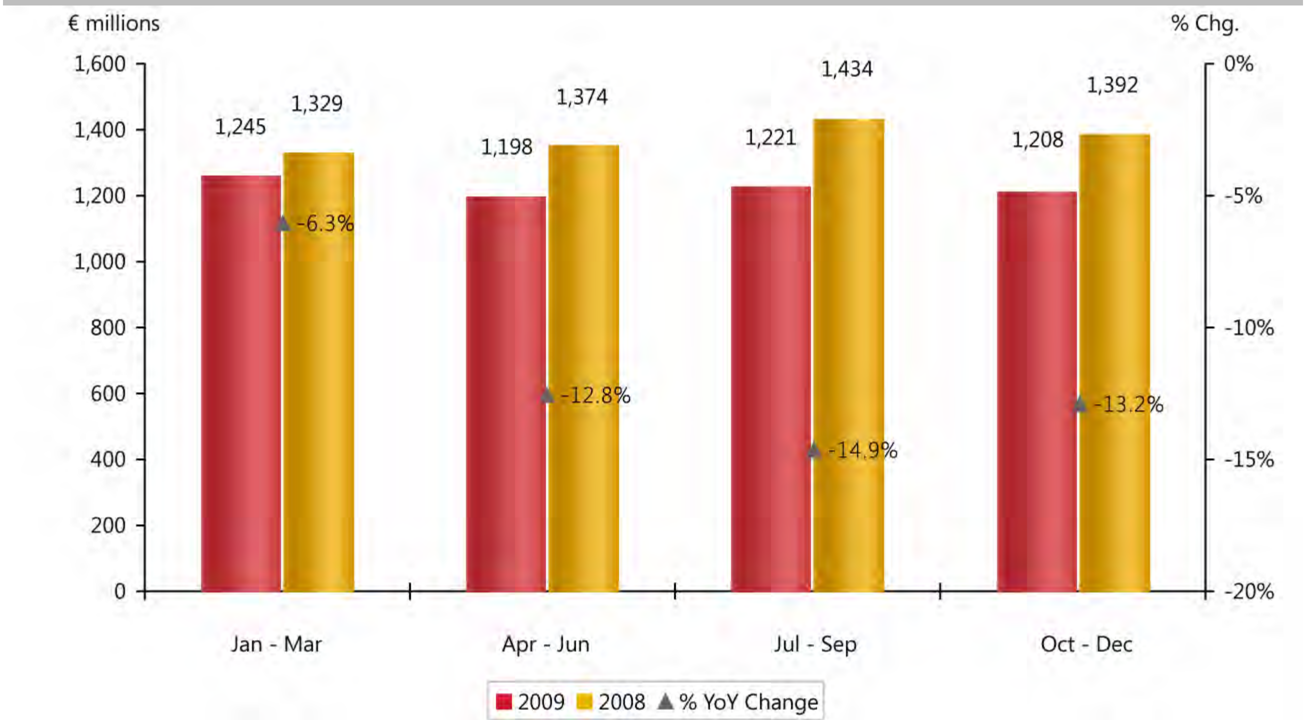
In 2009 the Iberia Group's operating costs amounted to EUR 4,930 million, down 10.9% on 2008. Stripping out non-recurring items, the reduction in operating costs rises to 11.9%, with a noteworthy 28.9% year-on-year drop in fuel costs. Other cost headings also declined on the back of lower business volumes (capacity – ASK - down by 6.0%) and the raft of cost savings initiatives rolled out by the company under the umbrella of its Contingency Plan. Unit operating cost narrowed 6.3% on 2008 to 7.84 euro cents per ASK.

IBERIA GROUP'S RECURRING OPERATING COST COMPONENTS % YEAR-ON-YEAR CHANGES



Cost control efforts proved satisfactory in 2009: during the first half of the year operating costs narrowed 9.6% year-on-year, intensifying sharply during the second half, as evidenced by a 14.1% decline on 2H08.

IBERIA GROUP'S RECURRING OPERATING COSTS. QUARTERLY TREND



Aircraft fuel

The Iberia Group's fuel cost, which accounted for 24.3% of total operating costs in 2009, narrowed EUR 482 million to EUR 1,184 million last year, driven by a significant drop in market fuel prices and lower consumption (down 6.6% in litres), as a result of reduced business volumes and enhanced fleet efficiency.

The table below breaks out last year's fuel savings by component drivers:

Millions of euros

	Drivers of reduction in fuel spend				Total change on 2008
	Price (*)	Volume	Exchange rate (*)	Fleet efficiency	
Iberia Group	(368)	(90)	(17)	(7)	(482)

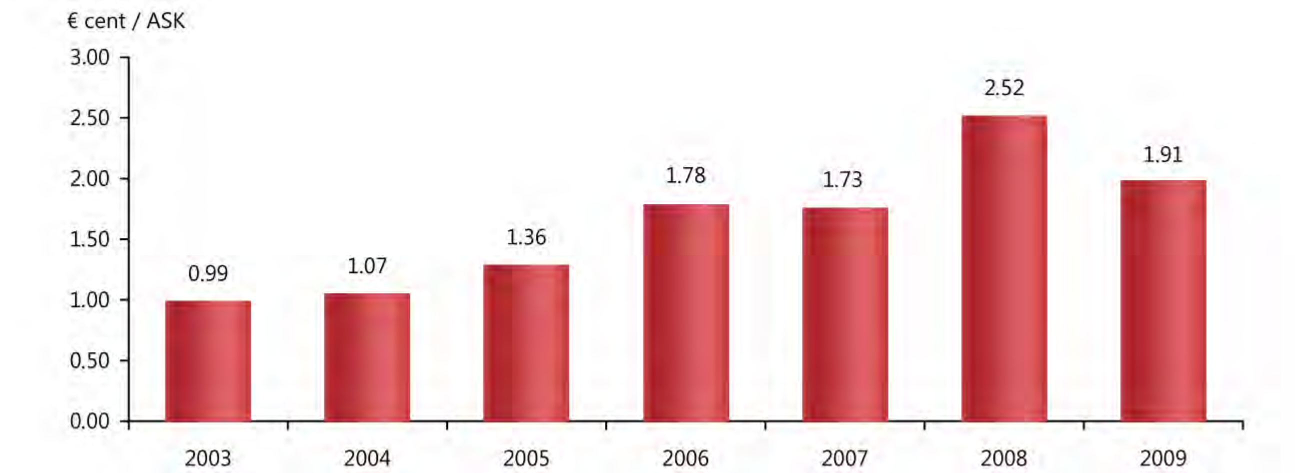
(*) The changes in prices and exchange rates include the effect of hedges.

The market price of aviation kerosene (CIF NWE) rose steadily throughout the first half of 2008, registering heady levels and peaking at an all-time high in the summer of 2008. Prices then corrected sharply during the second half of 2008 and throughout the first quarter of 2009, bottoming out at around $400 per metric tonne in March 2009. From that point on prices escalated rapidly, rising to over $600 per tonne by June. Prices stabilised at around $600 in the third quarter, heading higher once again during the last quarter to around $665.

Despite rising steadily throughout most of 2009, average market kerosene prices in dollars were 44% lower year-on-year. The company benefitted from this trend only partially, due to hedges arranged mid-2008.

As a result, the unit fuel cost fell 24.4% on 2008 to 1.91 euro cents per ASK.

ANNUAL TREND IN IBERIA'S UNIT FUEL COST



Employee costs

The Iberia Group's recurring personnel costs, which represent 26.6% of total operating costs, narrowed 1.8% year-on-year to EUR 1,297 million, thanks to wage control measures and a 4.2% reduction in the average equivalent headcount, primarily on account of voluntary redundancy provided for under the company's workforce restructuring initiatives.

Ground staff costs narrowed 1.6% on 2008 on the back of a 4.2% reduction in the average headcount. The number of in-flight staff (technical and passenger cabin crew) also fell by 4.2% on average, and their related costs narrowed 2.0% in aggregate on 2008.

Total salaries, wages, severance and similar items amounted to EUR 997 million in 2009, down 0.4% on 2008, including the impact of wage drift and compensation deals struck with in-flight staff. Social security and other social benefit payments totalled EUR 300 million, down 5.9% on 2008, in part due to the adjustment to crew member pension plans.

Non-recurring personnel costs amounted to EUR 51 million in 2009, corresponding to a one-off provision to recognise the impact of management's updated estimate of restructuring expenses upon authorisation of the program's extension. A similar provision in 2008 totalled EUR 1.4 million.

Depreciation and amortisation charge

The depreciation and amortisation charge was 8.9% lower last year, at EUR 176 million. Almost 60% of this balance corresponds to fleet equipment, for which the depreciation charge was 14.2% lower due to the lower number of in-balance sheet aircraft in operation, mainly due to the retirement of the MD87/88 fleet, a process that concluded in the last quarter of 2008.

Aircraft leases

Fleet lease costs narrowed 9.5% on 2008 to EUR 349 million. This marks an annual saving of almost EUR 37 million and was driven by all heading components. Passenger aircraft operating lease costs stood at EUR 315 million, decreasing by EUR 9 million on 2008 as a result of the drop in the interest rates and a slight reduction in the average number of aircraft in operation. The cost of renting seats on other airline operated flights stood at EUR 7 million, down EUR 6 million on 2008. The biggest component drop was sustained in wet lease costs which stood near EUR 16 million compared to a cost of EUR 33 million in 2008, due to the drop in the number of aircraft and block hours operated, which were down 66.9% on volumes leased in 2008. Lastly, cargo aircraft lease costs stood at EUR 11 million, nearly 5 million below the previous year, due to a 32.5% decline in block hours leased as the company responded to the sharp drop in demand for cargo transport by scaling back capacity.

Unit lease cost narrowed 3.8% on 2008 to 0.56 euro cents per ASK.

Aircraft maintenance

Aggregate recurring aircraft maintenance costs (which includes outsourced services, the provision for major repairs of aircraft and spare parts) amounted to EUR 393 million in 2009, up 1.1% on 2008. The increase reflects growth of 19.0% in expenditure on spare parts, mainly due to the appreciation of the dollar against the euro, as well as higher volumes of maintenance work performed in owned aircraft. The increase in spare parts cost was partially offset by an 11.5% reduction in spending on outsourced services.

Commercial costs

In 2009, commercial costs were more than EUR 49 million, or 24.9%, lower than in 2008. Aggregate commissions, promotional costs and development expenditure narrowed EUR 47 million on 2008 (by 26.7%) due, in part, to the impact of first-time application of IFRIC 13 (affecting measurement of points or miles associated with the frequent flyer program) from January 2009. In 2008 close to EUR 23 million was recognised as commercial cost in connection with the measurement of the points earned by the company's frequent flyers under the Iberia Plus program. In 2009, under the new standard, the value of points earned was recognised as a deduction from revenue. Advertising costs fell EUR 3 million (by 12.3%). The ratio of net commercial costs to passenger revenue narrowed 0.2 percentage points to 2.4% in 2009.

Traffic services

Traffic services costs narrowed 3.9% in 2009 due mainly to the reduced number of flights operated (11.8% fewer take-offs than in 2008), which had an impact on the items included under this heading: landing fees, as well as fees for the use of jet bridges and other airport services fell by EUR 5 million on 2008. Aircraft dispatch, Tariff H and other traffic services dropped by EUR 9 million. Aircraft cleaning and catering equipment handling services were down by EUR 5 million, while flight staff accommodation costs fell by EUR 3 million on 2008. Costs for flight disruptions, missed connections and baggage reclaim, on the other hand, increased by EUR 6 million, essentially due to operational difficulties caused by labour disputes involving cabin crew and by adverse weather conditions.

Navigation charges

Navigation charges fell by 2.3% on 2008, mainly as a result of reduced business volumes during that period. This impact was partially mitigated by the appreciation of the dollar, and above all, by price increases.

In-flight navigation assistance charges were 0.9% lower in 2009, at EUR 208 million. Eurocontrol increased its unit fees, which represent 75.5% of all navigation charges, by 4.0% on average in 2009, adjusted to account for the main countries that Iberia flies over.

Airport approach fees fell 8.5% on 2008 to EUR 44 million, due primarily to reduced flight traffic. Unit approach fees at Spanish airports rose 3.0% on 2008.

In-flight services

The aggregate cost of in-flight services and catering materials was EUR 85.7 million in 2009, down 7.2% on 2008. The was primarily due to reduced traffic and more specifically a drop in the number of business class passengers, together with savings unlocked as a result of renegotiating supplier contracts.

Booking systems

Reservation system costs fell 2.7% to EUR 134 million, due to lower booking volumes as a product of the decline in traffic. This was again partially eroded by the appreciation of the dollar and an increase in average prices.

Other recurring costs

The recurring component of "Other costs" in 2009 was EUR 366 million in 2009, 3.9% lower than in 2008; this trend held steady throughout the year thanks to the Contingency Plan. The most significant cost reductions were sustained in transport costs, severance payments, ground equipment maintenance, other mechanization expenses, security services and levies.

Other non-recurring costs

In 2009 the Group recognised EUR 6 million of non-recurring costs relating to various provisions, fines and penalties. In 2008 non-recurring costs, which also included sundry provisions, amounted to EUR 5 million.

4.2.3. Other operating gains and losses

The aggregate amount of the impairment and disposals of non-current assets resulted in a net loss of EUR 3 million in 2009, primarily losses from the derecognition of rotables. In 2008 the Group recognised a net gain of EUR 25 million in connection with capital gains obtained on aircraft sales under this heading.

4.3. Other income and costs

The table below shows the rest of the consolidated income statement headings:

Millions of euros

IBERIA GROUP	2009	2008	% Change
PROFIT (LOSS) FROM OPERATIONS	**(475)**	**5**	**nm**
NET FINANCE INCOME	**32**	**49**	**(35.3)**
Finance income	64	137	(53.7)
Finance cost	(40)	(52)	(23.7)
Exchange differences	(17)	(2)	nm
Other finance revenue and expenses	25	(34)	172.0
SHARE OF PROFITS IN ASSOCIATES	**8**	**(18)**	**nm**
PROFIT BEFORE TAX	**(435)**	**36**	**nm**
INCOME TAX	162	(4)	nm
PROFIT (LOSS) AFTER TAX	**(273)**	**32**	**nm**
Attributable to shareholders of the Parent	(273)	32	nm
Basic earnings (loss) per share (euros)	(0.295)	0.034	nm

nm: Not meaningful

4.3.1. Net finance income

Net interest amounted to EUR 24 million in 2009, EUR 61 million less than in 2008, reflecting a 53.7% drop in finance income due to a lower average balance of short term investments and lower interest rates on deposits. Finance costs declined by a narrower 23.7% due to lower interest on loans.

Net exchange losses were EUR 17 million in 2009, EUR 15 million wider than in 2008. Due to a 50% devaluation of the Venezuelan currency (the bolivar) against the US dollar, Iberia was forced to recognise a EUR 6 million provision at year-end 2009 to cover the impact on local currency deposits related to revenue generated in Venezuela pending receipt.

"Other finance revenue and expenses" in the 2009 consolidated income statement includes gains on the Clickair and Vueling share exchange as part of the merger between the two companies (EUR 20.5 million). This heading also includes recognition of the fair value re-measurement of hedging instruments: application of IAS 39 resulted in a gain of EUR 4 million in 2009, compared to a loss of EUR 29 million in 2008, reflecting primarily the decline in value of the inefficient portion of fuel hedges (loss of EUR 23 million). In 2008 this heading also included an impairment provision in connection with Iberia's investment in Clickair.

The Group's share of profits in associates amounted to EUR 8 million in 2009, a more than EUR 25 million improvement on the losses of 2008, mainly thanks to the profits generated by Vueling, consolidated since July 2009.

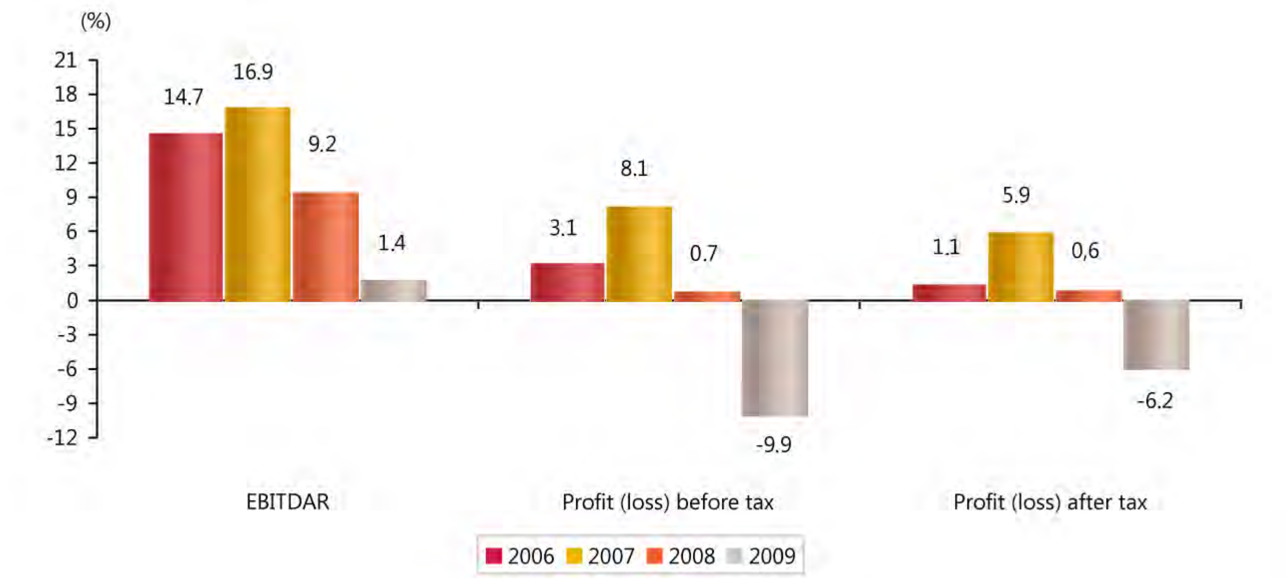
4.3.2. Profit (loss) for the year

In 2009 the company posted a consolidated loss before tax of EUR 435 million due mainly to the erosion in revenue, driven by the fallout on the airline sector from the recession. In 2008 the company recognised profit before tax of EUR 36 million.

In 2009 tax income included recognition of the tax credit corresponding to the tax loss for the year, as well as restatements of amounts paid in prior years. This left a loss after tax of EUR 273 million in 2009 compared to a profit of EUR 32 million in 2008.

The chart below reflects key margins at the Iberia Group during the past four years:

IBERIA GROUP. PROFIT MARGINS AS A % OF RECURRING OPERATING REVENUE



4.4. Capital expenditure

The increase in "Property, plant and equipment – Aircraft" carried out by Iberia during 2009 included modifications, aircraft service bulletins and cell work capitalised on A319, A320, A321 and A340 models for a total of EUR 33 million. In addition, two spare engines were acquired for the A319 and A340 for a total investment of EUR 13.5 million. Fleet disposals include derecognition of an A320 engine (carrying amount: EUR 0.7 million). The Group also acquired one A320 aircraft which was derecognised in December 2009 following its sale. Under fleet assembly, net derecognitions amounted to EUR 8 million in 2009.

The main investments made in other assets related to maintenance machinery and tools, rotable and repairable parts, airport machinery and equipment, installations, and software and hardware. Net investment in these items totalled EUR 63 million (considering the net carrying amount for disposals).

The most significant financial investment was to increase the Group's shareholding in Clickair to 91.7% in a series of transactions for an aggregate outlay of EUR 58.6 million. Subsequent to the aforementioned transactions, Iberia contributed all its Clickair shares to the capital increase undertaken by Vueling in July 2009, giving it a 45.85% stake in the latter low cost airline. The increase in Vueling's share price when the Clickair merger closed gave rise to an additional EUR 20.5 million gain.

It is also worth noting that the re-measurement of the fair value of Iberia's equity investment in British Airways increased the Group's financial assets by EUR 25.1 million.

The main disposals of financial assets related to the net return of advances on A320 and A340 aircraft, for a total reduction of EUR 93 million, and the transfer of the Iberbus Agustina and Beatriz loans (EUR 29 million) to current loans.

4.5. Statement of financial position

The table below provides the main consolidated statement of financial position headings at 31 December 2009 and 2008:

Millions of euros

IBERIA GROUP	2009	2008	% Change
Intangible assets and property, plant & equipment	1,096	1,170	(6.3)
Investments in associates	134	17	nm
Non-current financial assets	497	672	(26.0)
Other non-current assets	635	591	7.3
Non-current assets held for sale	9	11	(22.3)
Receivables and other current assets	701	822	(14.6)
Current financial assets and other cash equivalents	1,974	2,351	(16.0)
Total Assets	**5,046**	**5,634**	**(10.4)**
Equity	1,551	1,564	(0.8)
Provisions	1,209	1,283	(5.8)
Non-current borrowings	251	299	(15.6)
Other non-current liabilities	272	183	47.4
Current borrowings	251	170	46.8
Other current liabilities	1,512	2,135	(29.1)
Total equity and liabilities	**5,046**	**5,634**	**(10.4)**

The Iberia Group's equity stood at EUR 1,551 million at 31 December 2009, 0.8% below the 2008 balance. The impact of the loss for the year (EUR 273 million) was almost fully mitigated by the re-measurement to fair value of hedge arrangements and, to a lesser extent, the impact of the revaluation of the Group's British Airways shares.

There were no transactions in treasury shares in 2009. As a result, on 31 December 2009 the parent company's consolidated statement of financial position registered a balance of EUR 64 million on the 27,898,271 treasury shares (2.927% of equity) recognised, with an overall nominal value of EUR 22 million and at an average acquisition price of EUR 2.313 per share.

Non-current provisions for contingencies and charges stood at EUR 1,209 million at year-end 2009, a drop of 5.8% on the year-end 2008 balance. This balance breaks down as follows: EUR 598 million in provisions for employee commitments (down 10.6% on 2008) including the provision recognised for flight personnel put on reserve; EUR 86 million in provisions for major fleet repair work; and EUR 525 million for other obligations, including workforce restructuring initiatives.

Current and non-current interest-bearing borrowings (bank loans and finance lease obligations) stood at EUR 502 million at the end of 2009, up 7.2% on the year earlier balance.

The liquid balance (current financial investments plus cash and cash equivalents) stood at EUR 1,974 million at 31 December 2009, EUR 377 million less than at year-end 2008. This balance includes the measurement of hedging arrangements (under IAS 39). This accounting rule increased the measurement of short term investments at 31 December 2009 by EUR 55 million in the statement of financial position, compared to the EUR 79 million recognised at year-end 2008.

The Iberia Group continued to present a net cash balance surplus at year-end 2009 in the statement of financial position: i.e., the balance of current assets (excluding hedge measurement) was greater than interest-bearing borrowings by EUR 1,417 million at 31 December 2009, compared to a net cash balance of EUR 1,803 million twelve months earlier.

Adjusted net debt, including the capitalisation of fleet lease cost (and adjusting for interest on the loans to the Iberbus companies), stood at EUR 1,229 million, up 21.4% on 2008.

Leverage, measured as the ratio of adjusted net debt to total capital employed (the sum of equity and borrowings), stood at 44.2% at the end of 2009, up 4.9 percentage points on year-end 2008.

Millions of euros

Balance sheet situation	2009	2008	% Change
Adjusted liquid balance (a)	1,919	2,272	(15.5)
In-balance sheet interest-bearing borrowings	502	468	7.2
In-balance sheet net debt	**(1,417)**	**(1,803)**	**(21.4)**
Aircraft lease capitalisation (×8) (b)	2,646	2,816	(6.0)
Adjusted net debt	**1,229**	**1,012**	**21.4**

(a) Current financial assets and cash and cash equivalents, excluding the measurement of hedge arrangements.
(b) Leases capitalised over eight years and adjusted for the interest capitalised on the Iberbus company loans.

4.6. Cash flow statement

The table below depicts the main headings of the consolidated cash flow statements for 2009 and 2008:

Millions of euros

IBERIA GROUP	2009	2008
Profit (loss) before tax	(435)	36
Adjustments to profit (loss)	151	113
Changes in working capital	75	(56)
Other cash flows from operating activities	(71)	(55)
Cash flows from operating activities	**(280)**	**38**
Payments on investments	(277)	(633)
Proceeds from disposals	102	243
Cash flows from investing activities	**(175)**	**(390)**
Proceeds from and payments for equity instruments	-	(45)
Proceeds from and payments for financial liabilities	39	(98)
Dividends paid and payments on other equity instruments	-	(158)
Cash flows from financing activities	**39**	**(301)**
Effect of exchange differences	**(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

4.7. Financial risk management

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

The derivatives arranged to this end are designed to partially or fully mitigate price risk; the idea is to write highly effective hedges in accordance with the risk management strategy documented at hedge inception for each instrument in order to quality for hedge accounting under IFRS and the new Spanish accounting standards.

The next three sections deal with the company's hedging program.

4.7.1. Foreign exchange risk

Due to the nature of its activities, Iberia is exposed to exchange rate risk at both the operating (cash flows) and balance sheet levels. The main dollar hedges are detailed below.

Flows

The company had US dollar exposure of around EUR 1,417 million in 2009. This short position reflects the fact that revenues denominated in this currency (22% of the total) were lower than dollar expenses (41% of the total).

Under the hedge program, this position is hedged as follows:

- Up to 50% of the short position is hedged with strategic hedges with durations of up to five years using swaps into euros to cover fleet rentals denominated in dollars.
- The remaining exposure is managed via tactical hedges with a time horizon of between one and three years. This enables risk officers to adapt to market conditions and to respond to actual payments flows in dollars.

At year-end 2009, Iberia had hedged 77% of forecast dollar flows in 2010.

Statement of financial position

The company has EUR 551 million of dollar-denominated assets. The most notable are the loans extended to the Iberbus companies, advance payments to aircraft and engine suppliers, the capital in the A340 and guarantees. The dollar denominated liability balance meanwhile is EUR 254 million which helps neutralise the impact of translation differences, in addition to the hedges arranged.

4.7.2. Interest rate risk

Although Iberia enjoys a net cash surplus, adding in the notional debt corresponding to its operating leases (by multiplying aircraft lease obligations by a factor of 8), total adjusted net debt (in the individual financial statements) stands at EUR 1,244 million. At 31 December 2009, 49% of adjusted net debt carried fixed rates, another 6% carried floating rates that have been hedged, and the remaining 45% was freely floating.

Sensitivity to a percentage point increase in euro interest rates is a positive EUR 11 million, due to the company's cash balance. However, sensitivity to a percentage point increase in dollar interest rates is a negative EUR 6.1 million.

Liquidity risk

As per Iberia's individual financial statements, at 31 December 2009, the company had cash and cash equivalents (cash and liquid assets plus short term financial investments redeemable in less than three months and not including derivatives or loans to companies) amounting to EUR 1,746 million. These balances are invested in highly liquid, short term instruments such as debt repos, euro deposits and commercial paper at top rated Spanish banks in accordance with the company's prevailing risk management policy which stipulates that counterparties have a short term credit rating of at least P1.

4.7.3. Fuel price risk

Iberia controls its aviation fuel costs, which are directly linked to fluctuations in oil prices, using active risk management policies to mitigate the impact of fluctuations in kerosene prices on the international market and minimise budget deviations in this significant cost heading.

The company has pursued a policy of directly hedging kerosene prices using a combination of financial instruments such as swaps and zero-cost option structures.

Following the price shock in 2008, oil prices climbed steadily higher throughout the first half of 2009, rebounding from $40 a barrel during the first quarter to stabilise in the range of $65-75 a barrel, fuelled by brightening expectations for economic recovery. In the fourth quarter prices hovered around the $70-80 mark. Hedges locking in fuel prices covered around 60% of fuel consumption levels for the year, curtailing cash flow volatility, while enabling the company to benefit from market prices to some extent.

Iberia consumes virtually two million metric tonnes of kerosene a year, a volume it expects to repeat in 2010. At 31 December 2009, Iberia had hedged approximately 65% of its fuel position. These hedges could give rise to gains or losses for the Group depending on trends in fuel prices throughout 2010.

4.8. Iberia's share price performance

Price at 31 December 2009	1.899
Price at 31 December 2008	1.98
Year-on-year change	(4.1%)
Average price in 2009	1.799
High	2.555
Low	1.,42
Average daily volume (no. of shares)	7,026,847
No. of shares outstanding	953,103,008

All share prices expressed in euros.

Last year the world's most important stock exchanges managed to recoup the losses sustained in 2008, the worst year in equity market history since 1929, to close the year higher. Specifically, the Ibex 35 posted one of the highest gains of the decade, at 29.8%. Equity market performance during the first months of the year mirrored the deepening crisis (increase in unemployment, downward revisions to growth and corporate profit forecasts, bank interventions, etc.); however, the positive impact of banks' provisioning efforts and the attendant financial system stabilisation, combined with improving business sentiment, drove the main indices higher during the second half.

Demand in the airline sector remained weak all year, especially in business class travel. However, traffic began to show signs of recovery during the second half of the year, although price pressure remained intense all year long.

Iberia's share price ended the year 4.1% lower and was heavily influenced throughout the year by news regarding the merger with British Airways. This newsflow intensified during the second half as expectations grew that the process was picking up pace following senior management changes at the airline. The merger letter of intent was announced to the market on 12 November and was very well received.

IBERIA-IBEX - MAIN COMPETITORS (BASE 100= 30 DECEMBER 2008)

For the first time since its IPO, Iberia did not pay a dividend last year due to its poor earnings performance in 2008.

4.9. Outlook

4.9.1. Business outlook

In the wake of the severest recession in recent history, the **global economy** is beginning to come back to life, driven largely by extensive intervention by governments and central banks worldwide, whose actions have diminished financial market uncertainty and stimulated demand. The most recent International Monetary Fund (IMF) estimates point to global gross domestic product (GDP) growth of 3.9% on average in 2010, compared to a contraction of 0.8% in 2009.

However, growth is expected to prove very uneven geographically; economic performance could even vary significantly among countries in the same economic region depending on pre-recession circumstances, structural imbalances and policy measures implemented. In most developed economies, the recovery looks set to be slower than following earlier episodes of recession: GDP growth is forecast at 2.1% in 2010, while economic expansion is expected to be relatively buoyant in many emerging economies, at around 6.0%. The IMF forecasts scant growth of around 1% for the eurozone in 2010, compared to around 3.7% in Latin America.

The Spanish economy remained recessionary in 2009, although performing slightly better than forecast in recent months, underpinned by a stronger than anticipated trend in consumption and gross fixed capital formation. Based on this recent relative improvement in national and international indicators, the IMF (as of January 2010) estimates that the Spanish economy will contract by 3.6% in 2009 and by a further 0.6% in 2010.

Although Spanish households have deleveraged, debt remains high. This, combined with very high unemployment, will curtail the scope for any consumption-led recovery. This potential will be further undermined by the ongoing credit crunch: lending is not expected to flow freely until the banks and savings banks, also embroiled in deleveraging and absorbing losses on real estate loan books, shore up their balance sheets. This factor will also curtail scope for expansion in corporate spending for some time. In addition, the need to clean up the state accounts will result in restrictive fiscal policy over the coming years, further limiting the Spanish economy's growth potential.

The fate of the **airline sector** is directly tied to economic growth. Accordingly, following the sharp contraction sustained during the first half of 2009, global air traffic began to stage a gradual recovery during the second half, with cargo traffic rebounding first, followed by passenger traffic. However, the recovery is proving uneven across the various economic regions. Indeed, demand has rebounded sharply in Asia-Pacific, Latin America and the Middle East, in line with the healthy growth in these regions' emerging economies. Meanwhile in Europe and the US traffic is staging a more tentative recovery. The latest International Air Transport Association (IATA) forecasts call for growth in global traffic (domestic and international) in 2010, measured in TKP (passenger and cargo), of 5.2%.

Unit revenue fell drastically across the airline sector during the first half of 2009, similarly staging a relative recovery in long-haul flights since mid-2010. For the European full service airlines traffic continues to improve slowly, lifting load factors. The airlines are expected to continue to scale back capacity in their ongoing search for equilibrium vis-à-vis demand in an attempt to drive unit margins higher. The recovery in corporate spending, which will lead any recovery in consumer spending, should drive the recovery in business travel, which is already showing signs of strengthening. The business travel segment on transatlantic routes is forecast to be the first to recover.

Meanwhile, oil prices are expected to continue to firm, in line with recovering demand on the back of the economic rebound. Higher fuel prices could offset the effect on earnings of airlines' efforts to cut costs and capacity. As a result, IATA forecasts (as of December 2009) that the global airline sector will see revenue rise by 4.9%, but that this will not be enough to eliminate the red ink: the airline association is forecasting net losses of $5.6 billion in 2010.

In 2009, Iberia took some important decisions that it believes will be decisive to its performance.

On 12 November 2009 the boards of Iberia and British Airways approved a binding letter of intent that sets the foundations for a merger between the two airlines, in a bid to create Europe's third largest carrier by revenue. The merger is expected to close at the end of 2010. Both British Airways and Iberia will preserve their respective brands and operations; however, the combination of the two airlines will improve their strategic positions in the global aviation industry. The merged airline's growth potential will be underpinned by optimisation of their two main traffic hubs, Madrid and London, unlocking synergies medium term.

Elsewhere, Iberia expects the US and European authorities to approve application for anti-trust immunity (submitted in August 2008) for the combined marketing, together with British Airways and American Airlines, of flights on routes between Europe and the US, during the first half of 2010. This is a multilateral project that will improve all three carriers' competitive position in this important market.

Faced by a deteriorating operating climate, slumping demand and falling profitability, in October 2009 Iberia approved its Plan 2012. The new business plan prioritises revenue generation and the search for cost efficiency in order to ensure the company's sustainability and strength.

The company's management is focused on tackling the economic crisis and reinforcing the airline's leadership in strategic markets. To this end, Iberia plans to continue to focus its efforts and investments on raising quality and customer service levels by executing the measures designed in the Total Customer Care Program.

The airline will continue to strategically increase its network of intercontinental flights. In addition, Plan 2012 calls for a radical shift in operating strategy in the short and medium haul segments where the company is less competitive since the advent of low cost carriers and the rollout of the high speed rail network.

In 2010 Iberia expects overall network capacity to be reduced by a further 1.8% on 2009. However, it has the flexibility to adapt to market trends, specifically to respond to higher than forecast demand if necessary. In 2010 Iberia will continue to renew its fleet, adding two new narrow-body and as many as five wide-body aircraft.

Meanwhile the company plans to consolidate its position in the maintenance and handling businesses, by leveraging any new opportunities to increase revenue and raise productivity, while maintaining an iron grip on costs.

4.9.2. Overview of main risks and uncertainties

The current outlook for global economic growth remains hostage to significant risk factors. On the bright side, it is possible that resolution of the confidence crisis and reduced uncertainty will continue to underpin a stronger than forecast improvement in financial markets, and higher than anticipated growth in capital flows, trade and private demand.

On the down side, the clearest risk factor is that a premature withdrawal of public stimulus measures will drag down global growth. Another important risk is that the deterioration in the financial systems and housing market, or spiralling unemployment in most advanced economies, will curtail the forecast recovery in household spending. In addition, growing concerns over the budget deficits of certain countries could destabilise the financial markets and snuff out recovery by increasing the cost of household and corporate debt. Another downside risk is that the spike in commodity prices could erode the recovery in developed economies.

Uncertainty over the recovery in demand for business class travel is key. The loss of business class passengers was very significant in 2009, and had a devastating impact on yields.

Similarly, the industry is facing fuel price uncertainty in terms of absolute price levels and volatility. Oil prices climbed steadily throughout 2009 and are expected to extend this pattern in response to the brightening perception of the economic situation. The International Air Transport Association (IATA) estimates that the average price per barrel of Brent crude oil will be $75 in 2010. Medium term, the outlook for oil and the attendant risk of renewed price escalation will depend on the balance between supply and demand. Demand for oil is expected to grow sharply in emerging economies while remaining stable across developed economies.

The outlook for the US dollar is another source of uncertainty. The analyst community believes that the euro is overvalued relative to the dollar and expects the trend over the coming months to be one of depreciation. Dollar appreciation would increase both revenue and expenses at Iberia, as around 41% of the company's costs and 22% of revenues are tied to the greenback.

Iberia has in place 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. Specifically, the fuel price hedges in place at the start of 2010 should cover 65% of estimated consumption for the year.

In 2010, Iberia's management team will work towards reaching agreement with its union members on renewal of their respective collective bargaining agreements; the pertinent negotiating committees have already been appointed. On 20 April 2009, management of Iberia and of the company section of pilot union SEPLA signed the VII technical crew workers' collective bargaining agreement which was valid through 31 December 2009. The XV passenger cabin crew agreement was extended to 31 December 2008. The XVIII ground staff collective bargaining agreement similarly ended in December 2008.

5. Performance of Investees

5.1. Fully consolidated companies

Compañía Auxiliar al Cargo Express, S.A. (CACESA), which operates as a cargo forwarding agent and consignee, was incorporated in 1987 by Iberia, which owns 75% of the company, and by Marítimas Reunidas S.A. (MARESA), which owns the other 25%. CACESA also engages in freight transport, warehousing and distribution activities, as well as other ancillary airport-related businesses.

In 2009 CACESA's revenue narrowed 28.5% to EUR 36.3 million. In general, revenue fell sharply across all the company's business lines on the back of the drop in volumes due to the adverse global economic backdrop, as well as the widespread slump in unit prices across the entire transport market as a result of the supply-demand imbalance.

Revenue from express courier services (Ibexpress) fell 24.6% on 2008 to EUR 15.7 million. Domestic traffic fell on a widespread basis as demand slumped, with the Canary Islands business hardest hit as a result of intense competition in the night-time cargo business. The exception was traffic on the Balearic Islands routes which actually rose. The drop in domestic market traffic was partially offset by the increase of close to 14% in international traffic.

Freight-forwarding revenue (Ibertrás) declined 29.1% on 2008 to 19.1 million. As with Ibexpress, national traffic was the worst-performing segment due to lower volumes on the back of economic weakness and substitution by more affordable options (road and sea). International freight-forwarding traffic was stronger, with exports standing out thanks to strong traffic between Asia and Latin America.

In 2009 there was no revenue from auxiliary logistics services as the services provided to the Madrid cargo terminal were transferred to ALAER in July 2008.

The company's average headcount narrowed by 4.6% to 114 full-time equivalents employees. CACESA recorded an operating loss (recurring) of EUR 0.4 million in 2009, compared to profits of EUR 1.35 million in 2008. This translated into a loss before tax of EUR 0.3 million (under IFRS).

Auxiliar Logística Aeroportuaria, S.A. (ALAER) was founded by CACESA in June 2002. Iberia controls ALEAR indirectly via its 75% ownership interest in CACESA. Both companies are fully consolidated by the Iberia Group. This company provides a series of auxiliary logistics services including the operation and administration of the cargo terminals.

Revenue rose 3.6% to 10.9 million in 2009. This growth was driven primarily by the increase in revenue from logistics services provided to Iberia's cargo management team at the Madrid cargo terminal. ALAER began to offer this service mid-2008, and accordingly throughout all of 2009. Revenue from distribution services, in relation to both lost luggage and CACESA's Ibexpress courier service, narrowed slightly.

The average headcount fell 6.9% to 118 FTEs. Profit before tax (under IFRS) was EUR 37 thousand compared to EUR 185 thousand in 2008.

Dutch company **Binter Finance B.V.,** a 100%-owned Iberia subsidiary, began operations in November 1991. Through its permanent establishment in Spain, this company performs Iberia's treasury function. The company administers and optimises the currency denominated fund flows generated by Iberia abroad. It also advises on the management and execution of Iberia's foreign exchange and interest rate hedges in international markets.

This company generated EUR 18 thousand in profit before tax in 2009, down 11.5% on 2008.

Iberia México S.A., a wholly-owned Iberia subsidiary, was founded in 1951. Since 2007 it has acted as the concessionaire operating the cargo terminal in Mexico, providing foreign trade merchandise warehousing, safekeeping and custodial services.

Iberia Desarrollo Barcelona S.L. is the developer set up to build the maintenance hangar at Barcelona-El Prat airport. The deeds incorporating this company were notarised on 18 September 2007. It is 75%-owned by Iberia via Iberia Tecnología.

The following companies, of scant materiality, are also fully consolidated in the Group's financial statements: Iberia Tecnología, Viva, Consultores Hansa, Cargosur and Campos Velázquez.

5.2. Associates accounted for using the equity method

Vueling Airlines S.A. (hereinafter, Vueling) is a low cost airline that has been operating since 2004. Its headquarters and main operating base is located at Barcelona-El Prat airport.

Vueling combines the advantages of a low cost carriers, such as low fares and high productivity, with certain of the value added services associated with traditional airlines, such as flexibility, leading European network destinations, use of leading booking systems (GDS), and the ability to offer its passengers the possibility of earning miles under the Iberia Plus frequent flyer program.

The merger of Clickair into Vueling closed on 16 July 2009. Having swapped all its shares in Clickair for shares of Vueling, Iberia took a 45.85% stake in the low cost airline and new investee. Nefinsa owns 4.15%. Vueling is publicly listed.

The integration of Clickair's operations into the Vueling organisational structure also took place in July 2009. This airline had a fleet of 35 Airbus A320 aircraft at the end of 2009, with which it operated to 45 airports in 17 European and North African nations, six of them (Barcelona, Bilbao, Madrid, Malaga, Seville and Valencia) are the company's operating bases. As a result of the merger, the new Vueling became the fourth airline in Spain by passenger volume.

Vueling has been operating out of Terminal 1 at El Prat airport since September 2009.

In 2009, Vueling carried 8.2 million passengers, 39.3% more than the year before. Capacity totalled 10,181 million ASK (growth of 28.1% on 2008), yielding a load factor of 73.7%, a 3.4 percentage point improvement on 2008. In making a year-on-year comparison of the Group's share of profits from this associate, it is important to note that the enlarged post-merger airline has been operating since July 15, 2009.

Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (Iberia Cards) is a credit finance establishment that engages in activities related to the issuance and management of credit cards and other payment means. The company was set up in April 2002 by Iberia (43.5% stake) and financial institutions Banco Popular, BBVA and Caja Madrid.

In 2009 this market was marked by the recession which prompted the first decline in credit cards and credit card financing in the overall Spanish market since the Bank of Spain began tracking statistics. Iberia Cards was not immune from this adverse climate. The decline in invoicing was particularly significant in the corporate card segment, in line with the broader market trend. Corporate turnover fell significantly against this adverse backdrop. The retail segment, on the other hand, outperformed the market.

From the sales standpoint, management focused all year on fostering migration over to the new Sendo product with a series of promotions and campaigns designed to raise customer familiarity with the product, showing them how to get the most out of it. Migration began in October 2008 and has already been completed for all individual card holders and the process is very advanced in the business card segment. This has enabled the company to continue to offer its customers an appealing and competitive product. In fact, despite the drop in the number of Iberia Plus points offered on Visa cards as a result of the reduction in interchange fees, holders of the Iberia Sendo American Express card saw their benefits remain intact or even improve. This endows the company with an important competitive advantage, especially at a time when most premium credit cards have been forced to drastically cut the benefits offered.

The company continues to command a clear leadership position in the premium credit card market, leaving management upbeat about its growth prospects going forward. Iberia Cards obtained profit before tax of EUR 1.7 million in 2009, narrowing EUR 0.5 million on the previous year.

Multiservicios Aeroportuarios S.A. (MASA) was set up in April 2002 by ZENIT Servicios Integrales S.A., which owns a 51% stake, and Iberia, which holds the remaining 49%. This company performs all manner of auxiliary airport services, including: cleaning of aircraft (inside and out) and of equipment and facilities, baggage handling, cargo and mail handling, meet and greet services for persons with reduced mobility and runway handling operations. Through this company Iberia has built up a significant business to complement its ground handling activities. Its customer portfolio includes Iberia, Aena, Air Europa and Groundforce.

In 2009, MASA continued to diversify its customer portfolio, most notably adding aircraft cleaning services for Vueling at Barcelona airport following the low cost airline's merger with Clickair in July 2009. Also noteworthy was the start-up of aircraft cleaning services for ground handler Flightcare in Fuerteventura, and the provision of the Star-up service to companies handled by Iberia.

This company generated profit before tax of EUR 0.86 million in 2009, compared to a loss of EUR 0.32 million in 2008.

Iberia also has a significant ownership interest in the following companies:

IBECA, founded in March 2001 by Iberia, which owns an indirect 50% stake through Iberia Tecnología, and Cubana de Aviación, which holds the remaining 50%. This company provides aircraft line maintenance services at Cuban airports.

ELCA, set up in October 2001 by Cargosur, giving Iberia a 50% indirect stake, and Aerovaradero, which owns the other half. This company markets and warehouses air cargo in transit in Cuba.

SERPISTA was set up in Madrid in June 2004. Iberia owns 39% of this company. The company performs equipment maintenance and repair work for ground handlers in Spanish airports.

HANGESA was set up in October 2000 to provide passenger and cargo handling services at Malabo airport. Iberia owns 51% of this company via Viva Air, while local partners own the remaining 49%.

ISM (International Supply Management) was set up in March 2006 by Iberia, which owns 49% of the company, and GECI Española Levante S.A., owner of the remaining 51%. ISM's main business line is the purchase and sale of chemical products, industrial equipment, spare parts and accessories mainly for the aeronautical industry.

Madrid Aerospace Services was set up in June 2008 by Iberia and Singapore Technologies Aerospace (STA), and endowed with initial capital of EUR 2.6 million. It is 50/50 owned by both shareholders (through their respective shareholders, Iberia Tecnología and STA Solutions Europe). Headquartered in Madrid, this new company is engaged in the maintenance, repair and overhaul of aircraft landing gear and related parts.

6. ANNUAL CORPORATE GOVERNANCE REPORT

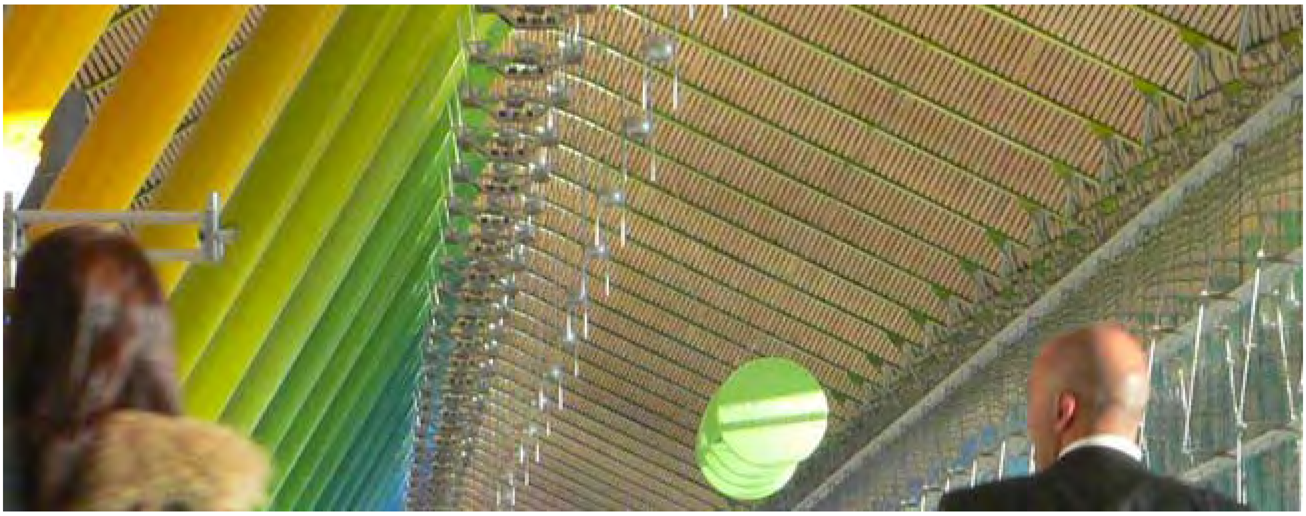
The preparation and publication of the Annual Corporate Governance Report is a legal obligation imposed on all listed companies by Act 26/2003 of 17 July, known as the *"Transparency Act"*, the structure and contents of which are developed in the Order of the Ministry of Economy 3722/2003 of 26 December. The National Securities Market Commission (CNMV), authorised for the subsequent, detailed development of these provisions, passed a single standard model on 17 March 2004 for preparing the Annual Corporate Governance Report, which was later modified by Circular 4/2007 of the CNMV of 27 December.

Pursuant to the amendments made to Article 49 of the Commercial Code and section 202 of the recast Corporations Act by *Act 16/2007 of 4 July* on the reform and adaptation of commercial accounting laws for international harmonisation based on the *European Union legislation*, the Corporate Governance Report 2009 is included as a separate section in the Separate and Consolidated Directors' Reports of Iberia, Líneas Aéreas de España, S.A.

The Board of Directors of Iberia, L.A.E., S.A., whose governance rules and practice comply with the latest rules and recommendations approved on good governance of companies, publishes the Iberia Annual Corporate Governance Report 2009 for shareholders and investors, with the following structure:

A. Ownership structure of the company
B. Management structure of the company
C. Related party transactions
D. Risk control systems
E. General meeting
F. Degree of compliance with the corporate governance recommendations
G. Other information of interest

The Report contains all the explanations required by the CNMV, together with any other information considered expedient to give a complete picture of the company's governance structure, decision-making processes, directors' obligations and emoluments and, in general, any aspect that shareholders and investors might consider important in respect of company management. The Report is supplemented with information published on the company's web site (***www.iberia.com***)), in the section "*Investor Relations*", where shareholders and investors can view the company's rules and regulations and any other material information on company management.



The Board has maintained its responsible attitude and efficiency throughout 2009, striving to protect the corporate interests and making whatever decisions have been considered necessary to guarantee Iberia's viability and competitiveness.

A) OWNERSHIP STRUCTURE OF THE COMPANY

A.1. Capital

Capital at year-end

At 31 December 2009, the capital of Iberia, L.A.E., S.A., fully subscribed and paid up, divided into shares issued in book-entry form with a par value of 0.78€ each, was as follows:

Date of the last modification in 2009	Capital	Number of shares	Number of voting rights
-	743,420,346.24	953,103,008	953,103,008

No capital increases have been made in 2009.
At 31 December 2009, Iberia, L.A.E., S.A. had 94,736 shareholders.

Classes of shares

There are no different classes of shares with different associated rights.

A.2. Significant interests at year-end, excluding Directors

The ownership structure of the Company at year-end is indicated below, highlighting the significant interests, as broadly defined in Royal Decree 1362/2007 of 19 October. The following table includes, therefore, both stakes equal to or greater than 3% in the capital and those held by shareholders who, although holding less than that percentage, have signed shareholding agreements undertaking to act in concert.

(at 31 December 2009)

Holders of significant shareholding interests	No, direct voting rights	No, indirect voting rights.	% total voting rights
Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid)	219,097,719	800	22.99
British Airways PLC	125,321,425		13.15
El Corte Ingles. S,A,	32,151,759		3.37
Caja de Ahorros y Monte de Piedad de Zaragoza. Aragón y Rioja (IBERCAJA)	3,231,693	26,000	0.34
Caja de Ahorros y Monte de Ronda. Cádiz. Almería. Málaga y Antequera (UNICAJA)	991,763		0.10
Sociedad Estatal de Participaciones Industriales (SEPI)	49,212,526		5.16
Chase Nominees Ltd.	49,594,518		5.20
The Bank of New York Mellon	38,072,751		3.99
TOTAL HOLDERS SIGNIFICANT SHAREHOLDING INTERESTS	**517,700,954**		**54.30**
Others (shareholders and treasury stock)	**435,402,054**		**45.70**
TOTAL IBERIA SHARES	**953,103,008**		**100.00**

*Through:

Direct holder of the significant interest	Number of direct voting rights	% total voting rights
VALORACIÓN Y CONTROL, S.L. E INMOGESTIÓN Y PATRIMONIOS, S.A.	800	0.000084
IBERCAJA GESTIÓN	26,000	0.002728

The most significant changes in the shareholding structure during the period are set out below:

Holder of significant interest	Date of transaction	Description of transaction
B METZLER SEEL SOHN UND CO	31-Dec-2009	Sale of 28,458,106 shares

A.3. Directors' shareholding interests

Iberia shares held by members of the Board

According to the company's records, directors directly or indirectly held the following shares in Iberia L.A.E., S.A. at 31 December 2009:

(at 31 December 2009)

Directors	No, direct voting rights	No, indirect voting rights.	% total voting rights
Mr. Antonio Vázquez Romero	502,000	-	0.052670
Mr. Rafael Sánchez-Lozano Turmo	101,000	-	0.010597
Mr. Miguel Blesa de la Parra	24,400	-	0.002560
Mr. Felipe Benjumea Llorente	400	24,600	0.002623
Mr. José M, Fernández Norniella	800	-	0.000084
INMOGESTIÓN Y PATRIMONIOS, S.A. (1)	400	-	0.000042
Mr. Antonio Masa Godoy	5,250	-	0.000551
Mr. Roger Paul Maynard	401	-	0.000042
Mr. José Pedro Pérez-Llorca	400	-	0.000042
Mr. Jorge Pont Sánchez	401	-	0.000042
Mr. José B, Terceiro Lomba	400	-	0.000042
Mr. Keith Williams	1,000	-	0.000105

(1) Represented by Mr. Alberto Recarte García-Andrade

*Through:

Direct holder of the interest	Number of direct voting rights	% total voting rights
ARDACHON, S.L.	24,600	0.002581

% total voting rights held by Directors	0.069400

Directors' options over shares in the company

At 31 December 2009, none of the directors had any options over shares in the company.

A.4. Family, commercial, contractual or corporate relationships between significant shareholders, as far as the Company is aware, unless they are insignificant or deriving from ordinary business activities

Apart from the Shareholders' Agreement signed when the company was privatised, described below, the company has not been informed and is not aware of any relationships between significant shareholders other than those deriving from the ordinary business of the companies.

A.5. Commercial, contractual or corporate relations between significant shareholders and the Company, unless they are insignificant or deriving from ordinary business activities

The most important commercial, contractual and corporate relations between significant shareholders and the company are described in the section on related party transactions.

Iberia and British Airways, its major shareholder and industrial partner through British Airways Holdings B.V., are determined to reach a level of cooperation that will benefit the operations of both companies and enable them to improve their competitive positions on the market, coordinating and possibly integrating their commercial and marketing strategies and their distribution practices and procedures. On 19 July 2002, British Airways, Iberia and GB Airways notified the European Commission of several cooperation agreements and applied for an exemption under Article 81(3) of the EC Treaty. On 10 December 2003, the European Commission approved the alliance, which should enable the airlines to make specific agreements to complement one another through their respective networks, essentially in pricing, scheduling and capacity. Under this alliance, Iberia and British Airways signed an agreement on 16 December 2004 to jointly operate their routes between London Heathrow, Madrid and Barcelona as from 1 January 2005. This agreement contemplates the joint management of the routes, sharing costs and profits.

In addition, American Airlines, British Airways and Iberia are in the process of establishing a trans-Atlantic alliance through which consumers will benefit from greater discounts, better connections and a broader network of destinations. The alliance is pending authorisation by the European Commission and the DOT (US Department of Transportation). At the date of publishing this report, favourable results are expected in both cases.

Finally, on 29 July 2008, the Iberia Board announced its intention to enter into talks with British Airways with a view to a possible merger of the two companies, through an exchange of shares.

In May and June 2008, Iberia acquired a strategic interest in British Airways to establish a shareholding symmetry with the interests that the latter company holds in the capital of Iberia and to reflect its conviction of the benefits of a closer collaboration between the two groups. The investment consisted of a purchase of 34,478,120 shares in British Airways, representing 2.99% of its capital, and an economic position linked to the price of British Airways shares based on financial derivatives for 6.99% of the British Airways capital.

In September and October 2008, Iberia increased its interest in British Airways and now holds 9.98% of its capital. This purchase of additional British Airways shares substitutes the position held by Iberia in the afore-mentioned financial derivatives.

On 12 November 2009, Iberia and British Airways signed a memorandum of understanding (MOU) laying down the bases for a merger between the two companies to create one of the largest airline groups in the world, recognising the principle of parity on the board and in the management bodies of the new Group. The new group will combine the leaderships of both companies in the UK and Spain and boost its already strong presence in the long-haul international markets. Both airlines will preserve their respective trade names and operations. This merger is expected to be completed by the end of 2010.

Shareholders' agreements of which the company has been notified

The company is only aware of the Shareholders' Agreement signed on 15 December 1999 between the shareholders of the Stable Core, as described below.

Shareholders' Agreement of 15 December 1999

With regard to the controlling shareholders, and as indicated in the Prospectus checked and recorded in the Official Register kept by the Spanish Securities Exchange Committee (CNMV) on 16 March 2001 in respect of the sale of the Iberia shares held by SEPI, a deed was executed on 17 March 2000 putting on record a private stock purchase agreement whereby Caja Madrid, BBVA, El Corte Inglés, Logista, Participaciones Aeronáuticas and BA & AA Holdings Limited acquired 40% of the capital of Iberia. These "Stable Core shareholders" have undertaken to SEPI to remain in the capital of the company for the following lengths of time:

- Caja Madrid: at least six years,
- BBVA : at least five years,
- Logista: at least five years,
- El Corte Inglés: at least five years,
- Participaciones Aeronáuticas; at least three years, and BA & AA Holdings Limited: at least three years

During these times, the core shareholders undertake not to assign, sell or transfer the shares to any third party, except companies in their respective groups.

Participaciones Aeronáuticas, S.A. sold its shares in the capital of Iberia to the following entities, which are, consequently, bound by the commitments undertaken by Participaciones Aeronáuticas in the purchase agreement and act jointly, all being members of the Ahorro Corporación Group.

- Corporación Financiera de Galicia, S.A.
- Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (IBERCAJA)
- Caja de España de Inversiones (CAMP)
- Caja Castilla- La Mancha
- Caja de Ahorros y Monte de Piedad de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)
- Caja de Ahorros de Murcia
- Caja de Ahorros y Monte de Piedad de Huelva y Sevilla

BA & AA Holdings Limited sold the shares it held in Iberia to British Airways and American Airlines Holdings BV, which is now bound by the commitments undertaken by the vendor.

The controlling shareholders signed an agreement regulating their relations on 15 December 1999, with a view to creating a stable core of Iberia shareholders committed to corporate management, in order to ensure coherent management criteria and make the company stable in the medium and long term, in defence of corporate interests. Accordingly, a pool of shareholders was formed, including the shares of the industrial partner (British Airways and American Airlines Holdings B.V.) and the institutional investors.

The pooled shares are those shares held by the Stable Core shareholders at the date of the Agreement, representing 40% of the capital. The agreement is not applicable to any additional Iberia shares those shareholders may acquire after that date, unless they are acquired through exercise of their preferential subscription right or by virtue of the right of pre-emption established in the shareholders' agreement.

The shares held by the Stable Core shareholders covered by the Agreement were:

(at 15 December 1999)

Parties to the Shareholders' Agreement	No. shares pooled	% of the capital stock affected
Caja de Ahorros y Monte de Piedad de Madrid (CAJA MADRID)	91,290,716	10.00%
British Airways and American Airlines Holdings B,V,	91,290,716	10.00%
Banco Bilbao Vizcaya Argentaria. S,A, (BBVA)	66,642,223	7.30%
Compañía de Distribución Integral. S,A, (LOGISTA)	61,164,780	6.70%
El Corte Inglés. S,A,	27,387,215	3.00%
Corporación Financiera de Galicia. S,A	18,457,254	2.02%
Caja de Ahorros y Monte de Piedad de Zaragoza. Aragón y Rioja (IBERCAJA)	2,480,772	0.27%
Caja de España de Inversiones (CAMP)	1,984,891	0.22%
Caja Castilla-La Mancha	1,489,009	0.16%
Caja de Ahorros y Monte de piedad de Ronda. Cádiz. Almería. Málaga y Antequera (UNICAJA)	991,763	0.11%
Caja de Ahorros de Murcia	991,763	0.11%
Caja de Ahorros y Monte de Piedad de Huelva y Sevilla	991,763	0.11%
TOTAL SHARES POOLED	**365,162,865**	**40.00%**

The shareholders also undertake to act in concert if a takeover bid has to be made as a result of the purchasing of new shares.

The agreement will be deemed immediately terminated and void if:

(a) British Airways and American Airlines Holdings B.V. reduces its stake in the capital of Iberia to below 7%, or such other percentage as may coincide with the arithmetic mean of the shareholding percentages held by the other shareholders bound by the agreement, or

(b) all the parties to the agreement so agree in writing.

The pooled shareholders meet to discuss the business to be transacted by the Board, the Board committees and the General Meeting. They undertake to block vote within the competent bodies of Iberia as decided at the corresponding meeting of the pool.

If a shareholder wishes to sell its shares after the first three years of the shareholders' agreement, the other members of the pool will have a right of pre-emption, such that the shares can only be sold to a third party if that right of pre-emption is not exercised. This pre-emption is also applicable to sales between members of the pool and to any other transaction whereby a third party may acquire the voting rights of the pooled shares.

If a person or entity buys or plans to buy (directly or indirectly or in concert with a third party) from a shareholder a block of shares representing at least 3.5% of the capital (in one or several tranches over a period of twelve months) or if any of the other shareholders acquires all or part of the shares (with no minimum limit), the buyer must accept all the terms and conditions of this agreement, in the legal position of the vendor in respect of the shares offered.

The Iberia Stable Core shareholders' agreement establishes a number of guarantees to avoid possible conflicts of interest. If one or several of the shareholders are considered to have a conflict of interest, those shareholders must abstain in the vote on the corresponding matter.

There is public access to the other terms of the agreement, since the Full Prospectus of the 2001 IPO is recorded in the Official Register of the Stock Exchange Commission and in the Trade Register.

Situation of the shareholders' agreement at year-end

On 15 November 2006, British Airways bought the stake held by American Airlines in British Airways and American Airlines Holdings, B.V., thereafter wholly owned by British Airways, changing its name to British Airways Holdings B.V.

In December 2007, CAJA MADRID purchased the shareholding interests held by BBVA and LOGISTA, exercising the right of pre-emption established in the Shareholders' Agreement, thereby raising its interest in Iberia to 22.99%.

During 2008, British Airways Holdings, B.V. increased its interest in Iberia to 13.15%. However, it has only pooled 94,303,612 shares, representing 9.89% of the company's capital.

Also during 2008, El Corte Inglés increased its interest in Iberia to 3.37%. However, it has only pooled 27,387,215 shares, representing 2.87% of the company's capital.

The situation of the shareholders' agreement has not changed during 2009, so at 31 December 2008, the Stable Core shareholders held the following shares subject to the Shareholders' Agreement (pooled shares):

(at 31 December 2009)

Parties to the Shareholders' Agreement	No. shares pooled	% of the capital stock affected
Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid)	219,097,719	22.99
British Airways Holdings B,V,	94,303,602	9.89
El Corte Inglés. S,A,	27,387,215	2.87
Caja de Ahorros y Monte de Piedad de Zaragoza. Aragón y Rioja (IBERCAJA)	2,480,772	0.26
Caja de Ahorros y Monte de Ronda. Cádiz. Almería. Málaga y Antequera (UNICAJA)	991,763	0.10
TOTAL SHARES POOLED	**344,261,071**	**36.12**

The company is not aware of any shareholders' agreements or pooling of shares other than as described above.

A.7. Control over the Company

Apart from the Shareholders' Agreement described above, no persons or entities exercise or are able to exercise control over the company in pursuance of section 4 of the Securities Exchange Act.

A.8. Treasury Stock

Treasury Stock at year-end

At year-end, the company held the following own shares:

(at 31 December 2009)

No. direct shares	No. indirect shares*	% capital stock
27,898,271	-	2.927%

Significant variations in treasury stock

There was no dealing in own shares during 2009:

A.9. Term and conditions of the current authorisation granted by the General Meeting to the Board of Directors for dealings involving treasury stock

At the AGM held on 3 June 2009, the Board of Directors was authorised to buy back shares in Iberia, L.A.E., S.A., directly or through controlled companies, over the following 18 months, rendering void the authorisation granted at the AGM of 29 May 2008. In pursuance of the Corporations Act s. 75 et seq., the General Meeting authorised the Board to acquire such shares within the following 18 months, through a purchase transaction or under whatsoever other title permitted by law, provided that the total number of shares bought back, together with the par value of any shares held by the company and/or its subsidiaries from time to time, does not exceed 5% of the capital of IBERIA, L.A.E., S.A., for a price between 50% of the par value of the shares and the equivalent of 110% of their market value, which is, for this purpose, the highest value recorded on the market on the business day immediately preceding the date of purchase, subject to the limits and requirements stipulated in law.

The AGM also expressly authorised use of the treasury stock, inter alia, to acquire shares to be delivered to employees, executives and executive directors of the company, or deriving from exercise of the options they hold over IBERIA shares.

After the AGM on 3 June 2009, using this authorisation and the powers vested in it under the Regulations of the Board of Directors, the Board approved a Plan for Acquisition of Iberia, L.A.E., S.A. Treasury Stock, establishing the conditions for buy-back and a treasury stock cap of 5% of the capital stock.

A.10. Restrictions on voting and the acquisition or transfer of shares

Restrictions established in law or the bylaws on the exercise of voting rights

According to the Bylaws all shareholders may attend and vote at General Meetings provided that they hold, individually or through pooling, at least 400 shares and have recorded them in the corresponding register five days before the relevant General Meeting.

Legal restrictions on the acquisition or disposal of shares in the capital

The Bylaws do not establish any restrictions on the acquisition or disposal of shares in the capital, so the shares are freely transferable by law and the bylaws, subject only to the obligation to notify the company of any acquisitions or disposals that directly or indirectly result in the acquisition of a holding of more than 0.5% in the capital stock, expressly stating the nationality of the transferor and transferee, and the establishment of any encumbrances over the shares affecting exercise of the corresponding rights.

Finally, the limitations regarding the nationality of shareholders must be borne in mind, since in pursuance of the Air Navigation Act and Regulation (EC) No 1008/2008 of the European Parliament and of the Council, Spanish air carriers holding an operating licence must be majority-owned by EC Member States or nationals of Member States.

Restrictions are also established for exercising the traffic rights deriving from bilateral air traffic agreements signed by Spain whenever these agreements stipulate that the appointed carrier must be under Spanish ownership and/or effective control.

With regard to this requirement, section 86 of the Fiscal, Administrative and Social Measures Act 14/2000 of 29 December 2000, on, provides that:

"When adopting the legal form of a company, the capital stock of Spanish air carriers holding an operating licence granted in pursuance of Council Regulation (EEC) No 2407/92 of 23 July shall be represented by registered shares, expressly stating the nationality of the shareholder.

When an air carrier with a valid operating licence becomes aware, through the share registers to which it has access, that owing to percentages of capital directly or indirectly held by foreign persons or companies, there is a risk for maintaining the operating licences or exercising the traffic rights deriving from bilateral air traffic agreements signed by Spain, it shall notify the Stock Exchange Councils and the Stock Exchange Commission, to guarantee due publicity. Those institutions shall notify the investment service undertakings and credit entities authorised to provide investment services of the circumstance detected. The Ministry of Development shall also be notified, through the Directorate General for Civil Aviation. Once due notification has been given of this circumstance, no further shares may be purchased or transferred by foreign persons or entities, unless accompanied by a certificate issued by the Board of Directors of the air carrier indicating that the acquisition or transfer in question does not exceed the limits stipulated in Community laws and regulations or bilateral air traffic agreements signed by Spain, to prove that the air carrier is Spanish.

Should the air carrier become aware of any acquisition or disposal of shares made in breach of the previous paragraph which could jeopardise fulfilment of the legal requirements and the above-mentioned agreements, the Board of the company may acquire the relevant shares for redemption. This acquisition shall be made at the market price on the date of undue acquisition of the shares in question or the theoretical book value of those shares according to the latest audited balance sheet of the company published in compliance with the legislation applicable to listed companies, whichsoever shall be lower. In the latter case, the Board may suspend the voting rights corresponding to those shares until they have been physically transferred to the company".

A.11. Breakthrough rule for takeover bids

No takeover bids have been made in 2009, hence the breakthrough rule has not been applied.

B) Management structure of the Company

B.1. Board of Directors

B.1.1. Size of the Board of Directors

Maximum number of Directors according to Bylaws	14
Minimum number of Directors according to Bylaws	10

According to the bylaws, the Board of Directors of Iberia, L.A.E., S.A. must have a minimum of ten and a maximum of fourteen members.

Accordingly, the Board consists of 12 directors, all experienced persons with a proven track record. The number of directors stipulated in the bylaws is considered proportionate to the size of the company and number of shareholders and adequate to allow efficient functioning. It also conforms to the Unified Good Governance Code, which recommends a Board of no fewer than five nor more than fifteen members. The Board is assisted by the non-director Secretary of the Board, who is also legal adviser to the Board and responsible for overseeing the formal and material legality of its resolutions and ensuring that it heeds the rules of good governance.

B.1.2. Members of the Board

Members of the Board of Directors at 31 December 2009

The members of the Board are named below, indicating the position held, the dates of their first and latest appointment as Board members and the type of directorship.

Name	Position	Date of first appointment	Date of last appointment	Nature
Mr. Antonio Vázquez Romero (1) N.I.F.: 2.644.336-A	Chairman	09.07.09	-	Executive
Mr. Miguel Blesa de la Parra (2) N.I.F.: 26.166.340-E	Vice-Chairman	23.03.00	30.05.06	Proprietary
Mr. Rafael Sánchez-Lozano Turmo (3) N.I.F.: 05.219.151-Z	CEO	09.07.09	-	Executive
Mr. Felipe Benjumea Llorente N.I.F.: 28.526.035-D	Member	30.05.07	-	Independent
Mr. José Manuel Fernández Norniella N.I.F.: 1.158.700-Y	Member	12.06.03	30.05.07	Non-Executive
Mr. Antonio Masa Godoy N.I.F.: 8.414.129-Q	Member	31.03.01	30.05.07	Independent
Mr. Roger Paul Maynard Pasaporte nº. 500.163.204	Member	23.03.00	30.05.06	Proprietary
Mr. José Pedro Pérez-Llorca N.I.F.: 31.128.825-G	Member	31.03.01	30.05.07	Independent
Mr. Jorge Pont Sánchez N.I.F.: 36.817.268-H	Member	23.03.00	30.05.06	Proprietary
Mr. Alberto Recarte García-Andrade (4) N.I.F.: 50.268.912-C	Member	20.12.07	-	Proprietary
Mr. José B. Terceiro Lomba N.I.F.: 35.203.147-Z	Member	31.03.01	30.05.07	Independent
Mr. Keith Williams Pasaporte nº. 060.249.491	Member	17.12.09	-	Proprietary
Mrs. Lourdes Máiz Carro N.I.F.: 51.340.955-X	Non-Director Secretary	10.05.01	-	-

(1) Appointed Chairman of the Board at the Board meeting held on 09.07.09
(2) Appointed Vice-Chairman of the Board on 26.04.00 and re-appointed on 30.05.06
(3) Appointed CEO at the Board meeting held on 09.07.09. From 20.12.07 to 09.07.09, Mr. Sánchez-Lozano represented VALORACIÓN Y CONTROL, S.L. on the Board.
(4) Representing INMOGESTIÓN Y PATRIMONIOS, S.A.

Election procedure

All the directors have been re-elected by the General Meeting on expiry of their term of office and they are, consequently, in their second term, except the following directors:

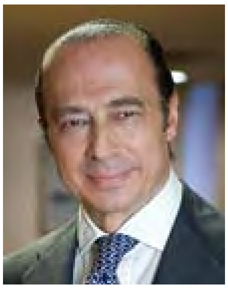
- Felipe Benjumea Llorente, who was appointed for the first time at the AGM on 30 May 2007.
- INMOGESTIÓN Y PATRIMONIOS, S.A., represented by Alberto Recarte García-Andrade, who was appointed by the Board on 20 December 2007, ratified at the following AGM.

- Mr. Antonio Vázquez Romero, who was appointed at the Board meeting on 9 July 2009 and his appointment is to be ratified at the forthcoming AGM.
- Mr. Rafael Sánchez-Lozano Turmo, who was appointed at the Board meeting on 9 July 2009 and his appointment is to be ratified at the forthcoming AGM.
- Mr. Keith Williams, who was appointed at the Board meeting on 17 December 2009 and his appointment is to be ratified at the forthcoming AGM.

Professional profile of the members of the Board

A brief description of the professional profile of each member of the Board is set out below.

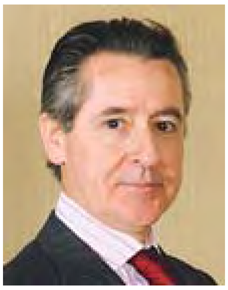
Chairman



Antonio Vázquez Romero, born in Cordoba on 23 November 1951, with national identity/tax number: 30.069.611-D, appointed member of the Board on 9 July 2009.

BSc in Economics, Malaga University. Worked for Arthur Andersen & Co from 1974 to 1978 and then up to 1983 held different positions in the Osborne Group, as Manager of Subsidiaries of Osborne, S.A. and General Manager of Osborne México, S.A. Between 1983 and 1993 he worked in the Domecq Group as Commercial Manager of Domecq México, S.A. and General Manager of Domecq Internacional, S.A. Since 1993, he has held different positions in Tabacalera, S.A. and Altadis, S.A.: 1993-1996 International Development Manager in Tabacalera; 1997-1999 General Manager of Cigars in Tabacalera; 2000 May 2005 General Manager of the Cigar Division of Altadis. 2005-2008, Chairman of the Board of Altadis, S.A., Chairman of the Board of Logista, CEO of Altadis, S.A., Chairman of its Executive Committee and Director of Aldeasa. Between May 2005 and December 2007, Non-Executive Proprietary Director of Iberia, nominated by Logista. In June 2008, appointed Independent Director of Telefónica Internacional.

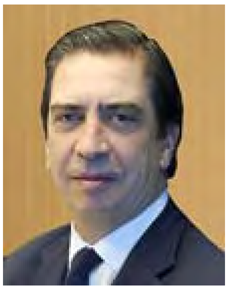
Vice-Chairman



Miguel Blesa de la Parra, born in Linares (Jaén) on 8 August 1947, with national identity card/tax number: 26.166.340-E, appointed member of the Board at a Board meeting held on 23 March 2000, ratified at the Extraordinary General Meeting of 26 April 2000. Appointed Vice-Chairman at a Board meeting held on 26 April 2000 and re-elected at the AGM of 6 June 2002 and at the AGM of 30 May 2006. **Non-Executive Proprietary Director proposed by Caja Madrid.**

BA in Law, Granada University. State Finance and Tax Inspector. Between 1978 and 1986 he worked at the Ministry of Economy and Finance, and then up to 1996 he worked freelance as a lawyer specialising in Tax Law. Former board member of ENDESA, Antena 3 TV, Telemadrid and the General Foundation of the Complutense University of Madrid. Chairman of the Board of Caja Madrid, Corporación Financiera Caja Madrid, Altae Banco, S.A. and Caja Madrid Cibeles, S.A. Vice-Chairman of the Board of CECA and member of the board of FCC and MAPFRE, S.A.

CEO



Rafael Sánchez-Lozano Turmo, born in Madrid on 20 February 1957, with national identity/tax number 5.219.151-Z, appointed Board member on 9 July 2009 and appointed chief executive officer (CEO) at the same board meeting.

BA in Law, ICADE, and BA Business Studies. Between 1980 and 1984 held several positions in Citibank, N.A. (Deputy to Controller, Accounts Manager in the Capital Goods, Energy and Construction Division). 1984-1989 several positions in Manufacturers Hanover Trust Co. (Director Credits Department, Manager of Corporate Finance and Manager of Relations with Multinationals). 1989-1991 Manager of the Mergers and Acquisitions Department in companies of Asfín, S.A. 1991-1998 several positions in J.P. Morgan (Accounts Manager responsible for relations with undertakings, Manager of Credits for Spain and Member of the Management Committee of J.P. Morgan in Spain). From September 1999 to 2008, he held the following positions in CAJA MADRID: Manager Corporate Risks Management of the Business Banking Unit, Manager Special Investments, Manager Mergers and Acquisitions, Manager International Development and Special Investments, and former Board member of several subsidiaries of CAJA MADRID. 2008-July 2009, held an executive position in the company Cibeles Caja Madrid. December 2007-July 2009, representative of VALORACIÓN Y CONTROL S.L. on the Iberia Board. During 2009, has also been Director of Grupo Su Casita, Hipotecaria Su Casita, City National Bancshares, City National Bank of Florida, Holding de Inversiones Salovel, S.L., Vice-Chairman and Trustee of Fundación Padre Garralda and Joint and Several Director of CM Florida Holdings. On 11 December 2009, appointed Director of British Airways, nominated by Iberia.

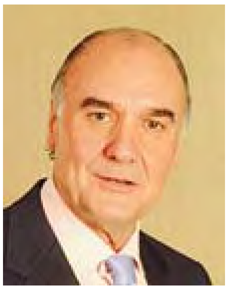
Members

Felipe Benjumea Llorente, born in Seville on 14 September 1957, with national identity/tax number 28.526.035-D, appointed at the AGM on 30 May 2007. **Non-Executive Independent Director**.

BA in Law, Deusto University. Currently Executive Chairman of ABENGOA, Chairman of the FOCUS-ABENGOA Foundation, Chairman of Inversión Corporativa, I.C., S.A., Director of Compañía Operadora del Mercado Español de la Electricidad (OMEL), and Director, member, of the Spanish Energy Club -Club Español de la Energía-. He is also Trustee of the Spain–United States Council Foundation, Trustee of the Foundation of Studies and Applied Economy (FEDEA) and on the Board of Governors of the Pontifical University Foundation of Salamanca. Former board member of Sociedad General de Cablevisión (1993-1996), La Papelera Española (1987-1995), Thyssen Industrie (1989-1993), Hispano Inmobiliaria de Gestión (1989-1998) and Banco Santander Central Hispano (1990-2002).

José Manuel Fernández Norniella, born in Oviedo on 9 October 1945, with national identity/tax number 1.158.700-Y. Appointed member of the Board of Directors of Iberia at the AGM held on 12 June 2003 and re-elected at the AGM on 30 May 2007. **Non-Executive Non-Proprietary Director**.

BSc in Energy Techniques Engineering, Polytechnic University of Madrid. Diplomas in Foreign Trade, Logistics & Procurements and Project Management. Held several positions as business agent: between 1970 and 1979 in ELECTROMECANIQUE, ALFA-LAVAL and BLAKTCONE; then several management positions from 1979 to 1993 first in the BROWN BOVERI Group, as Supplies Manager, and subsequently in AESA BROWN BOVERI (ABB) as General Affairs Manager and General Manager Administration. Former Vice-Chairman of ALDEASA and Chairman of EBRO PULEVA from 2000 to 2005. Formerly on the Boards of: RTVE, ARGENTARIA, ALDEASA, CHILECTRA, ENDESA and ENAGAS. Elected MP for Madrid in the IV and V terms of the Spanish government, Secretary of State for Trade, Tourism and SMEs, Alternate Representative for Spain in the World Bank, Representative for Spain in the International Development Bank and Alternate Representative for Spain in the EBRD. Member of the International Chamber of Commerce and Chairman of the Council of Spanish Chambers of Commerce (1996-2005). Vice-Chairman of the W.S.R. Currently member of the board of Caja Madrid, representing the depositors, director of TELVENT and Honorary Chairman of the Ebro Puleva Group.



Antonio Masa Godoy, born in Badajoz on 14 January 1942, with national identity/tax number: 8.414.129-Q. Appointed member of the Board at the General Meeting held on 31 March 2001. Reappointed at the AGM of 12 June 2003 and the AGM of 30 May 2007. **Non-Executive Independent Director**.

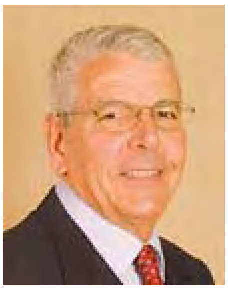
Economist and Auditor. University Lecturer in Applied Economics. Among other positions, former Chairman of the insurance company Hércules Hispano, former Chairman of the holding company Cartex, S.A. and former Founding Chairman of Caja Rural de Extremadura. Former Vice-Chairman of CEOE (Spanish Confederation of Business Organisations) and Chairman of CEPYME (Confederation of Small and Medium-Sized Enterprises). Currently Chairman of Confederación Regional Empresarial Extremeña (Regional Business Confederation of Extremadura) and Inversiones Varias Extremeñas, S.L. (property company); Director of Corporación Empresarial de Extremadura, S.A., Proyectos y Promociones del Tormes, S.L., the IEE (Institute of Economic Studies) and Refinería Balboa, S.A. and Vice-Chairman of the Institute of Pharmaceutical Studies.

Roger Paul Maynard, born in Birkhampstead (England-Great Britain) on 10 February 1943, with passport no.: 500.163.204 (valid), appointed at the Board meeting of 23 March 2000 and ratified at the Extraordinary General Meeting of 26 April 2000. Reappointed at the AGM of 6 June 2002 and AGM of 30 May 2006. **Non-Executive Proprietary Director proposed by British Airways**.

BSc in Economics, Queens College, Cambridge, 1965. UK Civil Servant from 1965-1987 in the Department of Trade, Industry and Transport. Transferred to the Diplomatic Corps in Geneva between 1968 and 1972 and in Washington between 1982 and 1987, Councillor for Aviation. Subsequently hired by British Airways as Vice-President Commercial Affairs North America. Then Executive Director North America, before returning to the UK as Director of Investor Relations. In 1991 he was appointed Director of Corporate Strategy before taking up his present position. Former Director of Qantas Airways and Opodo Limited. Director of Investments and Alliances of British Airways and board member of British Airways City Flyer Ltd. and British Airways European Ltd.

José Pedro Pérez-Llorca Rodrigo, born in Cádiz on 30 November 1940, with national identity/tax number: 31.128.825-G, appointed at the General Meeting of 31 March 2001. Reappointed at AGM of 12 June 2003 and AGM of 30 May 2007. **Non-Executive Independent Director**.

BA in Law. Member of the Diplomatic Corps and Parliamentary Counsel. One of the authors of the Spanish Constitution. Former Minister of The Presidency, Parliamentary Relations, Regional Government and Foreign Affairs. Several former positions on the boards of different companies, particularly in the credit sector. Among other offices, former Chairman of Urquijo Leasing and AEG Ibérica and member of the Madrid Stock Exchange Council. Founding partner of the Pérez-Llorca Law Office.

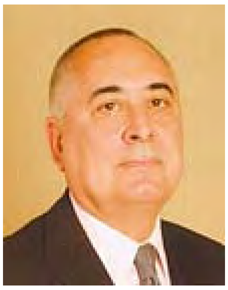


Jorge Pont Sánchez, born in Premia De Dalt (Barcelona) on 22 January 1938, with national identity/tax number: 36.817.268-H, appointed at the Board meeting of 23 March 2000, ratified at the Extraordinary General Meeting of 26 April 2000. Reappointed at the AGM of 6 June 2002 and the AGM of 30 May 2006. **Non-Executive Proprietary Director proposed by El Corte Inglés**.

BA in Law. Junior Lecturer of Mercantile Law in the Faculties of Law and Economics of Barcelona University from 1960 to 1964. In 1965, he joined El Corte Inglés, where he is currently Deputy to the Chairman and Director International Affairs. Director of the Ramón Areces Foundation. Chairman of the Board of Sephora Cosméticos de España, director of Parque Temático de Madrid, S.A. and President/CEO of The Harris Company (U.S.A.).

Alberto Recarte García-Andrade, born in Madrid on 14 March 1947, with national identity/tax number 50.268.912-C, appointed Board member representing INMOGESTIÓN Y PATRIMONIOS, S.A. at the Board meeting of 20 December 2007 and ratified at the AGM on 29 May 2008. **INMOGESTIÓN Y PATRIMONIOS, S.A. is Non-Executive Proprietary Director proposed by Caja Madrid**.

BA in Law and Economics, Complutense University of Madrid and Commercial Expert and Economist of the State. Between 1974 and 1982 he was Commercial Advisor to the Spanish Embassy in La Habana, Director General for Organisation of the Cabinet of the President of the Government, Economic Adviser to the President of the Government, Managing Director of the Post Office Savings Bank, Vice-Chairman of Círculo de Empresarios (Circle of Entrepreneurs) and Club de Exportadores (Exporters Club), and director of FENOSA and ENDESA, S.A. From March 1982 to the present, Executive Vice-Chairman and CEO of CENTUNION, Española de Coordinación Técnica Financiera, S.A. Currently Director of CAJA MADRID, Director of Corporación CAJA MADRID, Director of Altae Banco, S.A., Chairman of Libertad Digital, S.A., Chairman of Inversiones Loarga, Vice-Chairman/CEO of Centurión, Española de Coordinación Técnica y Financiera S.A. and CEO of Alcalagrés, S.A.



José B. Terceiro Lomba, born in Santiago de Compostela (La Coruña) on 14 July 1943, with national identity/tax number: 35.203.147-Z, appointed Board member at the General Meeting held on 31 March 2001. Reappointed at the AGM of 12 June 2003 and AGM of 30 May 2007. **Non-Executive Independent Director**.

Professor of Applied Economics at Complutense University in Madrid. Executive Vice-Chairman of ABENGOA and Chairman of BIOETANOL GALICIA; Director of TELVENT, the PRISA GROUP and Corporación Caixa Galicia. Has held the following positions in the State Administration: Under Secretary of the President of the Government (1981-82), Director General of Books and Libraries (1977-79), National Education Adviser and Vice-President of the Constitutional Studies Centre (1981-82). He has published works including especially four books: "Diccionario de Economía" ['Dictionary of Economy'], "Estructura Económica" ['Economic Structure'], "Socied@d digit@l" ['Digital Society'. (Runner-Up for the National Literature Prize, essay section, in 1997) and "Digitalismo. Hacia un nuevo horizonte socioeconómico" ['Digitalism. Towards a new social and economic horizon'].

Keith Williams, born in Guisborough, England on 13 May 1956, passport no.: 060249491 (valid), appointed at the Board meeting held on 17 December 2009. **Non-Executive Proprietary Director proposed by British Airways**.

BA in Medieval History, Liverpool University. 1976-1986 Auditor in Arthur Anderson. Several executive positions in The Boots Co Plc (1986-1991), Apple Computer (Treasurer) in Paris (1991-1996); and Reckitt and Coleman (1996-1998). Joined BA in 1998; appointed Chief Finance Officer and Executive Director in 2006. Non-executive director of Transport for London, a government organisation responsible for surface and underground transport in London.

Non-Director Secretary

Lourdes Máiz Carro, born in Santiago de Compostela (La Coruña) on 26 April 1959, with national identity/tax number: 51.340.955-X, appointed at the Board meeting on 10 May 2001.

BA in Law and in Philosophy and Education Science. From 1982 to 1988 she formed part of the Research Staff Programme of the Ministry of Education, obtaining a PhD in Philosophy. State Attorney since 1992. Since 1993 she has held successive positions as Director of the Office of the Under Secretary for Public Administrations, Director of the Office of the Under Secretary for Education, Director General for Administrative Organisation (Ministry of Public Administrations), Director General of Sociedad Estatal de Participaciones Patrimoniales (Ministry of Economy and Finance) and Technical Secretary General of the Ministry of Food, Agriculture and Fisheries. Formerly on the Boards of RENFE, Gerencia de Infraestructuras Ferroviarias (G.I.F.), Instituto de Crédito Oficial (I.C.O.), INISAS, Aldeasa, Almacenaje y Distribución, S.A. (ALDEASA), and Banco Hipotecario (ARGENTARIA).

B.1.3. Types of Directors

The Regulations of the Board of Directors classify directors into three groups -Executive, Proprietary and Independent-, following the classification proposed by the Olivencia Code -largely maintained in the Aldama Report and confirmed in the Unified Good Governance Code- and the composition of the Board maintains a balance between the representatives of the largest possible percentage of capital (proprietary directors) and a sufficient number of independent directors to counterbalance the executive and proprietary directors.

By virtue of this classification, of the twelve members currently making up the Board of Directors, two are executive directors –the Chairman of the Board, also Executive Chairman– and the CEO. The other ten are non-executive directors. Of the latter, four are independent, since they are not and do not represent shareholders able to exert any influence in the control of the company. Five are proprietary directors, having been proposed by the holders of sufficiently significant stable interests in the capital of the company and one is a non-executive non-proprietary director who, according to CNMV criteria, is considered included in the group “Other Non-Executive Directors”.

The different conditions of the Board members are indicated below. Since 2001, when the Nomination and Remuneration Committee was set up, all the directors have been proposed by that Committee to the Board.

Executive Directors	
Name of Director	**Position**
Mr. Antonio Vázquez Romero	Chairman
Mr. Rafael Sánchez-Lozano Turmo	CEO
Total number of executive directors	**2**
% total of Board	**16.66%**

Non-Executive Propietary Directors	
Name of Director	**Significant Shareholder that proposed appointment**
Mr. Miguel Blesa de la Parra	CAJA MADRID
Mr. Roger Paul Maynard	BRITISH AIRWAYS
Mr. Jorge Pont Sánchez	El CORTE INGLÉS, S.A.
Mr. Alberto Recarte García-Andrade (1)	CAJA MADRID
Mr. Keith Williams	BRITISH AIRWAYS
Total number of Proprietary Directors	**5**
% total of Board	**41.66%**

(1) Representing INMOGESTIÓN Y PATRIMONIOS, S.A.

Non-Executive Independent Directors	
Name of Director	**Position**
Mr. Antonio Masa Godoy	Member
Mr. José Pedro Pérez-Llorca	Member
Mr. José B. Terceiro Lomba	Member
Mr. Felipe Benjumea Llorente	Member
Total number of Independent Directors	**4**
% total of Board	**33.33%**

Other Non-Executive Directors	
Name of Director	**Position**
Mr. José Manuel Fernández Norniella	Member
Total number of Other Non-Executive Directors	**1**
% total of Board	**8.33%**

Reason why the latter group of directors cannot be considered Proprietary or Independent Directors and their relationships, with the company or its executives or with the shareholders

Name of Director	Company with which he has a relationship	Reasons
Mr. José Manuel Fernández Norniella	CAJA MADRID	Appointed member of the Board of Caja Madrid on 19 July 2006.

B.1.4. Appointment of Proprietary Directors at the proposal of shareholders with interest of less than 5% in the capital

Name of shareholder	Justification
EL CORTE INGLÉS	By virtue of Shareholders' Agreement

B.1.5. Retirement of Directors before the end of their term of office

The following directors retired from the board during 2009:

Name of Director	Type of director on retirement	Date of retirement	Reason for retirement
Mr. Fernando Conte García	Executive	9 July 2009	Resignation
VALORACIÓN Y CONTROL, S.L.	Proprietary	9 July 2009	Resignation
Lord Garel-Jones	Proprietary	17 December 2009	Resignation

B.1.6. Powers delegated to directors

The Chairman, as highest executive of the company, is permanently vested with all the powers of the Board, save those duties that the Board must, by law or the bylaws, perform directly.

B.1.7. Company directors who are directors or executives of other Group companies

During 2009, none of the IBERIA directors have held office as directors or executives of any other companies in the Group.

B.1.8. Company directors on the Boards of non-group companies listed on Spanish stock exchanges, of which the company has been notified

Details on the company directors who are also directors of other companies listed on Spanish stock exchanges at 31 December 2009 are set out in the following table:

(at 31 December 2009)

Name of Iberia Director	Company listed on Spanish Market	Position
Mr. Miguel Blesa de la Parra	FCC MAPFRE	Board member Board member
Mr. Felipe Benjumea Llorente	ABENGOA	Executive Chairman
Mr. José B. Terceiro Lomba	GRUPO PRISA ABENGOA	Board member Executive Vice-Chairman
Mr. Jorge Pont Sánchez	VUELING	Board member

B.1.9. Limit on number of directorships of Board members

The company has not established any rules regarding the number of directorships its directors may hold.

B.1.10. Policy and general strategies of the company reserved for approval by the Board

The Board focuses mainly on overseeing and controlling the ordinary management of the company, undertaking in particularly to **directly exercise the following responsibilities**, as stipulated in the Regulations of the Board:

A. approval of the general strategies, plans and policies of the Company;
B. appointment, remuneration and, if necessary, removal of senior officers; oversight and assessment of their management;
C. approval of treasury stock policies;
D. pinpointing of the main risks of the company, especially implementing and monitoring adequate internal control and reporting systems;
E. definition of policies regarding information and communication with shareholders, markets and the public opinion;
F. in general, any operations involving the disposal of substantial assets of the company and major corporate transactions, and any specifically contemplated in the Regulations of the Board.

In particular, the Board analyses every month the evolution of accounts and activity of the company, as well as sector trends, evolution of the company's share on the stock exchange and treasury stock. During this period, it has approved the Annual Budget for 2010 and regularly monitors fulfilment. The Board also approves the most significant investments and divestments.

B.1.11. Directors' emoluments earned during the period

The emoluments earned during 2009 according to the system of remuneration approved by the General Meeting are described below:

a) Directors' remuneration in Iberia, L.A.E., S.A.

The total remuneration earned by directors during 2009 as members of the Board of Directors of Iberia, L.A.E., S.A., is indicated below:

2009 (thousands of euro)

Type of remuneration	Remuneration earned	Maximum remuneration authorised by AGM
Fixed Remuneration	783	-
Attendance Fees (Per Diems)	783	-
Payment in kind	111	-
TOTAL REMUNERATION OF BOARD	**1,677**	**2,000**

Directors' remuneration for 2009 is 16.15% less than the overall amount approved by the General Meeting for the year.

2009 (thousands of euro)

Other benefits	
Advances	-
Loans granted	-
Pension Funds and Schemes: contributions	-
Pension Funds and Schemes: obligations contracted	-
Life insurance premiums	0.210
Guarantees furnished by the company for directors	-

The previous tables include the remuneration and other benefits received by the former Executive Chairman and the current Executive Chairman and CEO of the company as Board members in 2009. The expenses incurred by the entire Board in the performance of directors' duties in 2009 totalled 5,340 euro.

b) Remuneration received by directors as Board members and/or senior officers of other Group companies

Apart from the remuneration received by the Executive Chairman and the CEO for their top management position in the company mentioned in e) of this section, the directors have not received any additional remuneration during 2009 for belonging to any other Group company.

c) Emoluments earned by types of directors

The following table shows the emoluments earned by the directors according to their classification as Executive, Proprietary or Independent. The emoluments of the executive directors include those payable to the former Executive Chairman and the current Executive Chairman and CEO of the company as members of the Board.

2009 (thousands of euro)

Types of Directors	Total remuneration by Iberia, L.A.E., S.A.	Total remuneration by the Group
Executive	202	-
Non-Executive Proprietary	780	-
Non-Executive Independent	527	-
Other Non-Executive	168	-
TOTAL	**1,677**	**1,677**

d) Share received by Board members in the profit of the parent company

Considering an income after tax attributed to the parent company of -273,249 thousand euro, the directors, as such, have received the following share:

2009

Total remuneration directors (thousands of euro)	1,677
Percentage of attributed income	Not applicable

e) Remuneration of executive directors for their top management relationship with the Company

As regards the executive directors, the Bylaws approved at the AGM of 6 June 2002 stipulate that the emoluments payable to members of the board are compatible with and independent of any salaries, remunerations, indemnities, pensions or compensations of any nature established generally or individually for any board members who have an employment relationship, whether ordinary or top management, or services contract with the company.

Up to 9 July there was only one Executive Director in the Company, the Executive Chairman. Since then, there have been two Executive Directors, the current Executive Chairman and the Chief Executive Officer.

Current Executive Directors: Chairman and CEO

The total remuneration earned by the current two Executive Directors in 200 by virtue of their contractual relationships with the company is **€553 thousand.**

The following table gives a breakdown of the different types of remuneration earned by the Executive Directors during 2009, by virtue of their contractual relationships with the Company:

2009 (thousands of euro)

Remuneration Executive Director	Chairman	CEO
Fixed remuneration	335	215
Variable remuneration (Accrued 2008)	-	-
Payment in kind	2	1
TOTAL	**337**	**216**

Former Chairman

The total remuneration earned by the former Chairman in 2009 by virtue of his contractual relationship with the company is **€838 thousand,** while the expenditure in social security, insurance, and contributions to welfare schemes totalled **€57 thousand.**

The following table gives a breakdown of the different types of remuneration earned by the former Chairman during 2009 by virtue of his contractual relationship with the Company:

Ejercicio 2009 (thousands of euro)

Remuneration Executive Director	
Fixed remuneration	368
Variable remuneration (Accrued 2008)	463
Payment in kind	7
TOTAL	**838**

Moreover, the former Chairman received **€3,167 thousand** when he left.

B.1.12. Remuneration of the senior officers of the Company, excluding Executive Directors

The Executive Committee, excluding executive directors, received a total of **€3,213 thousand** in 2009.

This group includes the Executive Committee and the Internal Audit and Quality Manager, following the recommendations of the CNMV Circular 4/2007.

The senior officers of the company are listed below:

(during 2009)

Name	Position
Mr. Enrique Donaire Rodríguez	General Manager of the Airline (up to 27/08/09)
Mr. Manuel López Aguilar	General Manager Commercial and Clients
Mr. Juan Manuel Bujía Lorenzo	General Manager Production (since 27/08/09)
Mr. José Luis Ruiz de Castañeda de la Llave	General Manager Maintenance and Engineering (since 27/08/09)
Mr. José Luis Freire Santos	General Manager Airports
Mr. José Mª Fariza Batanero	Procurements and Services Manager
Mr. Sergio Turrión Barbado	Human Resources Manager
Mr. Enrique Dupuy de Lôme Chavarri	CFO & Corporate Strategy Manager
Mr. Manuel López Colmenarejo	Deputy General Manager Commercial and Clients
Mrs. Lourdes Máiz Carro	Secretary
Mr. Martín Cuesta Vivar	Internal Audit and Quality Manager

The expenses associated with the removal of the General Manager of the Airline amounted to **€1,466,538** in 2009.

B.1.13. Golden handshake clauses for members of the Management Committee of the Company or its Group, including the Executive Directors, in the event of redundancy or change of ownership

The contracts of company executives include a golden handshake clause. For the above-named senior officers, pay-off would be equivalent to between twelve months' and three and a half year's pay. Some contracts also include a clause prohibiting them from competing with the company after the end of their top management relationship with Iberia, compensated with one-year's fixed pay.

For executive directors, on 9 January 2002 the Board of Directors passed a proposal submitted by the Nomination and Remuneration Committee for severance pay in certain cases of termination of contracts of employment of up to two and a half years' fixed remuneration. The Board also approved a compensation for the clause stipulating no competition with the company after termination of the top management relationship, equivalent to eighteen months' fixed remuneration. These sums are covered by an insurance policy, the cost of the insurance premium being recorded on the Income Statements each year. This system is applicable to the current executive directors.

B.1.14. Determination of the remuneration of Board members and relevant clauses of the bylaws, where appropriate

The AGM/EGM held on 6 June 2002 approved an amendment to Article 47 of the company bylaws on directors' emoluments. The remuneration was made more specific and transparent, combining different systems (fixed annual assignment, payment for attendance of Board and committee meetings and variable payment in kind), and the General Shareholders' Meeting reserved the right to set the maximum overall amount for all these items. Once the General Meeting has established the maximum overall amount, the Board may freely distribute that sum among the different items and directors, as and when it may deem fit.

The same AGM approved the maximum overall amount payable to directors for 2002, setting it at one million, five hundred thousand euro (1,500,000€) for the fixed assignment, attendance fees for Board and committee meetings and payment in kind.

At the AGM in 2003, 2004, 2005 and 2006, the shareholders resolved to maintain the same maximum overall amount of annual remuneration of directors for the respective years.

At the AGM 2007, the shareholders resolved to raise the maximum overall amount of the annual directors' emoluments for 2007 to one million, eight hundred thousand euro (1,800,000€).

At the proposal of the Nomination and Remuneration Committee, the Board resolved on 28 June 2007 to distribute this sum established for 2007 as follows:

A. A fixed sum for each director of 65,000 euro/year.
B. A sum of 2,500 euro for each Board meeting actually attended.
C. A sum of 2,000 euro for each committee meeting actually attended.
D. A variable remuneration payable in tickets with the airline or its franchisee of up to 140,000 euro maximum for all the directors.

At the AGM 2008, the shareholders resolved to raise the maximum overall amount of the annual directors' emoluments for 2008 to two million euro (2,000,000€). The internal distribution of that sum was maintained as decided by the Board on 28 June 2007.

At the AGM 2009, the shareholders resolved to maintain the same maximum overall amount of annual remuneration of directors. The internal distribution also remained unchanged for 2009.

B.1.15. Pay policy

The Board approved a detailed pay policy combining the following aspects:

- Internal distribution of the maximum overall amount established by the General Shareholders' Meeting among the following items:
    - Fixed annual remuneration for each director.
    - Payment for attendance of Board and committee meetings.
    - Payment in kind, consisting of airline tickets.
- Executive pay policy.
- Welfare systems, estimating the amount or equivalent annual cost.
- Conditions to be respected in the contracts of those with top management duties.

B.1.16. Voting at General Meetings on a Report on the Directors' Pay Policy

The maximum overall amount of directors' emoluments is submitted to the General Shareholders' Meeting for approval. Within the limits approved by the General Meeting, the Board then distributes that maximum overall amount internally among the different items.

B.1.17. Members of the Board who are board members or executives of companies holding significant interests in Iberia L.A.E., S.A. and/or in companies in the same Group

(at 31 December 2009)

Name of Director	Name of significant shareholder	Position
Mr. Miguel Blesa de la Parra	Caja Madrid	Chairman
Mr. José Manuel Fernández Norniella	Caja Madrid	Board member
Mr. Roger P. Maynard	British Airways	Director Investments & Alliances BA
Mr. Jorge Pont Sánchez	El Corte Inglés	Deputy to Chairman
Mr. Alberto Recarte García-Andrade (1)	Caja Madrid	Board member
Mr. Rafael Sánchez-Lozano Turmo	British Airways	Board member
Mr. Keith Williams	British Airways	Chief Finance Officer and Executive Director BA

(1) Representing INMOGESTIÓN Y PATRIMONIOS, S.A.

B.1.18. Modifications to the Regulations of Board made during 2009

No modifications were made to the Regulations of the Board during 2009.

The Regulations of the Board of Iberia were originally based on the principles established in the Olivencia Code. Subsequently, in 2008, they were modified to adapt them to the recommendations of the Unified Good Governance Code.

B.1.19. Procedures for the appointment, re-election, assessment and removal of directors

The persons nominated by the Board to the General Meeting for appointment as directors and the appointments by cooptation made by the Board must, in addition to meeting the requirements established in law and the bylaws for this appointment, have recognised prestige and adequate professional experience and expertise to be able to perform their duties. The Nomination and Remuneration Committee prepares a report in this regard. All Iberia directors meet the applicable requirements and all the appointments made since the Regulations came into force have been made following this procedure.

With a view to the possible re-election of directors, the Nomination and Remuneration Committee is responsible for assessing the quality of the proposed directors' work and dedication to their office during the previous term and must inform on the nomination for re-election submitted by the Board to the General Meeting.

This Committee submits an annual report to the Board on the directors' remuneration policy, previously assessing the performance of their duties.

B.1.20. Events in which directors are obliged to retire

The Regulations of the Board of Directors contemplate the events in which directors must tender their resignations to the Board, to ensure that they meet at all times the requirements for being directors and do not incur in any conflicts of interest or any other conduct that may be detrimental to the company:

A. The retirement age for the Chairman and Chief Executive Officer is 65, although they may continue as directors after that age.
B. For executive directors, when they cease to hold the positions to which their appointment as director was tied.
C. If they come into any circumstance of incompatibility or prohibition contemplated in law.
D. If they are brought to trial for a presumed criminal offence or if disciplinary proceedings are brought against them by the supervisory authorities of the Securities Market for serious or very serious misconduct.
E. If they are given a serious warning by the Audit and Compliance Committee for infringing their obligations as directors.
F. If by remaining on the Board they may jeopardise the interests of the company, or if the reasons for which they were appointed cease to exist.
G. Institutional or proprietary directors will step down when the shareholder they represent on the Board disposes of its shares in the company.

B.1.21. Explain whether the Chairman of the Board is the highest executive of the company and the measures adopted to limit the risks of any single person having unfettered powers

YES X NO --

According to the Regulations of the Board of Directors, the Chairman of the Board is the highest executive of the company and, as such, directs the company's business, according to the decisions and criteria established by the General Meeting and the Board. There is currently also a Chief Executive Officer with full powers.

To prevent the risks of any single person having unfettered powers, the Board of Directors has approved a set of Internal Regulations on the Use and Limitation of Delegated Powers, according to which, although the Chairman has sufficient powers in respect of third parties, certain decisions must at all events be adopted by the Board.

B.1.22. Explain whether special majorities differing from those stipulated in law are required for any type of decision and the procedure for adopting resolutions in the Board

YES X NO --

General rule

The general rule for the adopting of resolutions by the Board, in pursuance of the Corporations Act and the Bylaws of the company, is that Board meetings are quorate when attended, in person or by proxy, by one-half plus one of the members and resolutions are adopted by absolute majority of the directors present or represented at the meeting. Written votes without assembly are possible provided that no directors object to this procedure. Board meetings are also valid without prior call whenever all the directors are present or represented and unanimously agree to assemble in a Board meeting.

Special resolutions

This notwithstanding, according to the Bylaws, the permanent delegation of any power of the Board to the Executive Committee or Chief Executive Officer and the appointment of the directors who are to hold these positions require the favourable vote of two-thirds of the Board members, as established in the Corporations Act. This rule is deemed applicable to the delegation of powers to the Executive Chairman.

The Regulations of the Board of Directors of Iberia also requires a special resolution for the appointment of the Chairman, which requires a quorum of two-thirds of the directors and votes in favour cast by at least two-thirds of the Board members. The same rule is applicable for appointment of the Chairman of the Audit and Compliance Committee, according to the Internal Regulations of that Committee.

B.1.23. Are there any specific requirements, other than those established for directors, to be appointed Chairman?

YES -- NO X

The Chairman is not subject to any specific requisite, except the age limit, which in this case is 65. Apart from this, the Chairman, just like all other directors, must have business experience and a proven track record, as required by the Bylaws. He must also hold at least 400 shares in the company, which may not be transferred during his term in office.

B.1.24. Does the Chairman have a casting vote?

YES [--] NO [X]

There is no mention in the company regulations of the casting vote of the Chairman.

B.1.25. Do the Bylaws or Regulations of the Board establish an age limit for directors?

YES [X] NO [--]

Age limit Chairman [65]

Age limit Chief Executive [65] Age limit Directors [--]

The Regulations of the Board set the age limit for the Chairman and Chief Executive Officer at 65.

B.1.26. Do the Bylaws or Regulations of the Board establish a limited term of office for independent directors?

YES [X] NO [--]

Maximum years in office of Independent Directors	12

The statutory term of office of directors is four years, after which they are eligible for reappointment on one or several occasions for the same maximum term. On expiry of their appointment, the relevant directors' term in office ceases at the first General Meeting held thereafter or on expiry of the legal time limit for holding the General Meeting at which the financial statements of the previous year are laid before the shareholders.

An exception to this rule is established for independent directors. According to the Regulations of the Board, these directors have a limited term of office and may not be reappointed on more than two occasions, in other words, no Independent Director may hold office as such for more than twelve years.

B.1.27. Proportion of female directors on the Board

At present there are no female directors on the Board of Directors of the company. All the Board members have been selected objectively in consideration of their prestige, knowledge and professional experience, with no implicit bias in the selection processes that could preclude the appointment of female directors.

Iberia has had a female non-director Secretary of the Board since 2001. Among other duties she is responsible for ensuring compliance with the rules and recommendations for good governance.

B.1.28. Are there any formal procedures for the delegation of votes at Board meetings?

The Regulations of the Board require directors to use their best endeavours to attend Board meetings and, when they are unable to do so in person, to grant a proxy to another Board member of the same group (Executive, Proprietary or Independent), issuing the appropriate voting instructions. No single director may hold more than three proxies, except the Chairman, who is not subject to this limit, although he may not represent the majority of the Board.

B.1.29. Number of meetings held by the Board of Directors and Committees of the Board during the year, indicating how many times the Board has met without the Chairman

Board Meetings

2009

Total number of board meetings	17
No. board meetings not attended by the Chairman	0

Meetings of the Board Committees

2009

Committees	No. meetings
Executive Committee	6
Audit and Compliance Committee	13
Nomination and Remuneration Committee	15
Safety Committee	4

B.1.30. Number of meetings held by the Board during the period without the attendance of all its members

The percentage attendance of Board meetings during 2009 was 93%.

2009

Number of absences of directors	13
% absences to total votes during the year	6,7%

B.1.31. Are the separate and consolidated financial statements submitted to the Board for approval previously certified?

YES [X] NO [--]

The 2009 separate and consolidated financial statements were submitted by Management to the Board after being certified by the Chief Finance Office, the CEO and the Chairman. This certificate guarantees that the accounts have been taken from the company's accounting records, reflecting all its transactions, assets and liabilities and give, in all material respects, a true and fair view of the equity and financial position of the company at 31 December 2009, the results of its operations and any changes produced in its financial position during 2009, and that they contain all necessary information for adequate interpretation and comprehension, in accordance with generally accepted accounting standards and principles, applied on a consistent basis. A favourable report was also issued on the financial statements by the Audit and Compliance Committee.

B.1.32. Mechanisms established by the Board to avoid a qualified auditors' report on the separate and consolidated financial statements laid before the General Meeting

The Audit and Compliance Committee is responsible for dealing with these issues to avoid, as far as possible, the filing of financial statements with a qualified report. The Committee meets with management and the external auditor to ensure the absence of diverging criteria regarding the company's financial statements, in an effort to avoid any discrepancies that could arise.

B.1.33. Is the Secretary of the Board a Director?

YES [--] NO [X]

According to the Bylaws, the Secretary of the Board may or may not be a director. However, to date it has not been considered convenient for these positions to be combined, increasing the number of executive directors on the Board.

B.1.34. Procedure for appointment and removal of the Secretary of the Board

The Nomination and Remuneration Committee did not yet exist when the present Secretary of the Board was appointed. It is stipulated in the corresponding regulations that the Nomination and Remuneration Committee shall review nominations for the Secretary of the Board. Since 2001, when this Committee was created, all Board members have been and are appointed subject to a report by the Nomination and Remuneration Committee.

B.1.35. Mechanisms established by the Company to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies

The Audit and Compliance Committee ensures strict compliance with the legal provisions applicable to Iberia regarding incompatibilities of auditors, to guarantee their independence from the executive team. Their fees are stated in the financial statements. There are no peculiarities in the company's relations with the other entities, which are entirely independent of the company.

B.1.36. State whether the external auditor has changed during the year

The auditors did not change during 2009.

B.1.37. Does the firm of auditors do any work for the Company and/or its Group other than standard audit work?

YES **X** NO **--**

The Annual Report 2009 indicates the fees charged by the main auditor and related firms for different professional services they have provided for Iberia. The services performed in 2009 are compatible with auditing activities, consisting essentially of counselling on updating the application of international accounting standards (IAS), the progress of the new National Chart of Accounts and auditing of the financial statements corresponding to the consumption of oil products in 2009.

2009

	Iberia, L.A.E.	Other companies of the Iberia Group	Total
Cost of work other than auditing (thousands of euro)	351	-	351
Cost of work other than auditing / Total amount invoiced by the firm of auditors (%)	42.73%	-	39.87%

B.1.38. Indicate whether the auditors' report is qualified

The auditors' report on the 2009 annual accounts is unqualified.

B.1.39. Number of years in succession that the current firm of auditors has been auditing the financial statements of the company and/or its group. Indicate the ratio of the number of years audited by the current auditors to the total number of years that the financial statements have been audited

Deloitte has audited the company's financial statements for the past 8 years. Prior to that, the firm Andersen audited the financial statements of Iberia, L.A.E., S.A., and in recent years, prior to its merger with Deloitte, it also audited the financial statements of some of the Group subsidiaries.

Since the merger of Andersen with Deloitte, the General Meeting has been approving the appointment of the latter firm as external auditors, which is independent and objective in its work. From 2001 to 2006, one partner was responsible for the audit. In 2007 this partner was changed.

	Iberia, L.A.E.	Iberia Group
No. years in succession of Deloitte, S.L.'s appointment	8	8

	Iberia, L.A.E.	Iberia Group
No. years audited by current auditors / no. years that the company has been audited (%)	28,6%	28,6%

B.1.40. Stakes held by members of the Board of Directors of the Company in the capital of undertakings engaged in activities identical, similar or complementary to those of the Company and its Group, as far as the Company has been notified. Positions held or duties performed in those undertakings

The positions and stakes held by company directors in other undertakings engaged in activities identical, similar or complementary to those of the Company and its Group, as far as Iberia has been notified, are indicated below. None of the stakes held by directors in those undertakings is significant.

(at 31 December 2009)

Director	Company	Activity	% stake	Position or duties
Mr. Roger P. Maynard	British Airways	Air transport	0.0004994%	Director Investments & Alliances
Mr. Keith Williams	British Airways	Air transport	0.0028%	Chief Finance Officer & Executive Director
Mr. Miguel Blesa de la Parra	GRUPO FCC (Flightcare)	Handling	0.004% (FCC)	Board member FCC
Mr. Jorge Pont Sánchez	Vueling	Air transport	0%	Board member
Mr. Rafael Sánchez-Lozano	British Airways	Air transport	0%	Board member

B.1.41. Procedure for external counselling of Directors

The Regulations of the Board of Directors provide that the Board and its Committees may request assistance from external advisers on any matters in which they may so require. In 2009, the Safety Committee and the Nomination and Remuneration Committee were assisted by an expert external adviser in the performance of their duties.

B.1.42. Procedure for Directors to obtain sufficiently in advance any information they may need to prepare the meetings of the governing bodies

The Regulations of the Board stipulate that notices of call to meetings must include the agenda for the meeting and be accompanied by the relevant information, duly summarised and prepared, and the minutes of the previous meeting, regardless of whether they have been approved, and must be received by the directors seven days in advance, wherever possible, and in any case no less than 72 hours before the meeting.

During 2009 the directors have promptly received the most important information concerning the items on the agenda for each meeting and have had at their disposal any other information they have considered necessary or convenient, which they have requested through the Chairman or Secretary of the Board.

B.1.43. Rules obliging Directors to report and, if necessary, retire in any cases that could be detrimental to the prestige and reputation of the company

According to Article 15 of the Regulations of the Board, Directors shall tender their resignation to the Board, among other causes, in the following circumstances:

D. If they are tried for a presumed criminal offence or if disciplinary proceedings are brought against them by the supervisory authorities of the Securities Market for serious or very serious misconduct.
E. If they are given a serious warning by the Audit and Compliance Committee for infringing their obligations as directors.
F. If by remaining on the Board they may jeopardise the interests of the company, or if the reasons for which they were appointed cease to exist.

B.1.44. Has any member of the Board informed the company that he/she has been sued or brought to trial for any of the offences contemplated in section 124 of the Corporations Act?

None of the Board members has informed the Company of any such situation.

B. 2. Board Committees

B.2.1. Board Committees and their members

With a view to strengthening and, particularly, increasing the efficiency of the Board’s duties, four specialist committees have been set up to spread the work so that in certain matters, except when they are so urgent and important that they require direct consideration by the full Board, the proposals and resolutions of the Board are first studied by a specialist body, which can filter and inform on its decisions, thereby increasing the guarantees of resolutions adopted objectively and after due reflection.

On 5 April 2001, the Board of Directors set up an Executive Committee, with executive duties to adopt resolutions binding on the company within the scope of its delegation. The members of this Executive Committee at 31 December 2009 were:

Executive Committee		
Name of Director	**Position**	**Type**
Mr. Antonio Vázquez Romero	Chairman	Executive
Mr. Rafael Sánchez-Lozano Turmo	Member	Executive
Mr. Miguel Blesa de la Parra	Member	Proprietary
Mr. Roger Paul Maynard	Member	Proprietary
Mr. José B. Terceiro Lomba	Member	Independent
Mr. Antonio Masa Godoy	Member	Independent
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Secretary Director

Since 2001, the Board has also had three committees with duties of reporting and submitting proposals to the Board: the Audit and Compliance Committee, Nomination and Remuneration Committee and Safety Committee. The members are non-executive directors.

The members of these Committees at 31 December 2009 were:

Nomination and Remuneration Committee		
Name of Director	**Position**	**Type**
Mr. Jorge Pont Sánchez	Chairman	Proprietary
Mr. José Manuel Fernández Norniella	Member	Other non-executive
Mr. José Pedro Pérez-Llorca	Member	Independent
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Director Secretary

Audit and Compliance Committee		
Name of Director	**Position**	**Type**
Mr. José Manuel Fernández Norniella	Chairman	Other non-executive
Mr. José B. Terceiro Lomba	Member	Independent
Mr. Alberto Recarte García-Andrade *	Member	Proprietary
Mr. Jorge Pont Sánchez	Member	Proprietary
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Director Secretary

*En representación de INMOGESTIÓN Y PATRIMONIOS, S.A.

Safety Committee		
Name of Director	**Position**	**Type**
Mr. Roger Paul Maynard	Chairman	Proprietary
Mr. José Pedro Pérez-Llorca	Member	Independent
Mr. Antonio Masa Godoy	Member	Independent
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Director Secretary

B.2.2. Duties of the Audit and Compliance Committee

Duties of the Audit Committee	YES	NO
Oversee the preparation and integrity of the company's, and if necessary the group's, financial reporting, checking compliance with the legal requirements, adequate definition of the consolidated group and correct application of accounting principles	✓	
Regularly check the internal control and risk management systems, ensuring that the principal risks are adequately identified, managed and reported	✓	
Ensure the independence and efficacy of the internal audit duties; propose the nomination, appointment, re-appointment and removal of the chief audit officer; propose the budget for this department; receive regular information on its activities; and check that the top management heeds the conclusions and recommendations set out in its reports	✓	
Establish and supervise a "whistle-blowing" procedure so employees can confidentially or, where appropriate, even anonymously report any irregularities they observe in the company's conduct, particularly in financial and accounting aspects.		✓
Submit to the Board proposals for nomination, appointment, re-appointment and replacement of external auditor, and terms of engagement	✓	
Receive regularly from the external auditor information on the audit plan and the outcome of its fulfilment and see that top management heeds its recommendations	✓	
Guarantee the independence of the external auditor	✓	
In the case of groups, encourage the group auditor to audit the different companies in the group	✓	

B.2.3. Rules of organisation and procedure attributed to each Committee

Executive Committee

All the powers of the Board of Directors are permanently delegated to the Executive Committee, except those which may not be delegated, whether by law, institutional provision or under the Regulations of the Board.

Without prejudice to the effectiveness of an extensive delegation of powers in respect of third parties, the Executive Committee has the following internal powers, according to the Regulations of the Board:

A. Adoption of the final resolution on specific matters previously discussed by the Board and referred to the Executive Committee for a final decision, either to resolve within the limits previously defined by the Board or to develop and complete detailed aspects of the action or transaction previously approved by the Board.
B. Adoption of resolutions, in case of urgency, on delegated matters. In urgent matters, the Executive Committee may act when it is not possible to call the Board to discuss the matter in question and decision cannot be delayed.
C. Discussion and submission of proposals for a decision by the Board on the matters reserved to the latter, whenever the Chairman considers this procedure most expedient.

In principle, the ordinary meetings of the Executive Committee are monthly. In 2009 it held six meetings. The Board is promptly informed on the contents of its meetings.

Audit and Compliance Committee

There are no executive directors on the Audit and Compliance Committee and the chairman is a non-executive non-proprietary director. It has its own Regulations, approved by the Board of Directors on 28 February 2002 and adapted to the Financial System (Reform Measures) Act at the Board meeting of 24 July 2003, following the necessary adjustment of the Bylaws at the AGM held on 12 June 2003.

The main duty of the Audit and Compliance Committee is to assist the Board in the oversight and control of the company, regularly checking compliance with the legal provisions and internal regulations applicable to the company.

Without prejudice to any others assigned by the Board, the Audit and Compliance Committee has the following duties:

A. Inform at General Meetings on any issues within its competence raised by shareholders.
B. Propose to the Board, to be submitted to the General Meeting, the appointment of the external auditor, terms of engagement, the scope of its professional appointment and, if necessary, the revocation or non-renewal of said appointment. Supervise fulfilment of the audit contract, endeavouring to ensure that the opinion on the financial statements and the main contents of the auditors' report is set out clearly and precisely.
C. Keep in contact with the auditor to receive information on any issues that could jeopardise its independence, and any other information relating to the auditing process, and to receive information and exchange with the auditor the communications stipulated in the auditing laws and technical auditing standards.
D. Act as liaison between the Board and the auditors, assess the results of each audit and the response by management to their recommendations, and intervene in the event of discrepancies between the auditors and the Board in connection with the principles and criteria applicable in the preparation of the financial statements.
E. Check the financial statements, ensure compliance with all legal requirements and correct application of the generally accepted accounting principles.
F. Oversee the internal financial control manuals and procedures adopted by the company, ensure compliance and check the appointment and replacement of those responsible for them.
G. Supervise the internal audit services.
H. Check compliance with the Internal Code of Market Conduct, the Regulations of the Board and, in general, the rules of governance of the company and make such proposals as may be necessary to improve them. In particular, the Audit and Compliance Committee must receive information and, where appropriate, issue reports on disciplinary measures against senior officers of the company.
I. Consider any suggestions submitted by the Chairman, members of the Board, senior officers or shareholders of the company and inform and submit recommendations to the Board on the measures it considers appropriate in respect of auditing and any other activities assigned to it, and on compliance with the applicable legal provisions on reporting to the markets and transparency and accuracy of the information given.

The Audit and Compliance Committee holds ordinary meetings at least once every three months and additional meetings whenever called by the Chairman, on his own initiative or at the request of two or more of the Committee members. It also meets whenever the Board requests reports, recommendations or the adopting of decisions within the scope of its duties.

Thirteen meetings were held in 2009, at which the Committee, in close communication with the auditors, assessed the results of audit work, checked the accounts and financial statements of the company, reviewed the internal control and risk management systems and examined the degree of compliance with the rules of good governance. In short, it performed its duties as assigned in law and the Regulations of the Committee. The Audit and Compliance Committee also underpinned the organisation and work of the company's internal auditor, paying particular attention to risk management and fulfilment of the 2009 Audit Plan.

Nomination and Remuneration Committee

In pursuance of good governance requirements, there are no executive directors on the Nomination and Remuneration Committee, which is chaired by a non-executive proprietary director.

The main duty of the Nomination and Remuneration Committee is to assess the profile of the most suitable persons to sit on the different governing bodies of the Board and submit the corresponding proposals to the Board. Without prejudice to any other duties assigned by the Board, the Nomination and Remuneration Committee has the following basic responsibilities:

A. Draw up and check the criteria to be followed for the composition of the Board and its Committees and selection of candidates, submitting the corresponding reports or proposed nominations to the Board for the latter to directly appoint them (cooptation) and the report or nomination for the appointment, re-election, ratification and removal of directors, which must be submitted to the General Meeting for a decision. Propose the members of each of the committees and their chairmen, as well as the persons nominated for the positions of Chairman of the Board and Managing Director/CEO, if any.
B. Propose to the Board the system and amount of the annual remunerations of directors and senior officers, and, once approved, regularly review the remuneration programme, assessing adequacy and performance.
C. Supervise and establish guidelines on the appointment, recruiting, career, promotions and dismissals of senior officers to ensure that the company has adequate highly qualified management.
D. Propose measures to guarantee transparency of remunerations and watch over their fulfilment.
E. Inform on any transactions that involve or may involve conflicts of interest and, in general, on the matters contemplated in Chapter VI of the Board Regulations.

The Nomination and Remuneration Committee met formally on fifteen occasions during 2009, some of these meetings focused on the succession of the company Chairman.

Safety Committee

Finally, the Board has a Safety Committee to specifically oversee and watch over the safety of operations from the point of view of aircraft and engine reliability and maintenance and the actions of crew and other staff involved in flight operations.

The Safety Committee consists of one non-executive proprietary director and two non-executive independent directors and is chaired by a non-executive proprietary director. Without prejudice to any other duties assigned by the Board, the Safety Commission has the following basic powers:

A. Analyse the general policy of the company regarding in-flight safety systems.
B. Submit to the Board such proposals as it may deem fit to improve the company's systems in this respect, and monitor the measures adopted by the Board in respect of in-flight safety.
C. In general, compile, analyse and disseminate all information available on in-flight safety, and make such studies of this subject as may be considered necessary.
D. Any other duties that may be assigned to it by the Board.

The Safety Committee must meet formally at least four times a year. Four meetings were held during 2009, specifically analysing aircraft and engine reliability and the safety parameters of operations. It was also decided to include within the scope of this Committee's powers an analysis of the safety of ground operations and other safety aspects related with Iberia's activity.

B.2.4. Powers of counselling, consultation and, where appropriate, delegation of each Committee

Only the Executive Committee has, as such and in general, the powers delegated by the Board on the terms indicated hereinabove. The other Committees have essentially advisory, proposal and reporting functions, notwithstanding the possibility, in certain cases, of specific delegation by the Board.

B.2.5. Regulations of the Board Committees, where they are available for consultation and any modifications made during the year, indicating, where appropriate, whether an annual report has been issued on the activities of each Committee

As indicated above, the Audit and Compliance Committee has its own Regulations, adapted to the new legislation on 24 July 2003. The text of these Regulations can be consulted on the company's web site. A report has also been issued of the activities of this Committee in 2009.

B.2.6. Does the composition of the Executive Committee reflect the participation on the Board of the different types of Director?

YES X NO --

The types of directors are represented on the Executive Committee in the same proportion as on the Board. It thus consists of six directors: two executive director, two proprietary directors and two independent directors.

C) Related Party Transactions

The most important transactions made during 2009 with the major shareholders are described below.

C.1. Does the full Board reserve the right to approve, subject to a favourable report by the Audit and Compliance Committee or such other committee it may have commissioned, any transactions between the company and its directors, significant or represented shareholders or parties related thereto

YES **X** NO **--**

C.2. Major transactions involving a transfer of resources or obligations between the Company and/or Group and its significant shareholders

The main details of these transactions in 2009 are set out in the following table:

(in thousand euro)

Summary of Related Party Transactions December 2009										
	IBERIA		VIVA. VUELOS INTERNACIONALES DE VACACIONES. S,A,		COMPAÑÍA AUXILIAR AL CARGO EXPRES S,A,		AUXILIAR LOGISTICA AEROPORTUARIA. ALAER		IBERIA GROUP	
Shareholder	Received	Paid	Received	Paid	Received	Paid	Received	Paid	Received	Paid
British Airways	12,857	24,159			123				12,980	24,159
El Corte Inglés	22,649				12	6			22,661	6
Caja Madrid	25,971	29,386	1			236		4	25,972	29,626
TOTAL	**61,477**	**53,545**	**1**		**135**	**242**		**4**	**61,613**	**53,791**

British Aiways:

These transactions include:

- Payments to Iberia for the Advantage Frequent Flyer Programme.
- Code Sharing Commissions charged and paid between the two companies for tickets issued by one company and flown by the other.
- Payments to and by Iberia for Passenger, Cargo and Goods Handling Services.
- Payments received for aircraft and engine Maintenance Services.
- Charges and payments for Leasing of VIP Lounges and others.

El Corte Inglés:

These transactions mainly include charges to Iberia for:

- Supplies of uniform for flight crew.
- Computer equipment and development of software.
- Passenger sales commissions and incentives.

Caja Madrid:

- Interest on fleet financing transactions and guarantees furnished for aircraft purchases.
- Aircraft chartering expenses.
- Interest on financial investments deposited.

C.3. Significant transactions involving a transfer of resources or obligations between the Company and/or Group and the Directors or Executives of the Company

The Company has no record of any transactions of this nature made during the year.

C.4. Significant transactions with other companies in the same group (Intercompany Transactions), that are not eliminated in the consolidated financial statements and which do not, by virtue of their object or terms, correspond to the normal trade of the Company

There have been no transactions in Iberia in 2009 that meet these two conditions, i.e. that are not eliminated in the consolidated financial statements and which do not correspond to the normal trade of the company, by virtue of their object or terms. During 2009, Iberia invoiced 109,335 thousand euro to subsidiaries and associated companies and received services from these companies for the value of 59,556 thousand euro, as indicated in the Notes to the Financial Statements. It received dividends from these companies to the tune of 1,188 thousand euro and incurred financial expenses of 182 thousand euro.

C.5. Conflicts of interest of company directors, pursuant to s. 127 ter of the Corporations Act

In principle, none of the directors have any permanent conflict of interests with the company, pursuant to the aforesaid legal provision, that would prevent them from performing their duties. Whenever business has been transacted that particularly affects a given director or the company represented by a given director, the director in question has abstained, according to legal and regulatory requirements.

C.6. Mechanisms established to detect and regulate possible conflicts of interest between the Company and/or its Group, and its directors, executives or significant shareholders

Pursuant to the Regulations of the Board, directors may not work in or for companies with similar objects or that are rivals of the company and that, even though these precluding conditions are not met, the director must consult the Nomination and Remuneration Committee before accepting any executive position in another company that may give rise to a conflict of interests or detract from his dedication to his duties within the company. This restriction does not affect any positions held in Group companies, shareholders forming the Stable Core established for privatisation of the company and any other cases in which the Board, in view of a report issued by the Nomination and Remuneration Committee, considers that the company's interests are not at risk.

The Regulations of the Board, getting ahead of the Transparency Act on this point, establish a number of prohibitions and limitations on directors regarding their professional and commercial transactions with the Company, use of corporate assets, taking up a business opportunity of the company, and any similar actions that might adversely affect their objectiveness and independence.

Iberia has also approved its Internal Code of Market Conduct, which, among other obligations, contains detailed regulation of any situations of conflict that may arise.

C.7. Is more than one company of the Group listed in Spain?

YES [--] NO [X]

D) Risk control systems

D.1. Risk policy and control systems established for each type of risk

The Iberia Group is very active in Risk Management and Control, establishing systems to pinpoint, assess, manage and reduce the principal risks to which the different Group activities are exposed.

The actions taken in respect of risks affect the key parameters and aspects of the Group management, such as: the Statement of Income, debt, investments, divestments and development of the Director Plan, to optimise the Statement of Income and debt, adopt balanced decisions on yield and risk for new investments and/or divestments and achieve the growth targeted in the Director Plan with controlled flexibility.

The impact of the risks affecting each of the aforesaid fields of action is analysed and calculated and the necessary monitoring and management measures adopted as frequently as is considered necessary to achieve the intended purpose: daily for market risks, monthly for management and budget control, as and when necessary for new investments or divestments, and as required in respect of the current Director Plan.

The Iberia Group also strives constantly to guarantee all its activities and respond expediently to any emergency situation that may arise, aeronautical or otherwise.

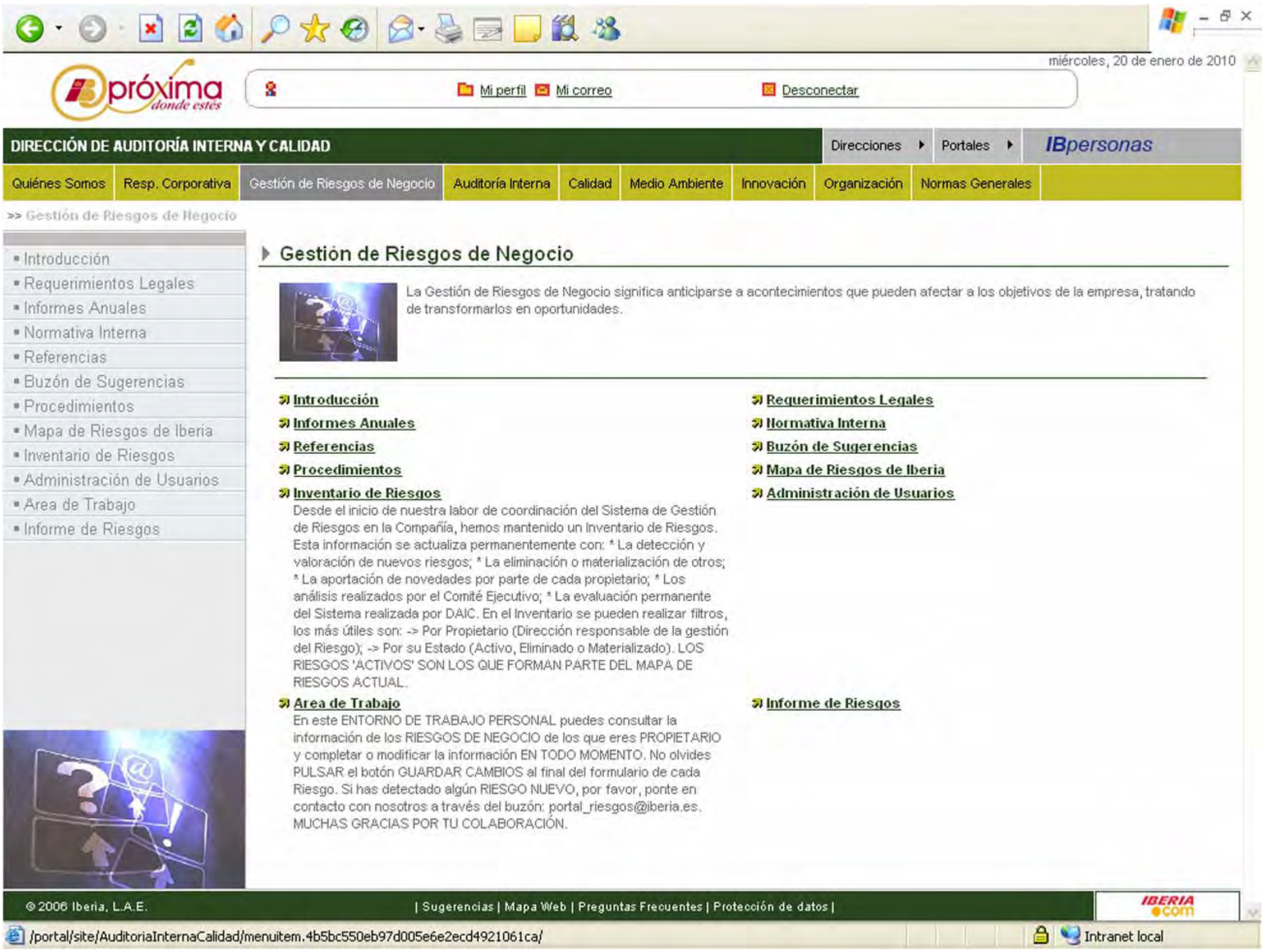
Risk Management System

During 2009 Iberia continued the development of its Risk Management System, structured around the model described below, which includes aspects concerning continuous enhancement, outer wheel and, in pursuance of the recently published ISO 31000, inner wheel. IBERIA representatives participated in the drafting of this new standard

As a result of its implementation, Iberia not only has its risk exposure under control, but moreover it now also has a systematic risk management, with the following features:

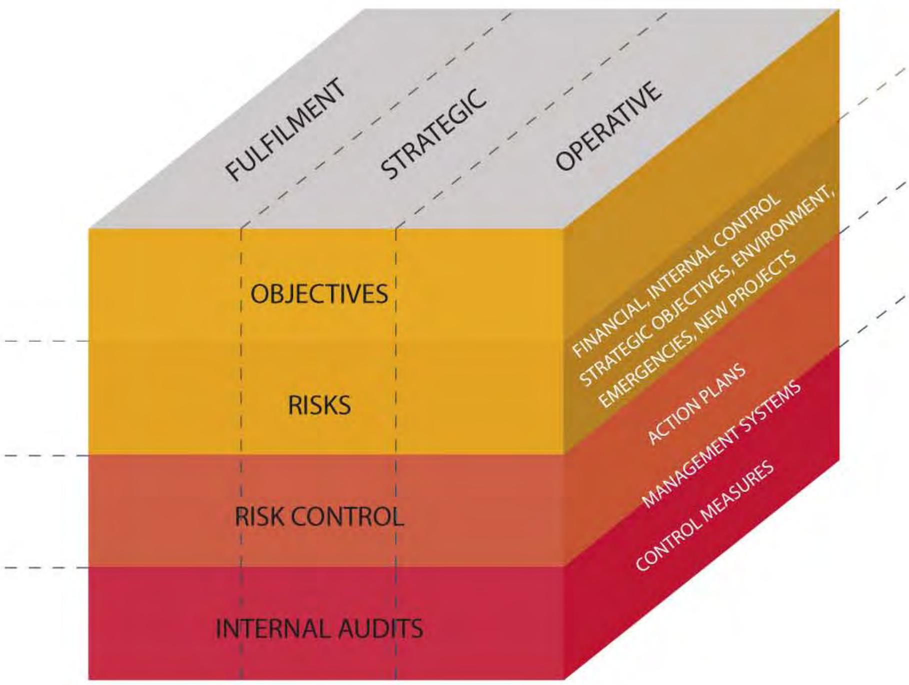
- Each risk has a proprietor, the person ultimately responsible for its management.
- The Risk Map is reviewed every six months at the top executive level, pinpointing any new risks.
- There are defined procedures of approval, management and information.
- Active participation of all those responsible for the System.

The **information** aspect is particularly important, with the **Business Risk Management Portal**, which has several different levels of access, one public, to which any company employee can have access, containing official information and reference documents, and one private, containing specific information for risk proprietors and has a Working Area that enables on-line updating of risks:



As far as **internal control** is concerned, both risks controlled within the company's management processes and one-off risks are subject to the Internal Audit Annual Plan, which is essentially established on the basis of the Risk Map.

The following diagram depicts the relationships between the company's objectives and the risk control established to guarantee meeting them:



All these aspects, management system, information system and internal control, are part of a set of criteria whose compliance has been checked against the risk management recommendations made in the Unified Good Governance Code in Listed Companies of 22 May 2006, the system in place having been found adequate. In fact, the recommendations are incorporated among the principal references in the internal regulations of the System.

Risks Covered by the System

The Risk Management System covers all types of risks to which the company is exposed and all areas of its organisation. For this purpose, risk means any potential event or circumstance that may affect fulfilment of the objectives marked for the different processes of the company and, consequently, achievement of the strategic objectives of the organisation.

The Risk Map pinpoints the risks and, within the specific information on each risk, includes the most important checks made to reduce the risk, and their respective strengths, as well as the initiatives planned to reduce their impact should they materialise.

Risk Assessment

The different tests run, based on the perspective of their use from the outset, have established that the most convenient method for risk assessment is considering the arithmetic mean of the following three variables:

- Impact on income, when the risk in question actually occurs,
- Probability of occurrence of the risk, and
- Time horizon for it to be produced.

The same metrics have been established for all the risks identified in the System.

Risk Classification

The different risks have been grouped into the following categories, according to their nature and the different control systems used to reduce or mitigate them:

I. New Projects: risks associated with the development of new, important projects for the company.
II. Strategic Objectives: risks associated with the achievement of the strategic objectives defined in the Group's Director Plan.
III. Internal Control: risks associated with activities relating to asset protection and custody services, the truth and accuracy of the accounting information and compliance with applicable legislation.
IV. Environment: risks deriving from the environment in which the company moves, including variables on the different markets on which it operates and entities regulating commercial air traffic.
V. Emergencies: fires, natural disasters, air accidents and terrorist attacks, etc.

Control systems to assess, mitigate or reduce the principal risks

I.- New Projects

The activities of all areas involved in a new project are coordinated internally to ensure that it is developed on adequate operating and economic terms, minimising risk exposure.

II.- Strategic Objectives

The Strategic Objectives are established in the Director Plan and developed through initiatives and controls in each area of the company to ensure fulfilment of the objectives and control risks. The Plan overall and the initiatives contemplated therein are monitored closely and are the principal referent for the different management committees. Moreover, by virtue of the management by objectives implemented, part of the variable remuneration of the executives responsible for risk management is made subject to achievement of the objectives.

The interrelation of these risks derives from their association with each of the strategic objectives.

- **Financial risks**

  Iberia has a blanket management programme for its Financial Risks, in which it defines the maximum targets for fluctuations and the hedging programme required to control and minimise any potentially adverse effect of fluctuations in exchange rates, interest rates and fuel prices.

  The Hedging Programme, effected within the time and in accordance with the targets set in the company's Director Plan, covers the following risks:

- **Foreign exchange risk**

  Deriving from the denomination of income and expense accounts in currencies other than the euro. The greatest risk lies in revaluation of the US dollar against the euro, since the company has larger payments than revenues in dollars.

  This risk is basically managed by combining two types of instruments: strategic hedges (up to 5 years) using currency swaps, options and other derivatives in an amount covering a given percentage of the position; and tactical hedges with a time horizon of less than three years to adapt to market trends, which are linked to real movements of dollar payments by the company.

- **Interest risk**

  Owing to the company's net debtor position (including aircraft leasing transactions), Iberia is exposed to rises in interest rates of the currencies in which its debt is denominated.

  To manage this risk, the company keeps a minimum percentage of its debt at fixed rates or protected. It reduces its exposure to a general rise in interest rates through diversification of loan currencies (US dollar, euro).

- **Fuel price risk**

  Iberia controls the cost of aviation fuel by applying active risk management policies. The company's policy is to directly hedge the price of kerosene.

  The broad outlines of the hedging policy are based on a set of strategic hedges, with which Iberia can hedge a given percentage of the estimated consumption through long-term contracts; and on a set of tactical hedges, on a one-year basis, intended to hedge an additional proportion of the consumption.

- **Liquidity risk**

  Owing to its cyclical business and the investment and financing needed for fleet renewals, Iberia's liquidity policy consists of having a large volume of ready cash.

  This cash position is invested in highly liquid short-term assets, such as debt repos, euro deposits and bank commercial paper made through leading Spanish financial institutions, according to the current counterparty risk policy.

  Apart from short-term investments and the cash position, the company permanently has loan agreements to guarantee its liquidity requirements.

III.- Internal control

There is an internal control structure involving staff across the board, with a set of rules, means and procedures that guarantee the truth of the accounting information, the authenticity of transactions reported, protection of assets and compliance with laws and regulations. The internal audit department is responsible for seeing that these controls are made.

Iberia also has Quality Guarantee Systems regulating aircraft operation and maintenance, in compliance with the international standards of the European Aviation Safety Agency (EASA) and the US Federal Aviation Administration (FAA), as well as an operational quality and safety system complying with IOSA (IATA) requirements, which is regularly audited and reveals the adequacy of existing controls.

Iberia has installed ISO 9001:2008-compliant Quality Management Systems in different flight and ground operations: ramp and passenger handling, aircraft maintenance, in-flight services, cargo, infrastructure, procurements and IT systems, flight operations and claims. The Metrology Laboratory has also been certified under ISO 17025 and the Quality Management has been certified by AENOR under the "N certified service mark for quality of service and management of customer satisfaction".

The company complies with the applicable laws and standards in health and safety at work, establishing adequate internal regulations, control measures and procedures and monitoring to maintain very low rate of occurrence of these risks.

Both guarantee and management systems are audited and certified by the competent official organisations or by authorised certification entities.

IV.- Environment

Every year Iberia submits its candidacy for the selective *Dow Jones Sustainability Index*, which assesses the company's performance in economic, social and environmental aspects. In 2009, Iberia is included in the world category of this index, up amongst the best enterprises in the world in social responsibility, environmental respect and sustainable management. In addition, in 2009 Iberia remained in the *FTSE4good* Ibex, in the prestigious group of *FTSE4good* indexes and was included in the "Kempen SNS European SRI Universe", demonstrating the recognition of Iberia's management in this area.

With regard to its flight operations, the company draws up Action Plans to implement environmental variables in the flight renewal processes, adopt best operational practices and develop measures to combat its impact on climate change. Its reduced CO_2 emissions in the Shuttle service have been certified in this area.

As regards its ground operations, environmental risks are managed through the implementation, audit and certification, where appropriate, of procedures and methods designed to guarantee compliance with prevailing environmental laws, minimising the environmental impact of the company's operations.

Iberia has obtained certification under standard ISO 14001 for its environmental management systems in the ramp and passenger handling areas at all the airports in the national network, and in the aircraft maintenance and engineering done in the industrial area of Madrid. There are also more specific procedures, contemplating the cargo activities, the medical service installations in Madrid and the contracting of goods and services. These certificates cover all material environmental aspects of Iberia's ground operations.

Finally, through its participation in different national and international working groups of the sector (CEOE -Spanish Confederation of Business Organisations -, AEA and IATA), the company is able to identify and adapt to the emerging requirements in this matter.

V.- Emergencies

Aviation emergencies

Deriving from its business as an air carrier, including damage to aircraft, civil liability to third parties, passengers, ground assistance, maintenance and cargo, among others.

These risks are managed firstly through prompt compliance with all relevant aviation directives in force and secondly through insurance policies taken out with leading Spanish insurance companies and reinsurance with high financial standing on the international markets to ensure that all the insurance limits contracted by the company are in line with best practices on the world air transport market and in all cases exceed the minimum cover required under the Spanish Air Navigation Act and International Conventions.

Non-aviation emergencies

Iberia has developed a *Business Continuity Programme* for all areas of the company, which assesses the potential impact of interruption of each activity within the company's operations and defines the actions to be taken to restore normal activity within a minimal time. It has assessed the risks and vulnerabilities existing in the different areas, including the interruption of normal activity due to natural disasters or other causes, and the necessary security measures have been established to reduce both the likelihood of their occurrence and the consequences for the company's operations if the risk were to occur.

In addition to the economic cover of risks deriving from its business as a carrier, Iberia has a very broad insurance programme, covering more generic risks, such as damage to its equity, its fleet of vehicles and equipment, merchandise and nuclear risks, with policies covering general civil liability, life and accident insurance, among others.

Risks associated with the possible interruption of computer applications, some of which are vital to provide the service.

Compensatory controls include the Image Centre and the Data Storage and Back-Up Network, along with the General Security Plan and the Disaster Recovery Plan, all designed to prevent the interruption of operations due to potential faults relating to the computer systems:

- The Image Centre is an alternative data processing centre, capable of guaranteeing operation of the critical operating systems (essentially the passenger, flight dispatch and monitoring, and airport systems) within a minimal time in the event of a failure at the main data processing centre.
- The Data Storage and Back-Up Networks enable data recovery so that the service can be continued in the event of incidents in the surrounding area.
- The General Security Plan sets out the security requirements for the new IT systems and, where appropriate, adjusts the criticality assessment for those in production or retired. These data provide the input for the Disaster Recovery Plan.
- The Disaster Recovery Plan establishes the technical and organisational procedures to be carried out in order to restore the service in the least possible time in the event of a disaster in the Data Processing Centre, guaranteeing correct operation and ensuring at all times that it is adjusted to the corporate technological platform.

Risks associated with the logical security of systems and the information they contain.

The main compensatory controls for this type of risk are:

- The Security Policy, which includes, inter alia, mechanisms for identification, authentication and data access control, password complexity control mechanisms, back-up creation and management and recovery procedures and log-in and integrity control mechanisms on a tamper-proof platform in the systems so requiring.

- Security Audits, such as anti-hacking controls, or those required by prevailing laws and regulations on personal data protection.
- The continual designing and implementing of plans to adjust to legal requirements in place from time to time on personal data protection and e-commerce and information society services.
- In April 2009, Iberia obtained ISO 27001 certification for its Information Security Management System (SGSI), in the processes of its electronic sales Web platform, known as Iberia.com, which supports the following business activities:

    - Availability of seats and electronic bookings and sales of tickets.
    - Generation of boarding cards, consultation of departure and arrival times and other services.
    - Access to Iberia Plus and to suppliers of hotel bookings and car-hire services.

  This certification also covers the Employee Portal, a web platform supporting business activities for management of the information on services and obligations inherent in the employment relations of Iberia with its ground and flight staff.

  The necessary actions are currently being taken to extend the scope of this ISO 27001 certification to its Data Processing Centres.
- Moreover, with a view to minimising the risk of fraud in our clients' credit card transactions, Iberia is working on a PCI DSS (Payment Card Industry Data Security Standard) Adequacy and Compliance Project with the aim of obtaining the corresponding certification.

D.2. Risk materialisation, underlying circumstances and functioning, if appropriate, of the established control systems

Risks associated with the economic crisis

When updating the Risk Map in 2009, a number of risks directly related with the economic crisis were pinpointed in respect of the situation of the air transport sector worldwide, a possible increase in payment arrears and potential difficulties for obtaining certain goods and services. More precisely, risks materialised during 2009 associated with overbooking in the transport market and, although actually produced in 2010, the bolivar devaluation risk partly materialised in 2009.

Iberia set up a rigorous **Contingency Plan** aiming to maintain its financial strength, cut costs and defend its principal markets. This also involved scaling down investments that it had initially planned, except those intended to enhance customer service.

Iberia presented its new Strategic Plan in October. This Plan 2012 aims to recover the level of profitability in the core air transport business to guarantee the company's viability and return to a profit-making situation.

D.3. Bodies of the company responsible for establishing and supervising the control systems

The principal risk management and decision-making bodies are:

- Executive Committee, responsible for directing Risk Management.
- Risk Proprietors, normally members of the Management or Top Management, having the utmost responsibility for managing the risks within their area of competence and for developing and monitoring action plans to control those risks.
- Internal Audit and Quality Manager, who is responsible for coordinating Risk Management and checking the controls.
- The Audit and Compliance Committee of the Board regularly monitors the development and results of the Risk Management System.

D.4. Identification and description of processes for compliance with the different regulations affecting the Company and its Group

Each section of the company Management is responsible for compliance with the legislation applicable to its particular sector of activity. The Secretary of the Board, Chief Finance Officer and Internal Audit and Quality Manager are specifically responsible for ensuring compliance with the good governance rules and recommendations, in the aspects assigned to each of them in the company regulations.

E) General Meeting

All aspects referring to the General Shareholders' Meeting of Iberia (quorum, holding of meetings, adopting of resolutions) are regulated in the Bylaws, the Regulations of the General Meeting and the applicable legal provisions.

The company's Regulations of the General Meeting were approved at the AGM 2004 and subsequently modified at the AGM of 30 May 2006 to adjust Article 10 to the relevant amendments made to the Corporations Act by the Spanish-Domiciled European Company Act 19/2005 of 14 November. The CNMV was duly notified and they were then published on the company's web site and recorded in the Trade Register, as required by current legislation.

E.1. Quorum for General Meetings established in the Bylaws and differences in respect of the minimums stipulated in the Corporations Act

According to the Iberia Bylaws, General Meetings are quorate on first call when attended, in person or by proxy, by shareholders holding at least 35% of the subscribed voting capital. On second call, General Meetings are quorate provided the shareholders present or represented hold at least 15% of the subscribed voting capital. The minimum quorum established in the Corporations Act is 25% on first call and unlimited on second call.

A higher quorum is stipulated for General Meetings to validly resolve on debenture issues, the increase or reduction of capital, conversion, merger or demerger of the company and, in general, any alteration of the Bylaws, requiring a quorum on first call of shareholders present and represented holding at least 50% of the subscribed voting capital, the attendance of 31% of such capital being sufficient on second call. The minimum established in the Corporations Act is 50% on first call and 25% on second call.

E.2. Majorities required for adopting resolutions and differences in respect of those stipulated in the Corporations Act

Resolutions are adopted by majority vote, i.e. by shareholders representing the majority of the capital present or represented at the General Meeting. As an exception, both the Bylaws and the Corporations Act stipulate that when General Meetings are attended by shareholders representing less than 50% of the subscribed voting capital, the resolutions contemplated in the preceding section may only be validly adopted with the favourable vote of two-thirds of the capital present or represented at the General Meeting.

E.3. Shareholders’ rights in respect of General Meetings differing from those established in the Corporations Act

Right to attend

All shareholders who hold 400 shares, individually or through pooling, are entitled to attend and vote at General Meetings, provided their shares are entered in the corresponding Register five days prior to the date of the meeting.

Any shareholders so entitled may attend the meeting using electronic, telematic or other means of distance communication, provided that this is technologically possible, it is so resolved by the Board and they use the procedure specified by the Board.

In any case, shareholders exercising their voting rights through the means of distance communication contemplated in the Bylaws and Regulations of the General Meeting shall be considered present for the purpose of the quorum.

Right to representation

Any shareholder entitled to attend may be represented at the General Meeting by any director or by another shareholder entitled to attend, using the proxy form issued by the Company for each General Meeting, including the appropriate indication on the attendance card. The letter of proxy must be received by the company prior to the date of the General Meeting, no later than the date specified in the notice of call.

The conditions and requisites for exercising this right to representation are set out in the Regulations of the General Meeting.

In any case, the proxy may be granted in writing through delivery of a power of attorney, or through postal, electronic or telematic communication, or whatsoever other means of distance communication, provided the proxy granted and the identity of the represented shareholder are duly guaranteed.

This proxy right does not affect the legal provisions regarding representation by a member of the family, public requests for representation and the granting of general powers of attorney.

Right to information

Up to the seventh day prior to the General Meeting, shareholders may request such reports or explanations, or submit such written questions, as they may consider necessary concerning the items on the agenda, and concerning the information available for the public supplied by the company to the National Securities Market Commission (CNMV) since the previous General Meeting. The directors are obliged to provide such information in writing up to the date of the General Meeting.

During the General Meeting, shareholders may orally request such information or explanations as they may consider necessary concerning the items on the agenda. If it is not possible to provide this information or give the necessary explanations at that time, the directors are obliged to provide the information in writing within seven days after the end of the General Meeting.

The directors are obliged to provide the information requested, except when, in the opinion of the Chairman, publicising of that information may jeopardise corporate interests. This exception is not valid when the request is seconded by shareholders representing at least one-quarter of the paid-up capital.

Moreover, as from the date of call to the AGM, any shareholder may obtain from the company, immediately and free of charge at the registered office, copies of all the documents to be laid before the General Meeting and of the auditors' report.

The directors' obligations regarding information may be met through any technical, computer or telematic means that offers the necessary security guarantees. The company has a web page setting out the corresponding information for this purpose.

Duties of the General Meeting

Notwithstanding section 129 of the Corporations Act and apart from deciding with sovereign power on all corporate business, the General Shareholders' Meeting has the following powers:

A. Approve its own Internal Regulations and any subsequent modifications thereto.
B. Examine and approve the separate and consolidated annual accounts of each financial year, resolve on the proposal for application of profits and review the management of corporate affairs.
C. Appoint and reappoint the auditors, and remove them in the events permitted by law.
D. Appoint, re-elect and remove members of the Board, examine and approve their management of corporate affairs, and ratify or revoke any provisional appointments of board members made by the Board by virtue of its right to cooptation. Exercise of the right of proportional representation will be respected at all times, if exercised by shareholders under section 137 of the Corporations Act.
E. Approve the overall maximum amount of the annual remuneration payable to the directors, in pursuance of Article 47 of the Bylaws.
F. Increase or reduce the capital stock in accordance with the Corporations Act, delegating to the Board, if appropriate, the power, inter alia, to decide on the date or dates of such increases or reductions, within the maximum time stipulated in the Act. The Board may exercise this power, altering Article 5 of the Bylaws accordingly, or abstain from doing so, in view of prevailing circumstances, reporting to the first General Meeting held after the time stipulated for such actions, for the General Meeting to decide as appropriate.
G. Authorise the Board to increase the capital stock under section 153.1.b) of the Corporations Act. When the General Meeting delegates this power, it may also authorise the Board to exclude the right of preferential subscription in any issues of shares covered by the delegation, subject to the terms and requisites established in the Act.
H. Delegate its powers to the Board of Directors, subject to the limits established in the Corporations Act, where appropriate, and particularly the power to change the par value of the shares in the capital stock, altering Article 6 of the Bylaws accordingly.
I. Alter the company Bylaws and confirm or rectify the interpretation of the Bylaws made by the Board.
J. Resolve on the winding-up, merger, demerger and conversion of the company.
K. Authorise the company to purchase treasury stock on the terms established in law.
L. Approve remuneration systems consisting of the delivery of shares or stock option rights, and any other system of remuneration linked to the value of the shares, regardless of the beneficiary, on the terms stipulated in the Corporations Act.
M. Decide on any business submitted by the Board, which is obliged to inform the General Meeting whenever exceptional or extraordinary circumstances or events arise that may affect the company, its bodies or shareholders, its market projection or strategy, its programmes and policies, in which case it must call the shareholders to discuss the measures to be taken, which are submitted to the General Meeting to decide within its full, sovereign powers.
N. Decide on any other business reserved to the General Meeting by law or the bylaws.

Logically, the Bylaws list the rights which, although perhaps less systematically, are contemplated in the Corporations Act.

E.4. Measures adopted, if any, to encourage the participation of shareholders at General Meetings

Since the company was privatised, it has made an effort to boost the areas of the organisation responsible for investor relations, creating a Shareholders' Office within the Financial Division, which aims primarily to maintain a channel of communication to guarantee existing and potential shareholders clear, sufficient information on the company. This Office can be contacted at the registered office, calle Velázquez, 130 - 28006 Madrid, on telephone no. **91 587 75 74** or by e-mail ***invesrel@iberia.es.***

The company has, for this purpose, extended its web page for investors and shareholders, containing all the corporate and financial information on the Group and the presentations regularly made for analysts and/or the media *(**www.iberia.com**)*.

Moreover, before each General Meeting, all information concerning the items on the agenda is offered to shareholders and published on the company's web site, and any requests for information received from shareholders at the Shareholders' Office regarding the items on the agenda are answered. In pursuance of the Corporations Act and Company Bylaws, shareholders are also entitled, as from publication of the call to the General Meeting, to obtain immediately and free of charge copies of all the documents that are to be laid before the General Meeting, particularly the auditors' report.

At the AGM 2004 an alteration of the Bylaws was approved to enable the installation of a distance voting system, by electronic vote, taking advantage of the facilities offered by the new technologies. This system was used at the AGM held on 26 May 2005, 30 May 2006, 30 May 2007, 29 May 2008 and 3 June 2009, with a high level of participation by shareholders in all five years. At the AGM 2005, of 1,020 shareholders attending the AGM, 738 did so by distance, either by post or through electronic means. The company received 138,979 electronic votes. At the AGM 2006, the proportion of distance participation increased and 150,398 electronic votes were received. At the AGM 2007, 79,886 electronic votes were received. The participation increased again to 118,697 electronic votes at the AGM 2008 and at the AGM 2009, a total of 65,706 shares voted electronically.

These measures, together with the facilities already offered for proxies and proxy votes, are intended to encourage shareholders to participate in General Meetings well-informed, to ensure that the General Meeting effectively performs its duties under the law and the bylaws.

E.5. Are General Meetings presided by the Chairman of the Board and what measures, if any, are taken to guarantee the independence and proper functioning of the General Meeting?

YES X NO --

General Meetings are to be presided by the Chairman of the Board, or in his absence by the Vice-Chairman, or otherwise by the oldest director present at the General Meeting in question.

The AGM 2009 was presided by the Chairman of the Board, at that time Mr. Conte.

E.6. Modifications, if any, made during the year to the Regulations of the General Meeting

The Regulations of the General Meeting were not modified during 2009. These Regulations, approved at the AGM on 24 June 2004, were altered during 2006 to adapt them to the amendments to the Corporations Act made by virtue of the Spanish-Domiciled European Company Act 19/2005 of 14 November. Accordingly, the AGM of 30 May 2006 resolved to alter Article 10 of these Regulations concerning the notice of call to general meetings.

E.7. Attendance of General Meetings held during the year

Only one General Meeting was held in 2009, the AGM, on 3 June.

Annual General Shareholders Meeting of Iberia, Líneas Aéreas de España, S.A. held on 3 June 2009

The AGM 2009 was held on second call and attended by:

	% present	% represented	% distance votes	TOTAL
AGM 3 June 2009	44.4868%	6.420%	0.5452%	51.452%

In addition to the capital attending the AGM, a further 27,898,271 shares are held in treasury stock, representing a nominal capital of 21,760,651 euro.

E.8. Resolutions adopted at the General Meetings held during the year and percentage of votes with which each resolution was passed

All the items on the Agenda for the AGM of 3 June 2009 were approved:

1. Examination and approval, if appropriate, of the separate and consolidated Annual Accounts and Directors' Report of Iberia, L.A.E. for the year ended 31 December 2008.
2. Proposal for application of profits from 2008.
3. Review and approval of the management of corporate affairs by the Board in 2008.
4. Reappointment of the Auditors of the Company and its Consolidated Group for 2009.
5. Approval of the maximum overall amount of directors' emoluments.
6. Authorisation of the Board to buy back shares in Iberia, L.A.E., directly or through subsidiaries, within 18 months from the resolution adopted by the General Meeting, rendering void the authorisation granted at the AGM of 29 May 2008.
7. Delegation of powers to the Board, including the powers to delegate, to evidence in a public instrument, remedy, register, interpret, develop and implement the resolutions adopted.

Votes cast at the AGM of 3 June 2009						
Agenda	**Votes for**	**%**	**Votes against**	**%**	**Abstentions**	**%**
Item 1	456,125,273	98.63	101,187	0.02	6,264,361	1.35
Item 2	462,255,559	99.95	177,507	0.04	57,755	0.01
Item 3	426,279,445	99.95	124,541	0.03	86,835	0.02
Item 4	455,602,478	98.51	6,770,125	1.46	118,218	0.03
Item 5	462,129,900	99.92	236,805	0.05	124,116	0.03
Item 6	461,946,955	99.88	439,974	0.10	103,892	0.02
Item 7	462,324,599	99.97	97,459	0.02	68,763	0.01

The resolutions adopted can be consulted on the company's web site, "***www.iberia.com***".

E.9. Number of shares required to attend General Meetings, indicating whether any restrictions are established in the bylaws

400 shares are required to attend and vote at General Meetings. The bylaws do not establish any limits for exercising voting rights.

E.10. Company policies on proxy votes at General Meetings

The right to proxy and proxy votes is regulated in detail in the Regulations of the General Meeting approved at the AGM on 24 June 2004.

Shareholders entitled to attend and vote at General Meetings may be represented at any General Meeting by any director or by another shareholder entitled to attend, using the proxy form issued by the company for each General Meeting, as indicated on the attendance card or any other ad hoc document, in accordance with the Corporations Act and without prejudice to the provisions of the Act on legal and family representation.

The proxy may also include any items which, although not included on the agenda, may be dispatched at the general meeting, being so permitted by law.

In order for a proxy granted to another shareholder to be valid, it must be accepted by the named proxy. A proxy issued in favour of the Chairman of the Board or another director is presumed to be accepted.

In all cases, the proxy must be granted especially for each General Meeting. This requisite is not applicable when the representative is the spouse, ancestor or descendant of the represented shareholder, or when the representative has a general power of attorney, granted in a public document with the power to administer all the assets of the principal in national territory.

The proxy may be granted in either of the following ways:

A. By the delivery on paper of the signed proxy letter or the attendance card contemplated in Article 13 of the Regulations, duly completed and signed by the shareholder, on the terms established by the company.
B. Through postal, electronic or telematic communication, or whatsoever other means of distance communication, provided the proxy granted and the identity of the represented shareholder are duly guaranteed. In particular, a proxy granted by electronic or telematic means of communication will be accepted when the electronic document through which it is granted includes the recognised electronic signature used by the principal, or whatever other kind of signature the Board may consider, in a resolution adopted beforehand, offers adequate guarantees of authenticity and identification of the shareholder granting the proxy. Proxies granted by these means must be sent to the company through the procedure and by the deadline specified by the Board in its resolution to call the General Meeting. Proxies granted in accordance with the specifications established by the company will be fully effective, unless a cause of force majeure prevents their valid receipt.

The letter of proxy must be received at the Shareholders' Office or by the services assisting the Presiding Board of the General Meeting prior to the date of the relevant General Meeting, no later than the deadline stated in the notice of call.

Individual shareholders who are deprived of all or any of their civil rights and corporate shareholders may be represented by the person(s) exercising their legal representation, provided this is duly evidenced. In these cases and if any shareholders voluntarily delegate their right to attend, each shareholder may have only one representative at the General Meeting.

Voluntary proxies may be revoked at any time. The proxy or proxy vote will be revoked, regardless of the date on which it has been issued, if the represented shareholder attends the general meeting, in person or through any of the means of distance communication, or votes through such means. Otherwise, the revocation must be made expressly, received by the Shareholders' Office prior to the commencement of the General Meeting and meet any other requisites that may be stipulated by the company.

If the company directors, depositaries of the shares or the entities keeping the record of book entries request a proxy for themselves or for another and, in general, whenever such a request is made publicly, the agenda, the request for voting instructions and indication of how the proxy is to vote in the absence of precise instructions must be incorporated in or attached to the printed or electronic document containing the power of attorney.

In the same cases, if the proxy has been validly granted, in accordance with the Corporations Act and these Regulations, but do not include the voting instructions or if any doubts arise as to the intended proxy or scope of the proxy, the delegation will be deemed made in favour of the Chairman of the General Meeting, referring to all the proposals on the agenda and to vote for such proposals.

If the directors or another person have made a public request for representation, the director or person obtaining such representation may not exercise the voting right corresponding to the shares represented in respect of any items on the agenda in which that person may fall into a conflict of interest, and in any case in respect of the following decisions:

- his/her appointment or ratification as director
- his/her removal, dismissal or forced retirement as director
- the bringing of a corporate liability action against him/her
- approval or ratification, as the case may be, of transactions between the company and the director or person in question, companies he/she controls or represents, or persons acting on his/her behalf.

The same rule is applicable when the proxy also includes matters which, although not on the agenda, may lawfully be put to the vote at the General Meeting.

In these cases, the shareholder granting the proxy may authorise the proxy to nominate a director or another shareholder to substitute him or her whenever faced with a conflict of interest.

If a shareholder who has previously delegated his voting rights then transfers shares such that he/she no longer holds a minimum of four hundred (400) at the time of closing the attendance list for the General Meeting, the proxy will be considered void, without prejudice to the rights of the shareholder acquiring the shares.

E.11. State whether the company is aware of the policies of institutional investors regarding their participation or otherwise in company decisions

The institutional shareholders participate in the decisions of the company and the General Meeting through the ordinary channels. The company is not aware of any strategies materially different from other shareholders.

E.12. Address and access to the corporate governance contents on the company's web site

Enter the web site "***www.iberia.com***", select "***Investor Relations***". Select language, then, in the ***"Corporate Governance"*** menu, access information on the ***"Annual General Meeting"*** (Notice of Call, Agenda, Documents –including the Annual Report on Corporate Governance– and Resolutions Adopted), ***"Bylaws"*** and ***"Regulations"*** (Regulations of the Board of Directors, Regulations of the General Meeting, Internal Code of Market Conduct and Internal Regulations of the Audit and Compliance Committee).

F) Degree of compliance with the Corporate Governance recommendations

The 58 recommendations of the Unified Good Governance Code are set out below, with a brief indication of the degree of compliance by the company with those recommendations.

1.- The Bylaws of listed companies should not limit the number of votes held by an individual shareholder or impose other restrictions on the company's takeover via the market acquisition of its shares.

Compliance X Explanation --

2.- When both the parent company and a subsidiary are listed, they should both publish a document specifying exactly:

a) The types of activity they are respectively engaged in and any business dealings between them, and between the listed subsidiary and other group companies

b) the mechanisms in place to solve any conflicts of interest.

Compliance X Partial Compliance -- Explanation -- Not applicable --

3.- Although not expressly required in company law, any operations involving a structural alteration of the company should be submitted to the General Shareholders' Meeting for approval, especially the following:

a) Conversion of listed companies into holdings, through spin-off of "subsidiarisation", or reallocating to subsidiaries of core activities thereunto performed by the company, even though the latter may retain full ownership of its subsidiaries;

b) Acquisition or disposal of key operating assets, if this involves an effective alteration of its objects;

c) Any operations producing effects equivalent to liquidation of the company.

Compliance X Partial Compliance -- Explanation --

4.- Detailed proposals of the resolutions to be adopted at a General Shareholders' Meeting, including the information contemplated in Recommendation 28, should be published simultaneously with the notice of call to the General Meeting.

Compliance X Explanation --

5.- Substantially independent items shall be voted separately at General Meetings to enable shareholders to express their preferences separately. This rule is particularly applicable:

a) To the appointment or ratification of directors, which should be voted individually;

b) In the case of Bylaw alterations, to each article or substantially independent group of articles.

Compliance [--] Partial Compliance [--] Explanation [X]

This has not been considered necessary up to now.

6.- Companies should allow split votes, so that financial intermediaries on record as shareholders but acting on behalf of different clients can vote according to the latters' instructions.

Compliance [X] Explanation [--]

7.- The Board should perform its duties with unity in proposal and independent criteria, affording all shareholders the same treatment and guided by corporate interests, which shall mean maximising the value of the company over time. It shall also ensure that the company complies with the applicable laws and regulations in its relations with stakeholders; fulfils its contracts and obligations in good faith; respects good customs and practice in the sectors and territories in which it operates; and upholds any other social responsibility principles that it may have subscribed to voluntarily.

Compliance [X] Partial Compliance [--] Explanation [--]

8.- The Board should undertake, as its principal mission, to approve the company's strategy and the organisation required to put it into practice, and to oversee and ensure that Management meets the targets marked out and respects the objects and corporate interest of the company. For this purpose, the full Board shall approve the following:

a) General policies and strategies of the Company, particularly:

I) The strategic or business plan, management objectives and annual budgets;

II) Investment and financing policy;

III) Definition of the structure of the corporate group;

IV) Corporate governance policy;

V) Corporate social responsibility policy;

VI) Policy on the remuneration and performance assessment of senior officers;

VII) Risk management and control policy and the regular monitoring of internal information and control systems;

VIII) The dividend policy and treasury stock policy, particularly regarding limits.

b) The following decisions:

I) Upon recommendation by the chief executive, the appointment and possible removal of senior officers, and corresponding severance clauses.

II) Directors' emoluments and, for executive directors, supplementary remuneration for their executive duties and any other terms and conditions to be included in their contracts.

III) The financial information that listed companies are obliged to disclose periodically.

IV) Any investments or transactions considered strategic by virtue of their amount or special characteristics, unless approval corresponds to the General Meeting;

V) Creation or acquisition of shares in special purpose vehicles or companies domiciled in countries or territories considered tax havens, and any transactions or operations of a similar nature which could, by virtue of their complex structure, impair the group's transparency.

c) Transactions between the company and its directors, significant shareholders or shareholders with representatives on the Board, or persons related thereto ("related-party transactions"). However, this authorisation will not be necessary for related-party transactions that meet all of the following three conditions:

1 Made under contracts with standard terms and conditions applied across the board to large numbers of clients;

2 Made at the general prices or rates established by the person supplying the good or service;

3 Made for a sum not exceeding 1% of the company's annual earnings.

The Board is recommended to make approval of related-party transactions dependent on a favourable report by the Audit Committee, or such other committee as may be assigned this duty.

Apart from not exercising or delegating their vote, the affected Directors shall leave the room during the corresponding discussion and voting by the Board.

It is recommended that these competences of the Board be non-delegable, except those contemplated in paragraphs b) and c), which may be adopted by the Executive Committee in an emergency, subject to subsequent ratification by the full Board.

Compliance	X	Partial Compliance	--	Explanation	--

9.- The Board should have an adequate size to secure efficient, participative performance of its duties. The recommended size is between five and fifteen members.

Compliance	X	Explanation	--

10.- Non-Executive Proprietary and Independent Directors should have an ample majority on the Board, while the number of Executive Directors should be kept to a minimum, taking account of their equity ownership and the complexity of the corporate group.

Compliance X Partial Compliance -- Explanation --

11.- If any Non-Executive Director cannot be considered Proprietary or Independent, the company should explain this circumstance and his/her ties with the company or its executives, or with its shareholders.

Compliance X Partial Compliance -- Not applicable --

12.- Among the non-executive directors, the ratio of Proprietary to Independent Directors should reflect the proportion between capital represented and not represented on the Board. This strictly proportional distribution may be relaxed so that Proprietary Directors have a greater weight than that corresponding to the total percentage of capital they represent:

1 In companies with a high capitalisation with few or no shareholdings considered significant by law, but in which certain shareholders have interests with a high absolute value.

2 In companies with a plurality of unrelated shareholders represented on the Board.

Compliance X Explanation --

13.- The total number of Independent Directors should represent at least one-third of the total Directors.

Compliance X Explanation --

14.- The Board should explain the nature of each Director at the General Shareholders' Meeting at which an appointment is to be made or ratified. The type of director should be confirmed or altered, as the case may be, in the Annual Corporate Governance Report, following verification by the Nomination Committee. The reasons why Proprietary Directors have been appointed at the request of shareholders with an interest of less than 5% in the capital shall be explained in that Report, as well as the reasons, where appropriate, for not meeting formal requests for presence on the Board from shareholders with an interest equal or greater than others at whose request proprietary directors have been appointed.

Compliance X Partial Compliance -- Explanation --

15.- When there are few or no female directors, the Board should explain the reasons for this situation and the steps taken to correct it. In particular, when vacancies arise on the Board, the Nomination Committee should ensure that:

a) There is no hidden bias against women candidates in the selection procedures;

b) The company makes a conscious effort to include women with the target profile among the candidates.

Compliance	Partial Compliance	Explanation	Not applicable
--	--	X	--

At present there are no female directors on the Board of the company. All Board members are selected objectively, in view of their prestige, expertise and professional experience, with no implicit bias in the selection procedure to hamper the appointment of women as directors.

Iberia has had a female non-director Secretary of the Board since 2001. Her duties include, among others, ensuring compliance with good governance rules and recommendations.

16.- The Chairman, being responsible for the effective operation of the Board, should make sure that directors receive sufficient information in advance; stimulate debate and active participation by directors at all Board meetings, protecting their free stand and expression of opinion on any issues; and organise and coordinate periodic assessment of the Board, and the Managing Director or CEO, if any, with the chairmen of the principal committees.

Compliance	Partial Compliance	Explanation
X	--	--

17.- When the Chairman of the Board is also the chief executive officer of the company, one of the Independent Directors should be authorised to request the calling of a Board meeting or the inclusion of new items on the agenda; coordinate and express the concerns of the Non-Executive Directors; and direct the assessment by the Board of its Chairman.

Compliance	Partial Compliance	Explanation	Not applicable
--	--	X	--

The company has not expressly authorised one of its Independent Directors to take these initiatives, although Article 9.1 of the Regulations of the Board does allow a minimum of four directors to request the calling of a Board meeting. Bearing in mind that there are four Independent Directors on the Board, this measure contemplated in the Board Regulations is an adequate counterweight for the powers of the Chairman/Chief Executive Officer.

18.- The Secretary of the Board should especially ensure that the Board's actions:

a) Conform to the text and spirit of the laws and regulations, including those adopted by the market watchdogs;

b) Conform to the company's Bylaws and the Regulations of the General Meeting, the Board and any other internal regulations of the Company;

c) Take account of the good governance recommendations contained in this Unified Code endorsed by the Company.

To guarantee the independence, impartiality and professionalism of the Secretary, his/her appointment and removal should require a report by the Nomination Committee and approval by the full Board; and the procedure for appointment and removal should be set down in the Regulations of the Board.

Compliance	X	Partial Compliance	--	Explanation	--

19.- The Board should meet as often as may be necessary to secure efficient performance of its duties, following the calendar and business established at the beginning of the year, although any director may propose other items not initially contemplated to be included on the agenda.

Compliance	X	Partial Compliance	--	Explanation	--

20.- Non-attendance of Board meetings should be limited to inevitable cases and stated in the Annual Corporate Governance Report. If a director is forced to grant a proxy for any Board meeting, the appropriate instructions shall be issued.

Compliance	X	Partial Compliance	--	Explanation	--

21.- When the Directors or the Secretary express concern over a proposal, or, in the case of Directors, the Company's performance, those concerns should be put on record, at the request of those expressing them.

Compliance	X	Partial Compliance	--	Explanation	--	Not applicable	--

22.- The full Board should assess once a year:

a) The quality and effectiveness of the Board's actions;

b) Based on the report issued by the Nomination Committee, the performance by the Chairman of the Board and Chief Executive Officer of their respective duties;

c) The performance of its Committees, based on the reports issued by each one.

Compliance	X	Partial Compliance	--	Explanation	--

23.- All the Directors should be entitled to obtain such supplementary information as they may consider necessary on business within the competence of the Board. Save otherwise stipulated in the Bylaws or Board Regulations, their requests should be addressed to the Chairman or Secretary of the Board.

Compliance **X** Explanation **--**

24.- All Directors should be entitled to call on the company for specific guidance in the performance of their duties, and the company should provide adequate means for exercising this right, which in special circumstances may include external assistance, at the company's expense.

Compliance **X** Explanation **--**

25.- Companies should establish an induction programme to give new Directors a rapid, sufficient insight into the company and its rules on corporate governance. Directors should also be offered refresher courses in the appropriate circumstances.

Compliance **--** Partial Compliance **X** Explanation **--**

The different divisions of the company provide all new Directors with sufficient information to give them a rapid, sufficient insight into the company.

26.- Companies should require Directors to devote the necessary time and efforts to perform their duties efficiently. Accordingly:

a) Directors should inform the Nomination Committee of any other professional obligations they may have, in case they may interfere with the required dedication;

b) Companies should limit the number of directorships that its Directors may hold.

Compliance **--** Partial Compliance **X** Explanation **--**

All the Directors report promptly to the Nomination and Remuneration Committee on any other professional obligations they may have, their membership of other Boards and any conflicts of interest that may arise.

The Company has not considered it necessary to lay down any rules regarding the number of directorships of its Directors.

27.- Proposals for the appointment or re-appointment of Directors submitted by the Board to the General Shareholders' Meeting and the provisional appointment of Directors by cooptation should be approved by the Board:

a) At the proposal of the Nomination Committee, in the case of Independent Directors.

b) Subject to a report by the Nomination Committee for other Directors.

Compliance X Partial Compliance -- Explanation --

28.- Companies should publish on their web sites and regularly update the following information on their directors:

a) Professional and biographical profile;

b) Other directorships held, in listed or unlisted companies;

c) Type of Director, indicating in the case of Proprietary Directors the shareholders they represent or are related with.

d) Date of first and subsequent appointments as company Director; and

e) Company shares and stock options held.

Compliance X Partial Compliance -- Explanation --

29.- Independent Directors should not remain on the Board as such for more than 12 years in succession.

Compliance X Explanation --

30.- Proprietary Directors should resign when the shareholder they represent disposes of its entire shareholding in the company. They should also resign in the corresponding number when the shareholder disposes of part of its shares to an extent requiring a reduction in the number of Proprietary Directors.

Compliance X Partial Compliance -- Explanation --

31.- The Board should not propose the removal of any Independent Director before the end of the period for which he or she was appointed, unless there are just grounds for doing so, as appreciated by the Board subject to a report by the Nomination Committee. Just grounds are deemed to exist when the director has acted in breach of his duties or when he or she falls into any of the circumstances described in point III.5, definitions, of this Code.

The removal of Independent Directors may also be proposed as a result of takeover bids, mergers or similar corporate operations producing a change in the capital structure of the company, whenever those changes in the structure of the Board correspond to the principle of proportionality established in Recommendation 12.

Compliance X Explanation --

32.- Companies should establish rules obliging Directors to report and, if necessary, resign in any cases that may jeopardise the company's reputation. In particular, Directors should be obliged to inform the Board of any criminal proceedings brought against them and the subsequent development of the proceedings.

If a Director is tried for any of the offences contemplated in section 124 of the Corporations Act, the Board should study the case as soon as possible and, in view of the specific circumstances, decide whether or not the Director should remain in office. A reasoned account should be included in the Annual Corporate Governance Report.

Compliance X Partial Compliance -- Explanation --

33.- All the Directors should clearly express their opposition whenever they consider that any proposed decision submitted to the Board may go against corporate interests. The Independent and other Directors not affected by the potential conflict of interest should also do so when the decisions may be detrimental to shareholders not represented on the Board.

And when the Board adopts significant or reiterated decisions regarding which a Director has expressed serious reservations, the latter should reach the appropriate conclusions and, if he or she opts to resign, explain the reasons in the letter contemplated in the following recommendation. This recommendation also affects the Secretary of the Board, even if he or she is not a Director.

Compliance X Partial Compliance -- Explanation -- Not applicable --

34.- If a Director resigns or retires from office on whatsoever other grounds before the end of his or her term of office, he or she should explain the reasons in a letter sent to all the Board members. Regardless of whether the retirement is announced as a significant event, the reason shall be indicated in the Annual Corporate Governance Report.

Compliance -- Partial Compliance X Explanation -- Not applicable --

The retirements produced during the year were voluntary, the reasons having been explained at the board meetings at which the respective resignations were tendered. These were notified as significant events and are mentioned within the Annual Corporate Governance Report.

35.- The remuneration policy approved by the Board should regulate at least the following aspects:

a) Amount of fixed items, specifying the amount of attendance fees, if any, for Board and Committee meetings and estimating the fixed remuneration for the year;

b) Variable pay items, including, in particular:

I) Types of Director to which they are applicable and an explanation of the relative weight of the variable pay items to the fixed items;

II) Criteria for assessment of results on which any right to remuneration in shares, stock options or any other variable component is based;

III) Essential parameters and basis for any system of annual bonus payments or other non-cash benefits;

IV) An estimate of the aggregate sum of variable remunerations deriving from the proposed remuneration plan, according to the degree of fulfilment of the reference hypotheses or objectives.

c) Principal terms of the welfare schemes (e.g. supplementary pensions, life assurance and similar), estimating the amount or equivalent annual cost.

d) Conditions to be respected in top management and Executive Director contracts, including:

I) Term;

II) Notice; and

III) Any other clauses concerning golden hellos or golden parachutes for early termination of the contractual relationship between the company and the Executive Director.

Compliance X Partial Compliance -- Explanation --

36.- Remunerations in the form of shares in the company or group companies, stock options or instruments linked to the value of the share, variable remuneration linked to the company's performance or welfare schemes should be limited to Executive Directors.

This recommendation shall not be applicable to the delivery of shares when subject to the condition that the Directors keep them up to their retirement from the Board.

Compliance X Explanation --

37.- The remuneration of Non-Executive Directors should be sufficient to remunerate their dedication, qualifications and responsibilities, but not so high as to compromise their independence.

Compliance **X** Explanation **--**

38.- Earnings-linked remuneration should take account of any qualifications in the external auditor's report that may reduce such earnings.

Compliance **--** Explanation **--** Not applicable **X**

39.- In the case of variable remuneration, the pay policies should contemplate such precautions as may be necessary to ensure that such remuneration is related to the professional performance of its beneficiaries, not merely deriving from general trends on the markets or in the company's sector of business or other similar circumstances.

Compliance **X** Explanation **--** Not applicable **--**

40.- The Board should submit to an advisory vote at the General Shareholders' Meeting, as a separate item on the agenda, a report on the directors' remuneration policy. This report should be made available to shareholders, as a separate document or in whatsoever other form the company may deem fit.

The report should focus especially on the remuneration policy approved by the Board for the current year and that established, if any, for future years. It shall address all the issues contemplated in Recommendation 35, except those points that could entail disclosure of commercially sensitive information. It shall stress the most significant changes in such policies in respect of that applied during the previous year to which the General Meeting refers. It shall also include a global summary of implementation of the remuneration policy in the previous year.

The Board should also inform on the role played by the Remuneration Committee in defining the remuneration policy and, if external assistance has been used, the identity of the external advisers who provided such assistance.

Compliance **--** Partial Compliance **--** Explanation **X**

Shareholders and investors are issued with the Corporate Governance Report, which informs amply on the directors' emoluments, each year at the Annual General Meeting.

41.- The individual remunerations of directors during the year shall be disclosed in the Annual Report, including the following details:

a) Breakdown of the remuneration of each director, including, where applicable:

I) Attendance fees and other fixed sums payable to directors;

II) Additional compensation for being Chairman or member of one of the Committees of the Board;

III) Payments made under profit-sharing or bonus schemes and the reasons for their accrual;

IV) Contributions on behalf of the director to defined-contribution pension schemes; or increase in the director's vested rights in contributions to defined-benefit schemes;

V) Any indemnities agreed or paid upon termination of their duties;

VI) Compensation received as director of other group companies;

VII) Remuneration received by Executive Directors as payment for their senior management duties;

VIII) Any sums paid other than those listed above, regardless of the nature or the group company paying them, especially when it may be considered a related-party transaction or omission would distort the true and fair view of the total remuneration received by the Director.

b) Breakdown for each director of any deliveries of shares, stock options or whatsoever other instrument linked to the value of the company's share, specifying:

I) Number of shares or options granted during the year and conditions for exercising the options;

II) Number of options exercised during the year, indicating the corresponding number of shares and the exercise price;

III) Number of options pending exercise at year end, indicating their price, date and other conditions for exercise;

IV) Any modification during the year of the conditions for exercising options granted earlier.

c) Information on the ratio during the previous year of remuneration received by the Executive Directors and the company's profits or any other measure of its earnings.

Compliance [--] Partial Compliance [X] Explanation [--]

The company provides detailed information in its Annual Corporate Governance Report on directors' remuneration, according to the following principles:

- **Payments corresponding to directors as members of the Board** (fixed payments, attendance fees, payment in kind, insurance, etc.)
- **Remuneration by types of Director.**
- **Remuneration of Executive Directors for their duties as Senior Officers of the company:** there are two Executive Directors, the Chairman and the CEO. The information on their remuneration as senior officers of the company is stated individually in this report.

42.- When there is an Executive Committee, the balance between the different types of Director should roughly mirror that of the Board. The Secretary of the Board should be Secretary of the Executive Committee.

Compliance	Partial Compliance	Explanation	Not applicable
X	--	--	--

43.- The Board should be informed at all times of the business transacted and decisions made by the Executive Committee and all Board members should receive a copy of the minutes of Executive Committee meetings.

Compliance	Explanation	Not applicable
X	--	--

44.- In addition to the Audit Committee which is mandatory under the Securities Market Act, the Board shall set up a Nomination and Remuneration Committee, or two separate Committees.

The rules on composition and procedure of the Audit Committee and the Nomination and Remuneration Committee or Committees should be set out in the Regulations of the Board, including the following:

a) The Board should appoint the members of these Committees, taking account of the directors' knowledge, expertise and experience and the duties corresponding to each Committee and discuss their proposals and reports. The Committees should report to the Board on their actions at the first full Board meeting after each Committee meeting, being accountable for the work done.

b) These Committees should have a minimum of three members, who should be exclusively Non-Executive Directors. This notwithstanding, Executive Directors or senior officers may attend their meetings when expressly so decided by the Committee members.

c) The Committees should be chaired by Independent Directors.

d) They may obtain external assistance whenever this is considered necessary for the performance of their duties.

e) Minutes should be issued of Committee meetings and a copy sent to all members of the Board.

Compliance	Partial Compliance	Explanation
--	X	--

The Audit and Compliance Committee is chaired by Mr. Fernández Norniella, classified as "Other Non-Executive Directors". The Nomination and Remuneration Committee is chaired by Mr. Pont, Proprietary Director. Both are non-executive directors appointed chairmen of the respective committees by virtue of their experience and track record.

45.- The Audit Committee, Nomination Committee or, if separate, the Compliance or Corporate Governance Committee(s) should be responsible for overseeing compliance with internal codes of conduct and corporate governance rules and regulations.

Compliance X Explanation --

46.- All members of the Audit Committee, particularly its Chairman, should be appointed in view of their knowledge of and experience in accounting, auditing or risk management.

Compliance X Explanation --

47.- Listed companies should have an internal audit department, supervised by the Audit Committee, to guarantee the effectiveness and efficiency of the internal reporting and control systems.

Compliance X Explanation --

48.- The chief audit officer should submit an annual work programme to the Audit Committee, reporting directly on any irregularities arising during its implementation and submitting an activity report at each year end.

Compliance X Partial Compliance -- Explanation --

49.- The risk management and control policy should define at least:

a) The different types of risk (operating, technological, financial, legal, reputational...) to which the company is exposed, including under financial or economic risks any contingent liabilities or other off-balance-sheet exposure;

b) The level of risk that the company considers acceptable;

c) The measures envisaged to soften the effects of the risks identified, should they materialise;

d) The internal reporting and control systems to be used to control and manage those risks, including contingent liabilities or off-balance-sheet risks.

Compliance X Partial Compliance -- Explanation --

50.- The Audit Committee should:

1. In connection with the internal reporting and control systems:

a) Supervise the preparation and integrity of the financial information on the company and, where appropriate, the group, checking for compliance with applicable legal provisions, adequate definition of the consolidated group and correct application of accounting standards.

b) Check internal control and risk management systems on a regular basis to ensure that the principal risks are adequately identified, managed and disclosed.

c) Oversee the independence and effectiveness of the internal audit department; propose the nomination, appointment, reappointment and removal of the chief audit officer; propose the budget for this department; receive periodical information on its activities; and check that the top management heeds the conclusions and recommendations set out in its reports.

d) Establish and supervise a "whistle-blowing" procedure so employees can confidentially or, where appropriate, even anonymously report any irregularities they observe in the company's conduct, especially in financial and accounting aspects.

2. In connection with the external auditor:

a) Submit proposals to the Board on the nomination, appointment, reappointment and replacement of the external auditor and its terms of engagement.

b) Receive regular information from the external auditor on the audit plan and findings and make sure the senior management acts on its recommendations.

c) Guarantee the independence of the external auditor, and for this purpose:

I) The company should inform the CNMV as a significant event whenever the auditor is changed, attaching a declaration on any disagreements that may have arisen with the outgoing auditor and their content, if any.

II) The company and the auditor should be ensured to respect all rules and regulations in place regarding the provision of services other than auditing services, limits on concentration of the auditor's services and any other rules established to guarantee the auditors' independence;

III) Investigate the circumstances giving rise to resignation of any external auditor.

d) In groups, encourage the auditor of the group to audit the group companies.

Compliance	--	Partial Compliance	X	Explanation	--

This recommendation is met, except regarding the existence of a whistle-blowing procedure, which has not been considered necessary.

51.- The Audit Committee may call any employee or executive of the company into its meetings, even ordering their appearance without the presence of any other senior officer.

Compliance	X	Explanation	--

52.- The Audit Committee should report to the Board on the following matters from Recommendation 8 before the latter adopts the corresponding decisions:

a) The financial information that listed companies are obliged to disclose periodically. The Committee shall ensure that intermediate financial statements are drawn up under the same accounting principles as the annual statements, requesting a limited external audit if necessary.

b) Creation or acquisition of shares in special purpose vehicles or companies domiciled in countries or territories which are considered tax havens, and any transactions or operations of a similar nature which could, by virtue of their complex structure, impair the group's transparency.

c) Related-party transactions, unless this prior reporting duty has been assigned to another supervision and control committee.

Compliance	Partial Compliance	Explanation
X	--	--

53.- The Board should endeavour to avoid a qualified auditor's report on the accounts laid before the General Meeting, and in exceptional circumstances when such qualifications exist, both the Chairman of the Audit Committee and the auditors shall clearly explain to the shareholders their content and scope.

Compliance	Partial Compliance	Explanation
X	--	--

54.- The majority of the members of the Nomination Committee – or Nomination and Remuneration Committee if there is just one – should be Independent Directors.

Compliance	Explanation	Not applicable
--	X	--

The Nomination and Remuneration Committee consists of three Directors, one Proprietary, one Independent and one classified as "Other Non-Executive Directors". This composition is considered adequate to guarantee the effectiveness of the Committee.

55.- Apart from the duties specified in preceding Recommendations, the Nomination Committee should:

a) Assess the expertise, knowledge and experience of Board members; define the duties and skills required of candidates to fill vacancies; and determine the time and dedication considered necessary for them to adequately perform their duties.

b) Study or organise as appropriate the succession of the Chairman or Chief Executive Officer and, if necessary, make recommendations to the Board to secure an orderly, well-planned handover.

c) Report on any appointments and removals of senior officers proposed by the Chief Executive Officer.
d) Report to the Board on the gender issues contemplated in Recommendation 14.

Compliance [X] Partial Compliance [--] Explanation [--] Not applicable [--]

56.- The Nomination Committee should consult the Chairman and Chief Executive Officer, especially on matters concerning Executive Directors.

And any Director may request the Nomination Committee to consider potential candidates they consider suitable to fill vacancies on the Board.

Compliance [X] Partial Compliance [--] Explanation [--] Not applicable [--]

57.- Apart from the duties indicated in the preceding Recommendations, the Remuneration Committee should:
a) Submit proposals to the Board on:
I) The remuneration policy for directors and senior officers;
II) The individual remuneration of Executive Directors and other terms of contract.
III) The basic conditions of senior executive contracts.
b) Ensure compliance with the pay policy established by the company.

Compliance [X] Partial Compliance [--] Explanation [--] Not applicable [--]

58.- The Remuneration Committee should consult the Chairman and Chief Executive Officer, especially on matters concerning Executive Directors and senior executives.

Compliance [X] Explanation [--] Not applicable [--]

G) Other Information

This section contains information that is to be included in the company's Directors' Report under section 116 bis of the Stock Market Act and has not been discussed in the previous sections:

G.1. Powers of the members of the Board, particularly powers to issue or buy back shares

The Board of Directors has the powers assigned to it in Article 3 of the Regulations of the Board. These powers have been permanently delegated to the Chairman of the Board and the Executive Committee, except those which the Board is obliged by law or the bylaws to exercise directly.

In particular, the Iberia Board members have no powers to issue or buy back shares.

G.2. Significant agreements made by the company that enter into force or are amended or terminated in the event of a takeover of the company by virtue of a public tender offer, and the effects thereof, except when disclosure could be seriously detrimental to the company. This exception will not be applicable if the company is obliged by law to disclose this information

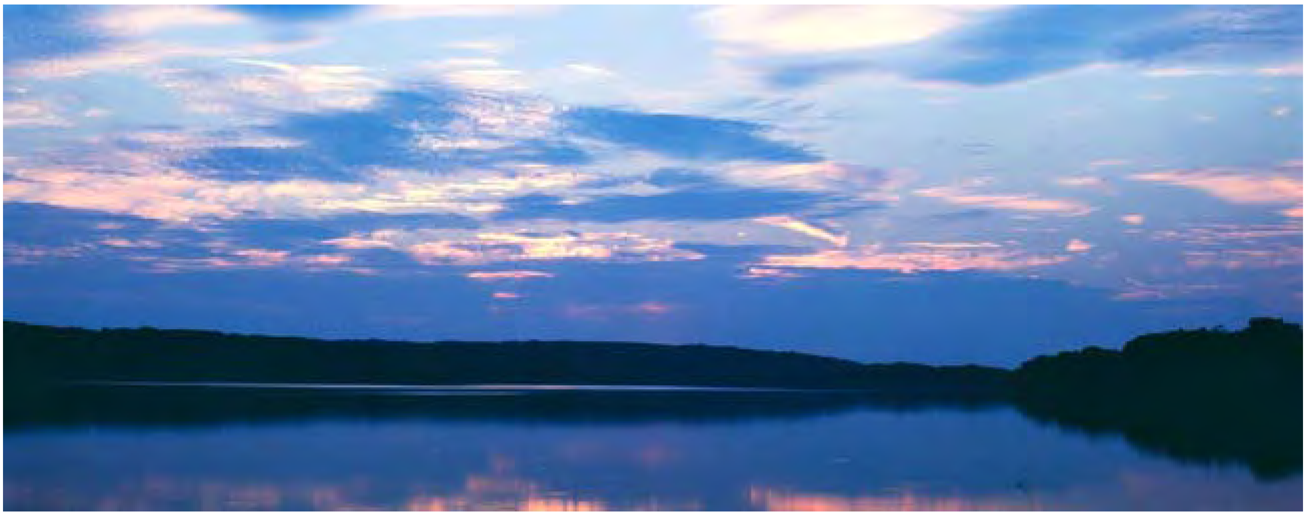
In takeover bids, or public tender offers, certain licences and authorisations, top management contracts and some supplier or financial agreements would, as the case may be, require a novation. The most significant agreement of this nature is the one made with Amadeus.

Amadeus Global Travel Distribution, S.A. (hereinafter Amadeus) is a multinational IT enterprise whose services are designed to meet the marketing, sales and distribution needs of the travel and tourism industry worldwide.

Iberia has an agreement with Amadeus whereby the company uses the global distribution system (GDS) managed and operated by Amadeus for the marketing of its flights. The Amadeus GDS is the most important of the different systems used by Iberia, in terms of volume of bookings.

The standard contract signed by Iberia and Amadeus includes a clause which establishes the following: if the participant (Iberia) acquires or takes control of another entity engaged in air transport, or merges with or is acquired or becomes controlled by another person or entity engaged in air transport other than the person or entity owning or controlling the participant at the date of the agreement, then Amadeus will have the option of terminating the contract without any obligation beyond all the responsibilities undertaken assumed by each party prior to termination of the agreement.

Finally, the exchange and interest rate hedging instruments used by the company include standard clauses, common in this type of international contract, that could lead to renegotiation of certain aspects of the financial instrument in the event of a change in the control of the Company.



ANNEX

ACTIVITY REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF THE BOARD OF DIRECTORS OF IBERIA, L.A.E.

2009

I.- Regulation

In response to the growing demands regarding Corporate Governance, the Bylaws of Iberia, L.A.E., approved in April 2001, contemplated the creation of an Audit and Compliance Committee to assist the Board of Directors in supervising the financial statements and the control of the company. The Board created the Audit and Compliance Committee on 5 April 2001, consisting exclusively of Non-Executive Directors. It was set up as an internal consultative body of the Board, without executive duties but with powers of information, advice and proposal.

The Board approved the Regulations of the Audit and Compliance Committee on 28 February 2002, setting out the principles of the Committee's actions and the basic rules of organisation and procedure.

Subsequently, the entry into force of the Financial System (Reform Measures) Act 44/2002 of 22 November 2002 ("Finance Act") made it compulsory for listed companies to have Audit Committees and laid down the basic duties of that Committee.

Iberia then had to adapt its Bylaws to the new requirements stipulated in the Finance Act for the Audit and Compliance Committee. This was accomplished at the Annual General Meeting (AGM) held on 12 June 2003, at which shareholders resolved to alter Articles 53 and 54 of the Bylaws and extend the Committee's duties. After altering the Bylaws and upon recommendation by the Audit and Compliance Committee, the Board resolved on 24 July 2003 to adapt the Internal Regulations of the Audit and Compliance Committee. These internal regulations are available for shareholders and investors on the company's web site ***(www.iberia.com)***

Finally, towards the end of 2003, the Board of Directors of Iberia decided to increase the importance of its Audit and Compliance Committee, following the recommendations of good governance and taking account of the self-assessment made by the Committee after two years' experience. Accordingly, the Board resolved to raise the number of Committee members from three to four, all Non-Executive Directors, and the Committee decided to increase the intensity of its work.

II.- Composition

The Audit and Compliance Committee will have no fewer than three nor more than five members, the exact number to be decided by the Board from time to time.

The Board appoints the Non-Executive Directors who are to sit on the Audit and Compliance Committee, upon recommendation by the Nomination and Remuneration Committee. A reasonable balance must be maintained between Proprietary and Independent Directors. The members of the Audit and Compliance Committee must have the necessary devotion, capacity and experience to be able to perform their duties as such.

The Board is also responsible for removing members of the Audit and Compliance Committee, who are in any case obliged to step down when they retire from the Board. Any vacancies are filled by the Board at its earliest convenience.

The Chairman and Secretary of the Committee are appointed by the Board on the basis of a report issued by the Nomination and Remuneration Committee. According to the Regulations of the Audit and Compliance Committee, the Secretary of the Board will necessarily be the Committee Secretary.

A quorum of two-thirds of the Board members is required at the meeting to appoint the Chairman, and the votes in favour of at least two-thirds of the directors. The Chairman may remain in office for a maximum of four years and may not be re-elected chairman until at least one year after his retirement from office.

In the event of a vacancy, absence or illness, the Chairman will be substituted by the oldest member of the Committee present, while the substitute for the Secretary, if necessary, will be the youngest member.

In May 2005, the composition of all the advisory committees, including the Audit and Compliance Committee, was modified to rotate other Non-Executive Directors in the position of Chairman of the different Committees, who had been in office for 4 years, and to renew part of their members.

Subsequently, on 23 January 2008, the Board restructured all of its Committees, renewing all the members of the Audit Committee, all of them Non-Executive Directors in compliance with the corporate governance recommendations.

The composition of the Audit and Compliance Committee at 31 December 2009 was as follows:

Position	Members	Type of Directors
Chairman	Mr. José Manuel Fernández Norniella	Other Non-Executive Directors
Members	Mr. José B. Terceiro Lomba	Non-Executive Independent
	Mr. Alberto Recarte García-Andrade (INMOGESTIÓN Y PATRIMONIOS, S.A.)	Non-Executive Proprietary
	Mr. Jorge Pont Sánchez	Non-Executive Proprietary
Secretary	Mrs. Lourdes Máiz Carro	Secretary of the Board

III.- Powers and Duties

The main duty of the Audit and Compliance Committee is to assist the Board in its watchdog duties through the regular checking of compliance with legal provisions and internal regulations applicable to the company in respect of financial statements and good governance.

Without prejudice to any others assigned by the Board, the Audit and Compliance Committee will study, review and report on the following matters:

A. Report at General Meetings on any issues within its sphere of competence raised by shareholders.
B. Propose to the Board, to be submitted to the General Meeting, the appointment of external auditors, terms of contract, scope of their commission and, where appropriate, their removal or non-reappointment. Oversee fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual accounts and main contents of the auditors' report are clear and precise.
C. Keep in contact with the auditors to receive information on any issues that could jeopardise their independence and any other issues relating to the auditing of accounts, and to receive the information and exchange the communications contemplated in auditing laws and standards.

D. Act as a liaison between the Board and the auditors, assess the results of each audit and the response by the management team to their recommendations, and intervene in the event of discrepancies between the auditors and the Board concerning the principles and criteria applicable in the preparation of the financial statements.
E. Check the company's accounts, ensure compliance with all legal requirements and correct application of the generally accepted accounting principles.
F. Watch over the internal financial control manuals and procedures adopted by the company, ensure compliance and oversee the appointment and replacement of those responsible for them.
G. Supervise the internal audit department, if any, of the company.
H. Check compliance with the Internal Code of Market Conduct, the Internal Regulations of the Audit and Compliance Committee and, in general, the rules of governance of the company and make whatever proposals may be necessary to improve them. In particular, the Audit and Compliance Committee must receive information and, where appropriate, issue reports on disciplinary measures against senior executives of the company.
I. Consider the suggestions submitted by the Chairman, members of the Board, senior executives or shareholders of the company and inform and submit recommendations to the Board on the measures it considers appropriate in respect of auditing and any other activities assigned to it, and on compliance with the applicable legal provisions on reporting to the markets and transparency and accuracy of the information given.

In particular, the Internal Regulations of the Audit and Compliance Committee specifically stipulate that the Committee is to ensure prompt fulfilment of the prevailing instructions on the reporting of significant events, in pursuance of the Internal Code of Market Conduct. It must also recommend such measures as it may deem fit so that the quarterly, half-year and annual reports and any other financial information to be made available to the markets are drawn up following the same principles and professional practices as those used for preparing the annual accounts and that they are equally reliable. The Audit and Compliance Commission will also propose whatever actions and measures it may consider necessary to guarantee the company's transparency for the financial markets, ensure the free, unadulterated forming of share prices of the company and its subsidiaries, supervise the regular publishing of financial reports and perform any other duties that may be required of listed companies.

IV.- Practice and Procedure

The Audit and Compliance Committee must meet regularly at least once every three months, and whenever else it may be called by its Chairman, on his own initiative or at the request of two or more of its members. It will also meet whenever the Board requests the issuing of reports, submission of proposals or adoption of resolutions within the scope of its duties.

Committee meetings are normally called by the Chairman, who is responsible for drawing up the agenda and directing the debates. The agenda must be included in the notice of call and any relevant information must be attached, adequately summarised and prepared to enable the Committee members to perform their duties.

Meetings may also be held without prior call, provided all the members are present and unanimously agree to assemble in a Committee meeting.

The Committee dispatches the issues on the agenda and any others decided by the Chairman or proposed by the majority of the members present or represented, even if they are not included on the agenda.

The resolutions adopted by the Audit and Compliance Committee within the scope of its duties of informing, advising and proposing are valid without requiring subsequent ratification by the Board, although the Committee must report at the next succeeding Board meeting on all business transacted and decisions adopted at each Committee meeting.

Committee members are fully authorised to obtain information on any aspect of the company, examine its books, registers and documents and inspect all its installations and premises whenever this is considered necessary to perform their duties and meet their obligations.

The Audit and Compliance Committee may also request the attendance of its meetings by the company's auditors, any member of Management or any other employee, who are obliged to attend and collaborate, allowing access to all and any information they may have.

The Committee may also propose to the Board the contracting by the company of any legal, accounting, technical, financial, commercial or other advisers it may consider necessary to assist it in the performance of its duties whenever it has to deal with specific major or complex problems.

The powers contemplated in the preceding two paragraphs are exercised through the Chairman or Secretary of the Board, who endeavour to meet the requests of the Committee, directly providing the necessary information, offering the appropriate contacts, or taking such measures as may be necessary to secure the information requested or the collaboration of the appropriate advisers.

V.- Activities in 2009

The Audit and Compliance Committee held thirteen meetings in 2009.

Committee meetings are regularly attended by the managers of the accounting and internal auditing departments, and any other company executives responsible for or having a knowledge of the business included on the agenda whenever considered necessary by the Chairman of the Committee. The Secretary of the Board and the Committee is responsible for overseeing compliance with the rules and recommendations on corporate governance. The afore-mentioned executives have provided the Committee with adequate information on the issues to be dispatched.

Most Committee meetings are also attended by the company's external auditors, whose relations with the Board are channelled through the Audit and Compliance Committee.

Financial Information

The Committee has been particularly engaged in checking the annual accounts of the company and its group before they are authorised for issue by the Board. The Control and Administration Manager, who is responsible for the company's accounting and bookkeeping, has provided the Committee with timely information, through documents and meetings, on the preparation and consolidation of the financial statements and individual and consolidated annual accounts, to enable the Committee to check compliance with the applicable accounting principles and standards and that those accounts and statements give a true and fair view of the equity and financial position of the company and its group.

At meetings held in the first quarter of 2009, the Committee examined the 2008 financial statements of the company, assisted by the auditors, and resolved to submit to the Board in March the draft balance sheet, profit and loss account, notes to the accounts and directors' report for 2008 of Iberia, L.A.E. and its Consolidated Group, to be authorised for issue by the Board, together with the proposal for application of profits, to be laid before the AGM on 3 June 2009.

As a result of the company's rigorous preparation of its financial statements and scrupulous compliance with the applicable accounting standards and principles, the auditors have issued an unqualified report, indicating that the accounts give a true and fair view of the real situation of the company, contain all necessary information for an adequate comprehension thereof, clearly explain any contingencies and were prepared in accordance with the general accepted accounting principles and standards.

After examining the corresponding documents at several meetings held during 2008 and 2009, assisted by the company's auditors, the Committee resolved to submit the consolidated balance sheet, profit and loss account, statement of changes in equity, statement of cash flows and notes to the accounts and directors' report of Iberia, L.A.E. and its Consolidated Group for 2008 to the Board for authorisation of the accounts. The auditors' report on these accounts was, once again, unqualified.

In February and March 2009, the Committee analysed the Annual Report on Corporate Governance and Corporate Social Responsibility Report for 2008, expressing a favourable opinion on both these reports.

External Auditors

The Committee proposed reappointing the company's external auditors (Deloitte, S.L.), whose previous term of appointment expired in 2009. The Board resolved to submit this proposal to the AGM held on 3 June 2009, which approved their reappointment for one year.

The Committee held nine meetings with the auditors during 2009, during which it obtained detailed information on the planning and progress of their work. It also made a thorough analysis, jointly with the auditors, of their audit report on the 2008 and 2009 accounts. In particular, on 25 August 2009 the Board authorised the accounts of the first half of the year, which were audited according to certain pre-established procedures. The auditors informed the Committee that they saw no need to modify the consolidated abridged financial statements for the first half of 2009, in view of which the Audit and Compliance Committee unanimously resolved to issue a favourable report on the abridged Interim Financial Statements and Interim Directors' Report for the six-month period ended 30 June 2009.

The fees for audits made by Deloitte, S.L. of the company and group accounts amounted to **€528,684.** The fees for other professional services provided for Iberia by the main auditors and related firms during the period are stated in the Annual Report 2009. Those professional services do not conflict with the general auditing duties and the rules on incompatibility established in the Finance Act have been strictly heeded. The services in question consisted mainly of collaboration in analysing corporate transactions. The non-audit work was done by a different partner to the one responsible for the audit.

2009

	Iberia, L.A.E.	**Other Group companies**	**Total**
Fees charged for non-audit work (€ thousand)	351	-	351
Fees for non-audit work / Total invoiced by auditors (%)	42.73%	-	39.,87%

The Audit and Compliance Committee considers that there are no objective reasons to question the independence of the company's external auditors.

Internal Audit Department

In December 2003, upon recommendation by the Audit and Compliance Committee, the structure and duties of the internal audit department were reorganised to give it greater weight within the organisation, making the department manager directly accountable to the company Chairman.

The Internal Audit Regulations were approved in May 2004, defining the internal audit function as an independent, objective control and advisory activity, designed to add value and improve the company's operations, helping it to meet its strategic objectives through a systematic, disciplined approach. This is achieved by assessing and improving the efficiency of risk management and internal control processes and corporate governance, in collaboration with the Secretary of the Board.

The Internal Audit and Quality Manager attended five meetings of the Audit and Compliance Committee, at which he submitted the updated Risk Map of the company and the Risk Management Procedure, reported on fulfilment of the 2008 Audit Plan and presented the Audit Plan for 2009.

The Annual Audit Plan includes the following activities, among others:

- Review of the different areas of the company to ensure their compliance with the applicable internal regulations and procedures.
- Checking and analysis of the internal accounting and operations control systems.
- Review of the control procedures designed to protect the company's assets.
- Pinpointing of room for improvement, if detected during routine audits.
- Oversight of compliance with internal corporate governance rules and regulations.

Compliance with the Corporate Governance rules

The Committee permanently checks compliance with the rules and recommendations on corporate governance, making whatever suggestions it considers necessary.

During 2005 electronic voting and proxies were introduced for General Meetings. In view of the extensive use thereof by shareholders, this electronic voting and proxy system was made available once again for the AGMs 2006, 2007, 2008 and 2009.

The Committee has also studied the Unified Code of Good Governance, with a view to adjusting company practices to its recommendations. As a result of this study and following a proposal by the Nomination and Remuneration Committee, the Board amended its Regulations in May 2008 to adjust them to those recommendations.

The Committee considers that the degree of compliance by the Company with the rules and recommendations on good governance is very high.

This Report was unanimously approved by the Audit and Compliance Committee on 18 February 2010.

IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.

Auditors' Report on Financial Statements (Pg. 229)

Financial Statements (Pg. 231)

Management Report (Pg. 291)

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
Iberia, Líneas Aéreas de España, S.A.:

We have audited the financial statements of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. comprising the balance sheet at 31 December 2009 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

As required by Spanish corporate and commercial law, for comparison purposes the directors present, in addition to the figures for 2009 for each item in the balance sheet, income statement, statement of changes in equity, statement of cash flows and notes to the financial statements, the figures for 2008. Our opinion refers only to the 2009 financial statements. On 27 February 2009, we issued our auditors' report on the 2008 financial statements, in which we expressed an unqualified opinion.

Since the Company is the head of the Group and meets certain requirements, it is obliged under current legislation to prepare consolidated financial statements separately in accordance with International Financial Reporting Standards as adopted by the European Union, on which we issued our auditors' report on this same date, containing an unqualified opinion. The effect of consolidation and of the application of the aforementioned standards, with respect to the accompanying separate financial statements, is detailed in Note 4.5 to the accompanying financial statements.

In our opinion, the accompanying financial statements for 2009 present fairly, in all material respects, the equity and financial position of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. at 31 December 2009 and the results of its operations, the changes in equity and its cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with the generally accepted accounting principles and standards under the Spanish regulations applicable to the Company, applied on a basis consistent with that of the preceding year.

The accompanying directors' report for 2009 contains the explanations which the Company's directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2009. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

José Manuel Rodríguez
25 February 2010


IBERIA

Financial Statements

IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.

BALANCE SHEET AT 31 DECEMBER 2009 AND 2008

Millions of euros

ASSETS	Notes	31-12-09	31-12-08
NON-CURRENT ASSETS:		**2,338**	**2,438**
Intangible assets	4.1	**50**	**53**
Property, plant and equipment	5	**1,031**	**1,111**
Aircraft		713	773
Other property, plant and equipment		318	338
Investments in subsidiaries and associates	7	**130**	**44**
Equity instruments		124	44
Loans to companies		6	-
Non-current financial assets	6.1	**490**	**635**
Equity instruments		267	245
Loans to third parties		76	93
Derivatives		4	70
Other financial assets		143	227
Deferred tax assets	13	**637**	**595**
CURRENT ASSETS:		**2,682**	**3,176**
Non-current assets held for sale	5	**19**	**21**
Inventories	4.7	**215**	**224**
Aircraft spare parts		170	176
Other inventories		45	48
Trade and other receivables	9	**480**	**589**
Current financial assets	6.2	**1,085**	**1,748**
Loans to companies		31	34
Derivatives	8	55	79
Other financial assets		999	1,635
Current prepayments and accrued income		**10**	**13**
Cash and cash equivalents	4.5	**873**	**581**
Cash		40	58
Cash equivalents	6.2	833	523
TOTAL ASSETS		**5,020**	**5,614**

LIABILITIES	Notes	31-12-09	31-12-08
EQUITY:	10	**1,504**	**1,525**
OWNERS' EQUITY			
Share capital		**743**	**743**
Share premium		**120**	**120**
Reserves		**1,058**	**1,058**
Treasury shares		**(64)**	**(64)**
Profit (loss) for the year		**(281)**	**25**
VALUATION ADJUSTMENTS			
Available-for-sale financial assets		**(62)**	**(80)**
Hedging transactions	8	**(10)**	**(277)**
NON-CURRENT LIABILITIES:		**1,758**	**1,791**
Non-current provisions	11	**1,235**	**1,309**
Non-current payables	12	**301**	**403**
Deferred tax liabilities	13	**7**	**1**
Non-current accruals and deferred income	4.10	**215**	**78**
CURRENT LIABILITIES:		**1,758**	**2,298**
Current payables	12	**295**	**639**
Borrowings from subsidiaries and associates	16	**10**	**9**
Customer prepayments	4.10	**390**	**394**
Trade and other payables		**1,062**	**1,243**
Trade payables		774	942
Suppliers, subsidiaries and associates		23	19
Remuneration payable		147	158
Payables to public authorities	13	118	124
Current accruals and deferred income		**1**	**13**
TOTAL EQUITY AND LIABILITIES		**5,020**	**5,614**

Notes 1 to 20 in the accompanying notes to the financial statements are an integral part of the balance sheet at 31 December 2009.

INCOME STATEMENT FOR 2009 AND 2008

Millions of euros

	Notes	2009	2008
CONTINUING OPERATIONS:			
Revenue	15.1	**4,212**	**5,188**
Work performed by the entity and capitalised		**14**	**15**
Procurements	15.3	**(1,409)**	**(1,864)**
Other operating income	15.2	**158**	**233**
Ancillary income and grants		154	198
Other non-recurring operating income		4	35
Employee costs	15.4	**(1,339)**	**(1,313)**
Wages, salaries and similar expenses		(1,041)	(995)
Employee benefit cost		(298)	(318)
Other operating costs	15.5	**(1,988)**	**(2,133)**
Depreciation and amortisation charge	4.1 and 5	**(175)**	**(198)**
Overprovisions	11	**55**	**44**
Impairment losses and net gains on disposal of non-current assets	5	**(3)**	**24**
Impairment and losses		1	(3)
Gains/losses on disposals and other gains and losses		(4)	27
PROFIT (LOSS) FROM OPERATIONS		**(475)**	**(4)**
Finance income	15.6	**64**	**137**
Finance cost	15.7	**(40)**	**(52)**
Change in fair value of financial instruments		**4**	**(28)**
Exchange differences	14	**(17)**	**(1)**
Impairment and net gains on disposal of financial instruments	7	**21**	**(26)**
NET FINANCE INCOME		**32**	**30**
PROFIT (LOSS) BEFORE TAX		**(443)**	**26**
Income tax	13	162	(1)
PROFIT (LOSS) FROM CONTINUING OPERATIONS		**(281)**	**25**
PROFIT (LOSS) FOR THE YEAR		**(281)**	**25**

Notes 1 to 20 of the accompanying financial statements are an integral part of the income statement for 2009

STATEMENT OF CHANGES IN EQUITY FOR 2009 AND 2008

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE

Millions of euros

	Notes	2009	2008
PROFIT (LOSS) FOR THE YEAR (I)		**(281)**	**25**
Income and expense recognised directly in equity:			
From measurement of financial instruments			
Available-for-sale financial assets	6.1.1	25	(114)
From cash flow hedges	8	-	(335)
Tax effect		(7)	135
TOTAL INCOME AND (EXPENSE) RECOGNISED DIRECTLY IN EQUITY (II)		**18**	**(314)**
Transfers to the income statement:			
From cash flow hedges	8	382	66
Tax effect		(115)	(20)
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT (III)		**267**	**46**
TOTAL RECOGNISED INCOME AND (EXPENSE) (I+II+III)		**4**	**(243)**

Notes 1 to 20 of the accompanying financial statements are an integral part of the 2009 statement of recognised income and expense

B) COMPREHENSIVE STATEMENT OF CHANGES IN EQUITY

Millions of euros

	Share capital	Share premium	Legal Reserve	Other reserves	Treasury shares	Profit (loss)for the year	Revaluation adjustments	Total
BALANCE AT 1 JANUARY 2008	**743**	**120**	**148**	**745**	**(19)**	**323**	**(89)**	**1,971**
Total recognised income and (expense)	**-**	**-**	**-**	**-**	**-**	**25**	**(268)**	**(243)**
Distribution of 2007 profit								
To reserves	-	-	1	164	-	(165)	-	-
To dividends	-	-	-	-	-	(158)	-	(158)
Transactions with treasury shares (net)	**-**	**-**	**-**	**-**	**(45)**	**-**	**-**	**(45)**
BALANCE AT 31 DECEMBER 2008	**743**	**120**	**149**	**909**	**(64)**	**25**	**(357)**	**1,525**
Impact of changes in accounting policy	**-**	**-**	**-**	**(25)**	**-**	**-**	**-**	**(25)**
ADJUSTED BALANCE AT 1 JANUARY 2009	**743**	**120**	**149**	**884**	**(64)**	**25**	**(357)**	**1,500**
Total recognised income and (expense)	**-**	**-**	**-**	**-**	**-**	**(281)**	**285**	**4**
Distribution of 2008 profit								
To reserves	-	-	-	25	-	(25)	-	-
BALANCE AT 31 DECEMBER 2009	**743**	**120**	**149**	**909**	**(64)**	**(281)**	**(72)**	**1,504**

Notes 1 to 20 of the accompanying financial statements are an integral part of the 2009 comprehensive statement of changes in equity

CASH FLOW STATEMENT FOR 2009 AND 2008

Millions of euros

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:	**(273)**	**40**
Profit (loss) before tax	**(443)**	**26**
Adjustments for:	**157**	**120**
Depreciation and amortisation	175	198
Impairment losses	(3)	25
Changes in provisions	72	52
Gains (losses) on retirements and disposal of property, plant and equipment	4	(24)
Gains (losses) on retirements and disposal of financial instruments	(21)	-
Finance income	(64)	(137)
Finance cost	39	52
Exchange differences	17	-
Change in fair value of financial instruments	(4)	5
Other income and expenses	(58)	(51)
Changes in working capital	**74**	**(50)**
Inventories	17	(26)
Trade and other receivables	98	133
Other current assets	3	(35)
Trade and other payables	(68)	(181)
Other current liabilities	(6)	11
Other non-current assets and liabilities	30	48
Other cash flows from operating activities	**(61)**	**(56)**
Interest paid	(16)	(26)
Dividends received	1	1
Interest received	104	136
Corporate income tax expense	14	(30)
Other receipts (payments)	(164)	(137)
CASH FLOWS FROM INVESTING ACTIVITIES:	**(174)**	**(381)**
Payments on investments	**(276)**	**(533)**
Subsidiaries and associates	(65)	(56)
Intangible assets	(17)	(20)
Property, plant and equipment	(107)	(127)
Other financial assets	(53)	(425)
Other assets	(34)	95
Proceeds from disposals	**102**	**152**
Property, plant and equipment	37	106
Other financial assets	61	46
Non-current assets held for sale	4	-
CASH FLOWS FROM FINANCING ACTIVITIES:	**39**	**(301)**
Proceeds from and payments for equity instruments	**-**	**(45)**
Acquisition of own equity instruments	-	(46)
Disposal of own equity instruments	-	1
Proceeds from and payments for financial liabilities	**39**	**(98)**
Proceeds from bank borrowings	125	56
Repayments of bank borrowings	(86)	(154)
Dividends paid and payments on other equity instruments	**-**	**(158)**
Dividends	-	(158)
EFFECT OF EXCHANGE RATE CHANGES	**(6)**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(414)**	**(642)**
Cash and cash equivalents at the beginning of the year (*)	2,160	2,802
Cash and cash equivalents at the end of the year (*)	1,746	2,160

Notes 1 to 20 in the accompanying financial statements are an integral part of the cash flow statement for 2009
(*) The Company counts as cash and cash equivalents not only the balance under "Cash and Cash Equivalents" in the balance sheet but also deposits, fixed-term deposits and promissory notes recognised under "Other Financial Assets - Current Financial Assets" (see Note 6.2).

IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.
NOTES TO THE ACCOUNTS FOR 2009

1. COMPANY DESCRIPTION

The main business of Iberia, Líneas Aéreas de España, S.A., 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.

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.

Iberia, Líneas Aéreas de España, S.A. is the parent company of a group of subsidiaries and is therefore legally obliged to prepare separate consolidated financial statements. The consolidated financial statements for the Iberia Group in 2008 were prepared by the Company's directors and approved at the Board of Directors meeting of 26 February 2009. The consolidated financial statements for 2008 were approved by shareholders at the General Shareholders' Meeting of Iberia, Líneas Aéreas de España, S.A., held on 3 June 2009 and placed on record at the Madrid Mercantile Registry.

2. BASIS OF PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

2.1 True and fair view

The financial statements for 2009 were prepared using the accounting records of the Company and are presented in accordance with Royal Decree 1514/2007 approving Spanish financial reporting principles, to give a true and fair view of the Company's equity, financial position, profit or loss and cash flows during the year. These financial statements were prepared by the Company's directors for approval at the General Shareholders' Meeting and are expected to be approved without any modification.

2.2 Critical issues concerning the measurement and assessment of uncertainty

The financial statements for 2009 made use of estimates by the Company's directors to measure and record 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 a prospective effect.

Loss for the year

The Company made a EUR 281 million loss in 2009. The loss was basically a result of a fall in demand and reduction in average income.

The Company's 2010 budget forecasts a return to profit and the 5-year projections drawn up by the Company's management envisage a rising trend in profits. The implementation of the current merger with British Airways Plc, described in Note 6.1.1, should improve this profit outlook thanks to the resultant synergies.

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

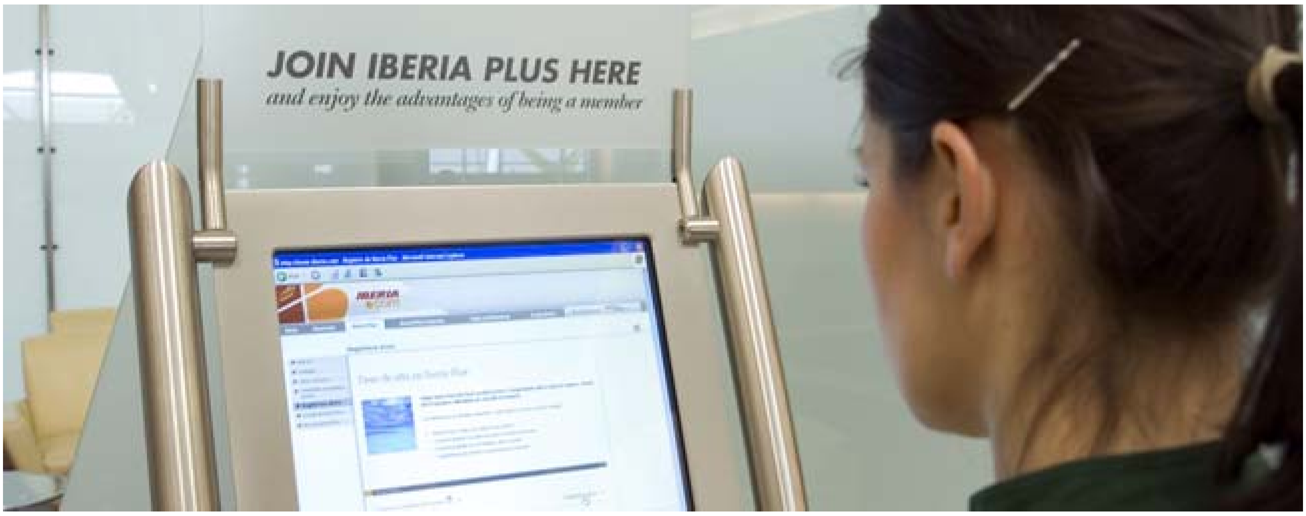
2.3 Comparative information

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" in the 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 Suppliers and Other Payables". 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 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 balance sheet.

Iberia, Líneas Aéreas de España, S.A. applied this criterion prospectively from 1 January 2009 as it was impossible to measure all the effects of retrospective application. The impact at that date gave rise to a charge against "Reserves" of approximately EUR 36 million. The corresponding tax impact was recognised as a credit to the same item of approximately EUR 11 million.

3. Distribution of Loss

The Company's directors will propose to shareholders at the General Shareholders' Meeting that the entire loss for 2009 should be taken to the "Loss from Prior Years".



4. Accounting policies

The main recognition and measurement bases used in preparing the 2009 financial statements, in accordance with Spanish financial reporting principles, are as follows:

4.1 Intangible assets

Intangible assets include computer software which was mainly acquired from third parties. The Company recognises costs incurred to acquire or develop software programmes under this heading. Maintenance costs of computer applications are recognised in 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 19 million (compared to EUR 18 million in 2008).

4.2 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 explained in Note 4.3.

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 Company 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 property, plant and equipment	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, included in the same item, is 10% of acquisition cost.

The Company 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 Company 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 related leases, the Company recognises an allowance for the total cost to be incurred in scheduled overhauls and allocates this cost to the income statement on a straight-line basis over the period between two consecutive overhauls (see Note 11).

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

4.3 Impairment of property, plant and equipment and intangible assets

When there is an indication of decline in value, the Company 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 Company 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.

4.4 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 Company 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 Company 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 the following indicators: purchase option, lease term and present value of the payment obligations).

Finance leases

For finance leases, the Company recognises the cost of leased assets in the balance sheet by 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 allocated to the 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 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.

4.5 Financial assets

The financial assets held by the Company 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 the Company's 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. Equity investments in subsidiaries, associates and jointly controlled entities: subsidiaries are considered to be companies linked to the company by a relationship of control and associates those over which the Company exercises significant influence.

D. 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 Company 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.

Financial assets held for trading are measured at fair value through profit and loss in the income statement.

Investments in subsidiaries and associates are measured at cost less any accumulated valuation adjustment for impairment. The adjustments are measured as the difference between carrying amount and recoverable amount, recoverable amount being the higher of fair value less costs to sell and the present value of future cash flows deriving from the investment. Barring better evidence of the recoverable amount, the equity of the investee company is used, adjusted for any unrealised capital gains at the measurement date (including any goodwill).

Exceptionally, the acquisition cost of the holdings in the Iberbus companies (Note 6.1.1) are not adjusted to fair value as under agreements in force the other investor, Airbus, has guaranteed the whole of Iberia, Líneas Aéreas de España, S.A.'s investment.

Applying the consolidation criteria required under the international financial reporting standards adopted by the European Union to the investments where the Company has a controlling stake or significant influence, would increase the assets and reserves shown in the financial statements by EUR 26 million and EUR 36 million, respectively, and would reduce the loss for the year by EUR 8 million.

Finally, available-for-sale financial assets are measured at fair value with any changes being recognised directly in equity 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 income statement. An asset is considered to have been permanently impaired if its market value has fallen by over 40% or has fallen and failed to recover for a year and a half.

At least at each reporting date the Company 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 Company 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 Company 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 Company generally invests its temporary cash surpluses in short-term financial assets, which are recognised under "Current Financial Assets" and "Cash Equivalents" in the balance sheet at the amounts invested. The interest income associated with these transactions is recognised as income when accrued while unmatured interest is presented as an addition to the corresponding balance sheet items.

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. The interest income associated with these transactions is recognised as income when accrued while unmatured interest is included in the corresponding balance sheet item.

"Cash Equivalents" in the balance sheet 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 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

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 included in equity.

4.6 Financial liabilities

Financial liabilities include payables owed by the Company 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.

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

4.7 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 Company 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.

4.8 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 balance sheet 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.

Changes in value arising from differences between the official exchange rates at year-end and the exchange rates at which the receivables and payables in non-euro currencies were originally recognised and those arising at the date of collection or payment of receivables and payables denominated in non-euro currencies are allocated to "Exchange Differences" in the income statement.

4.9 Income tax

Since 1 January 2002, the Company and certain subsidiaries file consolidated tax returns under the consolidated tax system provided for by Chapter VII of Title VII of Spain's Consolidated Corporation Tax Law.

Income tax expense or income consists of both current and deferred expense or income.

Current tax is the amount that the Company pays 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 between the carrying amounts of assets and liabilities and their tax bases, measured at the amount expected to be payable or recoverable, 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 Company will have sufficient taxable profits in the future against which the deferred tax asset can be utilised.

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.

4.10 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 Advances" in the balance sheet. This shows the estimated liability for ticket sales and traffic documents sold before 31 December 2009 but not yet used at that date. The related revenue is recognised when the transport or service actually happens.

The Company runs the "Iberia Plus" card scheme 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 balance sheet.

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 recover 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 recognised as income in the 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 Company over the lifetime of the programme.

In general, any incentives, bonuses or discounts received in cash or in kind by the Company relating to aircraft coming into service under operating leases are recognised in the income statement either on a straight-line basis over the term of the lease or when the incentive, bonus or discount is used. "Non-Current Accruals and Deferred Income" in the liabilities side of the balance sheet includes the amounts not yet recognised as income at each year end.

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 acquisition date are recognised as income in the income statement.

4.11 Non-Current Provisions

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

A. 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.
B. 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 Company's control.

The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the 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 Company reverses these provisions, fully or partially, when the obligations cease to exist or are reduced.

Provisions for restructuring costs

In December 2001 the Company 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 Company 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 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.

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 accompanying balance sheet at 31 December 2009 does not include any provision for this second collective redundancy procedure, since there was no related cost commitment.

Obligations to Employees

Under the collective labour agreements in force, 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 Company 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 also provide that flight crew who meet certain conditions may take early retirement (special leave of absence and voluntary termination). The Company is required to pay certain amounts of remuneration to these employees until they reach the statutory retirement age. The Company recognises the provision required to meet the future payment obligations to the employees concerned, based on actuarial studies, with a charge against the 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 "Non-Current Provisions - Provisions for Employee Benefits" (Note 11).

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.

4.12 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 Company's employees) and other welfare benefits in certain circumstances (death or permanent disability).

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

The Company's contributions in 2009 and 2008 were EUR 24 million and EUR 22 million, respectively, which were recognised under "Employee Costs - Social Security Costs" in the income statement.

4.13 Related-party transactions

The Company carries out all transactions with related parties at market value. Also, transfer prices are adequately documented, so the Company's directors consider that there are no significant risks that could give rise to material tax liabilities in the future.

4.14 Non-current assets and disposal groups held for sale

The Company 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 classified as held for sale are not depreciated, but rather at the date of each balance sheet 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 income statement by nature.

4.15 Derivative financial instruments and hedging transactions

The derivatives held by the Company 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 balance sheet, and the required valuation adjustments are subsequently made to reflect their fair value at all times. Increases in value are recognised under "Non-Current or Current Financial Assets - Derivatives" and reductions in value under "Non-Current or Current Liabilities - Derivatives" in the balance sheet. Gains and losses from these changes are recognised in the 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 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, Hedging Transactions". The cumulative gain or loss recognised in this heading is transferred to the income statement to the extent of the impact on the underlying (resulting from the risk hedged) thereby netting off the effect under the same income statement heading.

The fair value of the various derivative financial instruments is measured by discounting the expected cash flows based on spot and futures market conditions at year-end.

4.16 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, in line with the criteria described in Note 4.2.

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 polices are made as soon as the contingency or liability giving rise to the indemnity or payment occurs.

5. Property, plant and equipment

The variations in 2009 and 2008 in deferred tax assets for property, plant and equipment were as follows:

Millions of euros

2009	31-12-08	Additions or provisions	Transfers	Retirements	31-12-09
Cost:					
Aircraft	1,541	46	25	(161)	1,451
	1,541	**46**	**25**	**(161)**	**1,451**
Other property, plant and equipment					
Land	3	-	-	-	3
Buildings and other structures	157	-	-	(3)	154
Machinery, fixtures and tools	449	16	4	(4)	465
Surface transport equipment	31	1	-	-	32
Furniture and fixtures	20	2	-	-	22
Computer hardware	110	6	-	(2)	114
Spare parts for property, plant and equipment	216	22	-	(29)	209
Flight simulators	3	-	-	-	3
Work in progress	21	18	(12)	(16)	11
	1,010	**65**	**(8)**	**(54)**	**1,013**
Depreciation:					
Aircraft	(729)	(105)	-	113	(721)
	(729)	**(105)**	**-**	**113**	**(721)**
Other property, plant and equipment					
Buildings and other structures	(118)	(4)	-	1	(121)
Machinery, fixtures and tools	(328)	(22)	-	4	(346)
Surface transport equipment	(22)	(3)	-	-	(25)
Furniture and fixtures	(15)	(1)	-	-	(16)
Computer hardware	(80)	(11)	-	2	(89)
Spare parts for property, plant and equipment	(105)	(10)	-	18	(97)
Flight simulators	(1)	-	-	-	(1)
	(669)	**(51)**	**-**	**25**	**(695)**
Provisions:					
Aircraft	(39)	(2)	-	24	(17)
Other property, plant and equipment	(3)	-	-	3	-
	(42)	**(2)**	**-**	**27**	**(17)**
Total, net	**1,111**				**1,031**

Millions of euros

2008	01-01-08	Additions or provisions	Transfers	Retirements	31-12-08
Cost:					
Aircraft	2,072	137	(303)	(365)	1,541
	2,072	**137**	**(303)**	**(365)**	**1,541**
Other property, plant and equipment					
Land	3	-	-	-	3
Buildings and other structures	159	-	-	(2)	157
Machinery, fixtures and tools	463	10	1	(25)	449
Surface transport equipment	35	-	-	(4)	31
Furniture and fixtures	20	1	-	(1)	20
Computer hardware	99	15	-	(4)	110
Spare parts for property, plant and equipment	207	18	-	(9)	216
Flight simulators	3	-	-	-	3
Work in progress	8	21	(6)	(2)	21
	997	**65**	**(5)**	**(47)**	**1,010**
Depreciation:					
Aircraft	(1,129)	(128)	258	270	(729)
	(1,129)	**(128)**	**258**	**270**	**(729)**
Other property, plant and equipment					
Buildings and other structures	(116)	(4)	-	2	(118)
Machinery, fixtures and tools	(329)	(22)	-	23	(328)
Surface transport equipment	(23)	(3)	-	4	(22)
Furniture and fixtures	(13)	(2)	-	-	(15)
Computer hardware	(72)	(11)	-	3	(80)
Spare parts for property, plant and equipment	(99)	(10)	-	4	(105)
Flight simulators	(1)	-	-	-	(1)
	(653)	**(52)**	**-**	**36**	**(669)**
Provisions:					
Aircraft	(139)	-	54	46	(39)
Other property, plant and equipment	(3)	-	-	-	(3)
	(142)	**-**	**54**	**46**	**(42)**
Total, net	**1,145**				**1,111**

5.1 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 Company bought an aircraft for the A-320 fleet with two engines that were subsequently sold (see section on retirements). The Company 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 6.1.3), and transfers of work in progress.

In 2008, the Company 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 333 million of costs, EUR 258 million of cumulative depreciation and EUR 54 million of impairment provisions. The other transfers mainly concerned deposits previously put down for the acquisition of aircraft and engines, recognised in "Non-Current Financial Assets - Other Financial Assets".

Retirements

The retirements in each year related to:

Millions of euros

Fleet	2009			2008		
	Cost	Accumulated depreciation	Provisions	Cost	Accumulated depreciation	Provisions
A-320	32	(8)	-	47	(10)	-
MD-87	-	-	-	152	(130)	(18)
A-340	3	(3)	-	15	(9)	-
B-747	126	(102)	(24)	148	(120)	(28)
MD-88	-	-	-	3	(1)	-
	161	**(113)**	**(24)**	**365**	**(270)**	**(46)**

A-320 aircraft

In 2009, the Company 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 "Gains (Losses) on Disposals and Other Gains and Losses" in the income statement. An engine damaged during the year was also derecognised, with the Company recovering EUR 1 million from the insurer. This gain was recognised under "Gains (Losses) on Disposals and Other Gains and Losses". The Company also derecognised the cost of overhauls carried out under the scheduled maintenance programme for these items which had been fully depreciated.

In 2008, the Company sold two A-320s which it had bought earlier the same year and not brought into service. The aircraft were sold to financial institutions and gains from the sale recognised under "Gains (Losses) on Disposals and Other Gains and Losses" in the income statement for 2008. The Company also derecognised the cost of overhauls carried out under the scheduled maintenance programme for these aircraft 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 Company of EUR 5 million, recognised under "Gains (Losses) from Disposals of Assets and Other Gains and Losses".

B-747 aircraft

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

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

Provisions on aircraft

The changes in each year were as follows:

Millions of euros

Fleet	Balance at 01-01-08	Retirements	Transfers	Balance at 31-12-08	Additions	Retirements	Transfers	Balance at 31-12-09
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 Company 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 Company is carrying out an aircraft renewal programme under various agreements with Airbus, covering the A-320 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:

Number of aircraft

Fleet	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 Company to post EUR 188 million in deposits, of which it had already delivered EUR 119 million at 31 December 2009 (Note 6.1.3). 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 Company also has options on 14 A-320 aircraft, and has made a prepayment of EUR 3 million, recognised under "Other Financial Assets" in the balance sheet (see Note 6.1.3)

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 aircraft total EUR 114 million, recognised under "Current Financial Assets - Loans and Receivables" in the balance sheet at 31 December 2009 (Note 6.2).

Aircraft in service

The Company had the following aircraft in service at 31 December 2009:

Number of aircraft

Fleet	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 Company 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 5.7 on "Non-Current Assets Held for Sale".

Also excluded from the table above, are eight A-320s owned by the Company, which the Company 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 lease* were cancelled on three A-340/300s which were moved onto operating leases.

The expiry dates for operating leases on aircraft that the Company has in service are as follows:

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 Company 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 financial statements, the Company's directors did not intend to exercise the purchase options or to request or avail themselves of the extensions provided for in these leases where these would entail the use of the aircraft for periods exceeding 16 years.

Operating lease costs

The lease payments accrued in 2009 and 2008 for aircraft under operating and wet leases amounted to EUR 331 million and EUR 357 million, respectively, and are included under "Other Operating Costs" in the income statement (Note 15.5). 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:

Millions of euros

Year	31-12-09	31-12-08
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 8).

5.2 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 Company'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.

5.3 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 at 31 December 2008).

The schedule for lease payments outstanding at 31 December 2009, including any purchase options, is shown in Note 12.2.

5.4 Fully depreciated items

At 31 December 2009 and 2008, the cost of the Company's fully depreciated items of property, plant and equipment amounted to EUR 405 million and EUR 353 million, respectively, the detail being as follows:

Millions of euros

	31-12-09	31-12-08
Aircraft	29	24
Buildings and other structures	62	58
Machinery, fixtures and tools	228	195
Furniture and fixtures	8	8
Computer hardware	65	56
Other assets	13	12
	405	**353**

5.5 Insurance coverage

The Company has taken out insurance policies on its property, plant and equipment and intangible assets which provide adequate cover for their carrying amount at 31 December 2009. It also has insurance policies to cover aircraft leased to third parties.

5.6 Non-current assets not in service

The Company keeps certain property, plant and equipment assets that are not in service in the balance sheet, basically aircraft and engines. 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 5.1 "Aircraft in service").

5.7 Non-current assets held for sale

All balances recognised under this heading in the balance sheet relate to the Company's MD aircraft and engines 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, 11 engines from this fleet with a carrying amount of EUR 2 million were sold with the Company recognising a EUR 2 million gain under "Gains (Losses) from Disposals of Assets and Other Gains and Losses" in the income statement. A damaged engine from the same fleet was also derecognised.

6. Financial assets

6.1 Non-current financial assets

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

Millions of euros

31 December 2009	Equity instruments	Loans to third parties	Derivatives (Note 8)	Other financial assets	Total
Loans and receivables	10	76	-	143	229
Available-for-sale financial assets:					
- At fair value	243	-	-	-	243
- At cost	14	-	-	-	14
Derivatives	-	-	4	-	4
Total	**267**	**76**	**4**	**143**	**490**

Millions of euros

31 December 2008	Equity instruments	Loans to third parties	Derivatives (Note 8)	Other financial assets	Total
Loans and receivables	12	93	-	233	338
Available-for-sale financial assets:					
- At fair value	219	-	-	-	219
- At cost	14	-	-	-	14
Derivatives	-	-	70	(6)	64
Total	**245**	**93**	**70**	**227**	**635**

6.1.1 Equity instruments

Movements in equity instruments and the corresponding provisions recognised in the balance sheet for 2009 and 2008 were as follows:

Millions of euros

2009	% Ownership at 31-12-09	Balance at 31-12-08	Additions	Retirements	Exchange differences	Valuation adjustments	Balance at 31-12-09
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	5	-	-	-	-	5
		245	**-**	**(3)**	**-**	**25**	**267**

Millions of euros

2008	% Ownership at 31-12-08	Balance at 01-01-08	Additions	Retirements	Exchange differences	Valuation adjustments	Balance at 31-12-08
Loans and receivables:							
Iberbus companies	40.00-45.00	25	-	(9)	(4)	-	12
Available-for-sale financial assets:							
- At fair value							
British Airways Plc	9.99	-	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	5	-	-	-	-	5
		40	**331**	**(9)**	**(4)**	**(113)**	**245**

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 Company acquired shares giving it a 9.9% ownership stake in British Airways Plc for EUR 331 million. At year-end they had been 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 charged directly to equity, net of tax effects, under "Valuation Adjustments - Available-for-sale Financial Assets" in the balance sheet.

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 Company'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 Company 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

The Company sold its stake in Opodo Ltd. in 2009, for its carrying amount.

6.1.2 Loans to third parties

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

Millions of euros

2009	**Balance at 31-12-08**	**Exchange differences**	**Transfers**	**Balance at 31-12-09**
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
Loans to Iberlease 2004 Ltd.	38	(1)	-	37
Total cost	**154**	**(2)**	**(15)**	**137**
Provisions	**(61)**	**-**	**-**	**(61)**
Total, net	**93**			**76**

Millions of euros

2008	**Balance at 01-01-08**	**Exchange differences**	**Transfers**	**Balance at 31-12-08**
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
Loans to Iberlease 2004 Ltd.	36	2	-	38
Other loans	2	-	(2)	-
Total cost	**178**	**6**	**(30)**	**154**
Provisions	**(61)**	**-**	**-**	**(61)**
Total, net	**117**			**93**

(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

The Company 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 20 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 - Loans to Companies" (Note 6.2).

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

Millions of euros

	31-12-09	31-12-08
Matures in:		
2010	-	29
2011	8	8
2012	30	17
	38	**54**

Iberlease 2004 Ltd.

Iberlease 2004 Ltd., a company from which Iberia, Líneas Aéreas de España, S.A. acquired four aircraft 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.

6.1.3 Other financial assets

Movements under this balance sheet heading in 2009 and 2008 were as follows:

Millions of euros

2009	Balance at 31-12-08	Additions	Retirements	Transfers	Exchange differences	Balance at 31-12-09
Deposits for acquisition of aircraft	216	40	(33)	(98)	(3)	122
Measurement of hedging transactions	(6)	-	(9)	-	15	-
Other deposits	17	1	(3)	6	-	21
	227	**41**	**(45)**	**(92)**	**12**	**143**

Millions of euros

2008	Balance at 01-01-08	Additions	Retirements	Transfers	Exchange differences	Balance at 31-12-08
Deposits for acquisition of aircraft	201	81	(31)	(50)	15	216
Measurement of hedging transactions	3	4	-	-	(13)	(6)
Other deposits	16	2	-	(1)	-	17
	220	**87**	**(31)**	**(51)**	**2**	**227**

The amounts included in "Deposits for Acquisition of Aircraft" relate to reimbursable advances paid for the acquisition of aircraft and engines (Note 5.1), 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 Company considers that deposits of EUR 65 million will be taken to income in 2010.

6.2 Current financial assets

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

Millions of euros

	Balance at 31-12-09	**Balance at 31-12-08**
Loans and receivables:		
Loans to companies	31	34
Other financial assets	999	1,635
Derivatives (Note 8)	55	79
Total	**1,085**	**1,748**

"Other financial assets" at 31 December 2009 includes deposits for aircraft acquisition totalling EUR 114 million (EUR 24 million at 31 December 2008) (Note 5.1).

At 31 December 2009 and 2008 the Company had EUR 873 million and EUR 1,579 million, respectively, placed in current financial assets. These were mainly deposits, fixed-term deposits and promissory notes and yielded an average return of 3.22% in 2009 and 4.74% in 2008.

The average return on the investments recognised under "Cash Equivalents" in the balance sheet was 1.08% in 2009 and 4.70% in 2008.

7. Investments in subsidiaries and associates

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

Millions of euros

	Equity instruments			Loans to companies (Note 16)	Total
	Cost	Provisions	Net		
2008:					
Balance at 1-1-08	41	(27)	14	-	14
Additions and retirements	56	(26)	30	-	30
Balance at 31-12-08	**97**	**(53)**	**44**	**-**	**44**
2009:					
Additions or provisions	169	-	169	6	175
Retirements or use	(139)	50	(89)	-	(89)
Balance at 31-12-09	**127**	**(3)**	**124**	**6**	**130**

7.1 Equity instruments

Key information on the group's main subsidiaries and associates at the end of 2009 and 2008, based on unaudited financial statements, is as follows:

2009 Millions of euros

Name Address Corporate purpose	% Ownership (direct and indirect)	Share capital	Profit/(Loss)		Other equity	Total equity	Carrying amount		
			Operating	Net			Cost	Impairment for the year	Cumulative impairment 31-12-09
Group Subsidiaries:									
Compañía Auxiliar al Cargo Exprés, S.A.. Centro de Carga Aérea Parcela 2 p.5 nave 6, Madrid Cargo transport	75.00	-	-	-	5	5	1	-	-
Cargosur, S.A. Velázquez, 130; Madrid Air cargo transport	100.00	6	-	-	-	6	9	-	(3)
Iber-America Aerospace, LLC Miami, Florida Trading in aircraft parts and engines	65.33	1	-	-	-	1	1	-	-
Iberia Tecnología, S.A. Velázquez, 130; Madrid Maintenance and consultancy services	100.00	1	-	-	-	1	1	-	-
Associates:									
Serpista, S.A. Marcelo Espínola, 10; Madrid Maintenance of airport equipment	39.00	1	1	1	4	6	1	-	-
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. José Ortega y Gasset, 22; Madrid Issue and management of payment cards	43.50	6	2	1	13	20	4	-	-
Air Miles Avda. Bruselas 20, Alcobendas; Madrid Multi-sector loyalty scheme	33.33	-	(1)	(1)	3	2	1	-	-
Vueling Airlines, S.A. Parque de Negocios Mas Blau; Barcelona Passenger transport	45.85	30	40	28	89	147	109	-	-
							127	**-**	**(3)**

2008 Millions of euros

Name Address Corporate purpose	% Ownership (direct and indirect)	Share capital	Profit/(Loss)		Other equity	Total equity	Carrying amount		
			Operating	Net			Cost	Impairment for the year	Cumulative impairment 31-12-08
Group Subsidiaries:									
Compañía Auxiliar al Cargo Exprés, S.A. Centro de Carga Aérea Parcela 2 p.5 nave 6; Madrid Cargo transport	75.00	-	1	1	5	6	1	-	-
Cargosur, S.A. Velázquez, 130; Madrid Air cargo transport	100.00	6	-	-	-	6	9	-	(3)
Iber-America Aerospace, LLC Miami, Florida Trading in aircraft parts and engines	65.33	1	-	-	-	1	1	-	-
Iberia Tecnología, S.A. Velázquez, 130; Madrid Maintenance and consultancy services	100.00	1	-	-	-	1	1	-	-
Associates:									
Serpista, S.A. Marcelo Espínola, 10; Madrid Maintenance of airport equipment	39.,00	1	1	1	3	5	1	-	-
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. José; Ortega y Gasset, 22; Madrid Issue and management of payment cards	43.50	6	2	1	11	18	4	-	-
Clickair, S.A Parque de Negocios Mas Blau; Barcelona Passenger transport	20.00	12	(46)	(33)	48	27	80	(26)	(50)
							97	**(26)**	**(53)**

Vueling Airlines, S.A. / Clickair, S.A.

In 2009, the Company increased its stake in Clickair, S.A. to 91.70%. This increase was accomplished by further contributions to its share capital and by buying out the ownership stakes of three of the other four shareholders. Disbursements by Iberia, Líneas Aéreas de España, S.A. as a result of all these transactions totalled approximately EUR 60 million.

In July 2009, Iberia, Líneas Aéreas de España, S.A. contributed all its Clickair, S.A. shares to the capital increase by Vueling Airlines, S.A., in return for a 45.85% stake in the company's share capital, measured at EUR 109 million. The transaction resulted in a EUR 21 million gain for the company, recognised under "Impairment and Gains (Losses) on Disposal of Financial Instruments".

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

8. Derivative financial instruments

8.1 Qualitative information

The Company has in place procedures and systems that allow it to identify, measure, manage and mitigate the main risks affecting its various business lines.

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

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

Foreign exchange risk

Due to its international business, the Company generates payments and receipts in non-euro currencies. The main risk is a strengthening of the US dollar against the euro as the Company 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 Company'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 Company 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 Company's borrowings.

Fuel-price risk

The Company 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 Company 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.

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

Credit risk

The Company'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 Company manages its bad debt and insolvency risks by setting credit limits and applying strict conditions on collection periods.

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 Company has an established policy of requiring bank guarantees that hedge part of the credit extended to counterparties. Also, with some national travel agencies, the Company has a policy of requiring insurance cover for part of the credit offered. In general, the Company manages its bad debt and insolvency risks by setting credit limits and applying strict conditions on collection periods.

The Company has no significant concentration of credit risk with third parties as its commercial risk is spread across a high number of entities and levels of non-payment in the industry have historically been very low.

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.

8.2 Quantitative information

In line with the risk management policy described in Note 8.1 above, the Company arranges derivative transactions, mainly foreign exchange, interest rate and aviation fuel hedges.

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 Company 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 in the balance sheet.
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 income statement), and the underlying assets and liabilities that they hedge, are as follows:

Millions of US dollars

	Currency	Amount
Underlying:		
Assets:		
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
Liabilities:		
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 200,000 and the change in their value since 31 December 2008 of EUR 6 million was recognised as revenue for the year after being netted with the fall in 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 US dollars	Type of hedge	Cash flows hedged (millions of US dollars)				
	Expected cash outflows		2010	2011	2012	2013	2014
Foreign 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). This net amount 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 the balance sheet. 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 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 Company'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

Millions (*)

Instrument	Company	Company	Nominal at 31-12-09	Nominal at 31-12-10	Nominal at 31-12-11	Nominal at 31-12-12	Nominal at 31-12-13
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 Company.

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

Nominal (millions of US dollars)

Instrument	Currency	31-12-09	31-12-10	31-12-11	31-12-12	31-12-13
Interest Rate Swaps:						
Floating to floating (*)	USD	256	235	212	63	-

(*) The Company 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 Company'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 purposes of these calculations, the Company considers a change of this magnitude in the interest rate curves to be the most likely scenario during 2010. However, for the sake of simplicity, it was assumed that the change in interest rates would take place at 2009 year-end and would then remain stable in 2010.

Fuel price hedges

Underlying	Commodity	Metric tonnes	Type of hedge	Metric tonnes Nominal at 31-12-09
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). This EUR 25 million was recognised under asset items and just EUR 30,000 under "Current Borrowings" on the liabilities side of the balance sheet.

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.

9. Trade and other receivables

This heading in the balance sheet at 31 December 2009 and 2008 mainly includes 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 Company on tickets sold through other airlines, and, finally, tax receivables (Note 13.1).

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

10. Equity

10.1 Share capital

At 31 December 2009 and 2008 the Company 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 Company are listed on the Continuous Market of the Spanish stock exchanges and all confer the same voting and dividend rights.

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

	2009		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**

10.2 Legal reserve

Under the Revised 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.

10.3 Share premium

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

10.4 Treasury shares

The changes during 2009 and 2008 to "Treasury Shares" in the balance sheet 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
Reductions	-	-	(407,645)	(1)
At year-end	**27,898,271**	**64**	**27,898,271**	**64**

The treasury shares held by the Company at 31 December 2009 represented 2.93% of the share capital, with an aggregate par value of EUR 22 million and an average acquisition price of EUR 2.31 per share. The average selling price of treasury shares by the Company in 2008 was EUR 2.69 per share.

As part of the merger process described in Note 6.1.1 these treasury shares will be cancelled.

11. 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 31-12-08	Additions	Provisions used	Transfers	Overprovisions	Balance at 31-12-09
Provisions for employee benefits	669	49	(20)	(55)	(45)	598
Provisions for restructuring costs	433	51	(114)	55	-	425
Provisions for major repairs (Note 4.2)	74	24	(2)	-	(10)	86
Other provisions	133	3	(10)	-	-	126
	1,309	**127**	**(146)**	**-**	**(55)**	**1,235**

11.1 Provisions for Employee Benefits

The additions to "Provisions for Employee Benefits" include the annual provision for the normal cost and for interest payments on provisions previously recognised, which are classified, respectively, under "Employee Costs - Social Security" (EUR 26 million) and under "Finance Cost" (EUR 23 million) in the 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 benefit obligations to employees who took part in the collective redundancy programme in 2009 (Note 4.11). 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 reversed as "Overprovisions" in 2009 relates to the option to remain active which was offered from May 2009 to pilots turning 60 as from that year (Note 4.11). Until then, "Provisions for Employee Benefits" 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 company 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 balance sheet at 31 December 2009.

The EUR 45 million derecognised from this provision was booked as income under "Overprovisions" in the income statement for 2009.

11.2 Provisions for restructuring costs

"Provisions for Restructuring Costs" relate to the present value of the liabilities arising from the voluntary collective redundancy procedure (Note 4.11) approved in 2001 and extended until 2010 (3,832 employees at 31 December 2009). On 20 April 2009, the Company 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.

11.3 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 4.11).

12. Non-current and current payables

The detail of "Non-Current payables" and "Current payables" at 31 December 2009 and 2008 is as follows:

Millions of euros

	31-12-09			31-12-08		
	Current	Non-current	Total	Current	Non-current	Total
At amortised cost:						
Bank borrowings	221	27	248	115	75	190
Finance leases	30	224	254	55	223	278
Other financial liabilities	17	2	19	21	2	23
At fair value:						
Derivatives (Note 8)	27	48	75	448	103	551
Total	**295**	**301**	**596**	**639**	**403**	**1,042**

12.1 Bank borrowings

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

Millions of euros

31-12-09							
Currency	Maturity						Total
	2010	2011	2012	2013	2014	2015 and beyond	
Euros	145	6	4	5	4	8	172
US dollar	76	-	-	-	-	-	76
	221	**6**	**4**	**5**	**4**	**8**	**248**

Millions of euros

31-12-08							
Currency	Maturity						Total
	2009	2010	2011	2012	2013	2014 and beyond	
Euros	57	3	4	4	4	7	79
US dollar	58	53	-	-	-	-	111
	115	**56**	**4**	**4**	**4**	**7**	**190**

These loans and credit lines bore weighted average annual interest of 4.99% and 5.23% in 2009 and 2008, respectively, for the euro-denominated borrowings and 4.70% and 4.86%, respectively, for dollar-denominated borrowings.

The Company 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.

12.2 Obligations under finance leases

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

Millions of euros

	EUR 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 Company are benchmarked to interest rates such as the Euribor or Libor.

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	637	595
	637	**595**
Current:		
Foreign tax receivables	5	7
Value added tax	7	17
ther tax receivables	6	3
	18	**27**

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	-	4
	118	**124**

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

The reconciliation of accounting profit for 2009 and 2008 with the taxable income and the amount recognised under "Income tax" in the income statement for 2009 and 2008, is as follows:

Millions of euros

	2009		2008	
	Receivable/(payable)	**Expense/(income)**	**Receivable/(payable)**	**Expense/(income)**
Accounting profit for the year before tax	(443)	(443)	26	26
Permanent differences:				
Increase	2	2	2	2
Decrease	(1)	(1)	(10)	(10)
Temporary differences:				
Arising in the year				
Increase (a)	151	-	116	-
Decrease (b)	(57)	-	-	-
Arising in prior years				
Increase	1	-	-	-
Decrease (c)	(222)	-	(210)	-
Taxable income	**(569)**	**(442)**	**(76)**	**18**
Tax rate of 30%	(171)	(132)	(23)	5
Tax credits	(6)	(6)	(5)	(5)
Deferred tax assets - tax credits	**(177)**	**-**	**(28)**	**-**
Income tax expense/(income)	**-**	**(138)**	**-**	**-**
Adjustment to income tax (Note 13.4)	-	(24)	-	1
Total income tax expense/(income)	**-**	**(162)**	**-**	**1**

(a) 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.
(b) 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. (Notes 7.1 and 13.7) 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.
(c) 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 employee mutual funds. The Company has taken advantage of certain tax credits of this type, and plans to justify tax credits of EUR 4 million in the income tax return for 2009. The Company also plans to justify tax credits of EUR 2 million in its 2009 income tax return for domestic and international double taxation. The Company also took advantage of certain tax credits available on the reinvestment of extraordinary gains. The amounts reinvested and corresponding tax credits are as follows:

Millions of euros

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

13.3 Tax recognised in equity

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

Millions of euros

	Balance at 01-01-08	Increase	Reduction	Balance at 31-12-08	Effect of change in accounting policy (Note 2.3)	Reduction	Balance at 31-12-09
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**

13.4 Detail of income tax expense / (income)

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

Millions of euros

	2009	2008
Current tax:		
Continuing operations	-	-
Deferred tax:		
Continuing operations	(138)	-
Adjustments to income tax	(24)	1
Total	**(162)**	**1**

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 (Note 13.5).

13.5 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised in the balance sheet under "Deferred Tax Assets" and "Deferred Tax Liabilities" as follows:

Millions of euros

	2009		2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	422	7	567	1
Tax loss carryforwards	199	-	23	-
Unused tax credits	16	-	5	-
Total	**637**	**7**	**595**	**1**

Movements in "Deferred Tax Assets" in 2008 and 2009 are as follows:

Millions of euros

	Deferred tax assets			
	Temporary differences	Tax loss carryforwards	Unused tax credits	Total
Balance at 1 January 2008	483	-	-	483
Additions	149	23	5	177
Reductions	(65)	-	-	(65)
Balance at 31 December 2008	**567**	**23**	**5**	**595**
Effect of change in accounting policy (Note 2.3)	11	-	-	11
Balance at 1 January 2009	**578**	**23**	**5**	**606**
Additions	45	171	6	222
Reductions	(201)	-	-	(201)
Positive adjustment to income tax (Note 13.4)	-	5	5	10
Balance at 31 December 2009	**422**	**199**	**16**	**637**

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 13.3).

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:

Millions of euros

Year of origin	Taxable profit	Tax effect	Recoverable until
2008	94	28	2023
2009	569	171	2024
	663	**199**	

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

Millions of euros

Year of recovery	
2010	82
2011	36
2012 and beyond	519
	637

These deferred tax assets were recognised in the balance sheet since the Company's directors consider that, based on the best estimates of the Company's 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 Company.

Also, the Company 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 Company appealed against.

The Company's directors and tax advisors consider that no tax liabilities additional to those recognised under "Non-Current Provisions - Other Provisions" will arise from the resolution of the various appeals described above (Note 11).

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 Company, the Company's directors do not expect any liabilities to arise in addition to those recognised which might have a material effect on the financial statements.

13.7 Deferred tax liabilities

In compliance with Article 93 of the Spanish Consolidated Corporation Tax Law (Royal Decree Law 4/2004, of 5 March), it is stated that information about the Company's merger with Aviación y Comercio, S.A. is included in Note 19 to the 2000 financial statements. Also, in 2004 a non-cash contribution was made to Servicios de Instrucción de Vuelo, S.L. in respect of which, in accordance with Article 84 of the Spanish Consolidated Corporation Tax Law, part of the resulting tax credit entitlements were waived. Information on this transaction is included in Note 18 to the 2004 financial statements.

Also, in compliance with Article 84 of the Spanish Consolidated Corporation Tax Law (Royal Decree Law 4/2004, of 5 March), in 2009 the Company took part as shareholder in the merger of Vueling Airlines, S.A. and Clickair, S.A., and the resultant capital gain of EUR 21 million was considered applicable for tax purposes and therefore gave rise to deferred tax of EUR 6 million. Information on this transaction is included in Note 7.1.

14. Transactions in non-euro currencies

The detail of the most significant transactions in non-euro currencies, measured at the average exchange rates, is as follows:

Millions of euros

	2009	2008
Sales	1,207	1,450
Services provided	198	234
Purchases	894	1,034
Services received	590	629

The most significant balances in non-euro currencies mainly relate to prepayments on aircraft, receivables from ticket sales and maintenance services provided as well as payables for purchases of fuel and aircraft parts.

As a result of the devaluation of the bolivar in the first few days of 2010 following a decision by the Venezuelan government, the Company remeasured those assets and liabilities affected by the move and recognised a resulting expense of EUR 6 million under "Exchange Differences" in the 2009 income statement.

Other exchange differences recognised in profit for the year, by category of financial instrument, basically related to derivatives and bank borrowings.

15. Income and expense

15.1 Revenue

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

Millions of euros

	2009	2008
Passenger revenue (a)	3,325	4,218
Cargo revenue	224	309
Handling (aircraft dispatching and services in airports)	266	275
Technical assistance to airlines	310	297
Other income	87	89
	4,212	**5,188**

(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**

15.2 Other operating income

The breakdown by item of this heading in the income statement for 2009 and 2008 is as follows:

Millions of euros

Items	2009	2008
Ancillary income, grants and other current management costs:		
Commissions	64	80
Rental income	15	18
Other income	75	100
	154	**198**
Other non-recurring income	4	35
	158	**233**

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 Income" for 2008 notably includes EUR 15 million received in settlement of an insurance claim.

15.3 Procurements

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

Millions of euros

	2009	2008
Consumption of:		
Aircraft fuel	1,184	1,666
Aircraft spare parts	191	160
Catering materials	19	21
Other purchases	15	17
	1,409	**1,864**

The breakdown of this heading by purchases and changes in inventories is as follows:

Millions of euros

	2009	2008
Purchases	1,404	1,890
Changes in inventory	14	(26)
Impairment of inventory	(9)	-
Consumption	**1,409**	**1,864**

The detail by origin of purchases by the Company in 2009 is as follows:

Millions of euros

	2009	2008
Spain	383	777
EU	127	79
Imports	894	1,034
	1,404	**1,890**

15.4 Headcount

In 2009 and 2008, the number of employees, measured as average headcount, by professional category, was as follows:

Number of employees

	31-12-09	31-12-08
Senior executives	**10**	**10**
Ground staff:		
Managers and other line staff	1,136	1,113
Clerical staff	5,290	5,587
Ancillary services	4,574	4,986
Aircraft maintenance technicians	2,930	2,875
Other	1,160	1,207
	15,090	**15,768**
Flight staff:		
Technical crew	1,590	1,644
Cabin crew	3,745	3,923
	5,335	**5,567**
	20,435	**21,345**

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

	31-12-09		31-12-08	
	Women	**Men**	**Women**	**Men**
Senior executives	**1**	**9**	**1**	**9**
Ground staff:				
Managers and other line staff	431	676	430	714
Clerical staff	3,657	1,853	3,982	1,966
Ancillary services	457	4,576	479	4,941
Aircraft maintenance technicians	32	2,891	31	2,894
Other	520	640	552	679
	5,097	**10,636**	**5,474**	**11,194**
Flight staff:				
Technical crew	60	1,580	60	1,608
Cabin crew	2,935	975	3,084	1,070
	2,995	**2,555**	**3,144**	**2,678**
	8,093	**13,200**	**8,619**	**13,881**

15.5 Other operating costs

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

Millions of euros

	2009	**2008**
Air traffic services	342	361
Aircraft lease payments (Note 5.1):		
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	201
Booking system expenses	134	137
Other rent	72	75
In-flight services	66	72
Other maintenance	46	49
Stopover expenses	34	37
Indemnities for passengers, luggage and cargo	22	33
Fees	24	24
Incident costs	22	16
Other operating costs	272	256
	1,988	**2,133**

"Aircraft Maintenance" includes the expenses for subcontracted maintenance work and the provision for major repairs of aircraft operated under operating leases (Note 4.2).

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.

15.6 Finance income

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

Millions of euros

	2009	2008
Interest on short-term deposits	56	122
Interest on loans to associates	6	7
Other finance income	2	8
	64	**137**

15.7 Finance cost

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

Millions of euros

	2009	2008
Interest on loans	2	6
Interest on finance leases	14	15
Interest on employee liabilities	23	25
Other finance costs	1	6
	40	**52**

16. Related party transactions

Related party transactions

The following transactions took place between the Company and related parties in 2009 and 2008:

Millions of euros

Revenue and Costs	2009			2008		
	Significant shareholders	Group subsidiaries and associates	Total	Significant shareholders	Group subsidiaries and associates	Total
Costs:						
Finance costs	2	-	2	4	-	4
Management or collaboration contracts	6	-	6	8	-	8
Leases	24	-	24	29	-	29
Services received	22	56	78	24	61	85
Goods purchased	4	-	4	4	-	4
	58	**56**	**114**	**69**	**61**	**130**
Revenue:						
Finance income	29	-	29	22	-	22
Dividends received	-	1	1	-	-	-
Services provided	24	107	131	37	122	159
	53	**108**	**161**	**59**	**122**	**181**

Millions of euros

Other transactions	2009			2008		
	Significant shareholders	Directors and management	Total	Significant shareholders	Directors and management	Total
Purchase of PP&E, intangible or other assets	3	-	3	9	-	9
Finance arrangements: borrowings and capital contributions (borrower)	128	-	128	88	-	88
Guarantees and deposits received	50	-	50	51	-	51
Other transactions	-	6	6	-	6	6

The following transactions took place between the Company and related parties in 2009 and 2008:

Millions of euros

Significant shareholders:	2009		2008	
	Collected from Iberia	Paid to Iberia	Collected from Iberia	Paid to Iberia
British Airways Plc	13	24	16	37
El Corte Inglés Group	23	-	29	-
Caja Madrid	26	29	33	22
	62	**53**	**78**	**59**

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, among others.

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.

Balances with related parties

Balances outstanding in the balance sheet at 31 December 2009 and 2008 in the balance sheet are as follows:

Millions of euros

	31-12-09			31-12-08		
	Significant shareholders	**Group subsidiaries and associates**	**Total**	**Significant shareholders**	**Group subsidiaries and associates**	**Total**
Non-current investments						
Equity instruments	-	124	124	-	44	44
Loans to companies	-	6	6	-	-	-
Trade receivables	12	31	43	18	36	54
Current investments	372	-	372	537	-	537
Cash	6	-	6	13	-	13
Current borrowings	14	10	24	-	9	9
Trade payables	1	23	24	4	19	23

Accordingly, at 31 December 2009 and 2008, the Company was committed to making aircraft lease payments to companies from the Caja Madrid Group of EUR 194 million and EUR 224 million, respectively.

17. Remuneration and other benefits to 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
Payments in kind	111	85
Total	**1,677**	**1,639**

The Company 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 Company'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
Payments in kind	3	11
Social security and other expenses	57	128
	610	**1,335**

In 2009, the previous chairman (a director of the Company until his departure) received remuneration of EUR 838,000 and the company also paid expenses for social security and other items of EUR 57,000. He also received EUR 3,167,000 on leaving the company, of which EUR 277,000 was a cost for the Company and the rest was covered by an insurance policy.

Also, contributions were made to an insurance policy in 2009 and 2008 of approximately EUR 1 million and EUR 300,000, respectively.

In 2009 and 2008, no advances or loans were granted to directors.

Remuneration of senior executives

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

Thousands of euros

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

Also, contributions were made to an insurance policy and pension schemes in 2009 and 2008 of EUR 167,000 and EUR 151,000, respectively

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

18. 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 Spanish Revised Companies Law, in order to reinforce the transparency of listed corporations, the table below details the activities carried on by the different directors that are identical, similar or complementary to the corporate purpose of Iberia, Líneas Aéreas de España, S.A.:

Name	Company	Activity	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 CityFlyer Ltd. y British Airways European Ltd.	Air transport	Employee	Executive director
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.

19. Environmental information

Within the framework of its environmental policy, Iberia, Líneas Aéreas de España, S.A. continued to undertake various activities and projects in 2009 in order to guarantee the proper management of the main environmental impacts of the air transport business as a whole.

During 2009 and 2008 the Company 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 environmental assets, which include, inter alia, 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 Company has a renewal policy in which the environment (minimising the impact of noise and atmospheric emissions) is an important factor. Accordingly, the Company is continuing to add new aircraft models that reduce fuel consumption by approximately 20% compared to earlier generation aircraft.

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

Since 2009, the Company 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 Company 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, litigation in progress and outstanding indemnity payments or obligations of undetermined amount.

Lastly, environmental investments were EUR 1 million in each of 2009 and 2008.

20. Explanation added for translation to English

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

Management Report

IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.

KEY DATA

IBERIA	2009	2008	% Change
Revenue and results (millions of euros)			
Recurring operating revenue	4,389	5,415	(18.9)
EBITDAR (1)	60	496	(87.7)
Recurring EBIT	(464)	(88)	nm
Profit (loss) from operations (2)	(475)	(4)	nm
Profit (loss) before tax	(443)	26	nm
Profit (loss) after tax	(281)	25	nm
Basic earnings per share (euro cents) (3)	(30.4)	2.7	nm
Passenger traffic: operating statistics and revenue			
Available seat kilometres (ASK) (millions)	62,158	66,098	(6.0)
Revenue passenger kilometres (RPK) (millions)	49,612	52,885	(6.2)
Load factor (%)	79.8	80.0	(0.2 p.)
Passenger revenue (millions of euros)	3,137	3,891	(19.4)
Passenger revenue / RPK (euro cents)	6.32	7.36	(14.1)
Passenger revenue / ASK (euro cents)	5.05	5.89	(14.3)
Finance indicators and ratios			
Equity (millions of euros)	1,504	1,525	(1.4)
In-balance sheet net debt (millions of euros) (4)	(1,401)	(1,782)	(21.4)
Adjusted net debt (millions of euros) (5)	1,244	1,034	20.4
Recurring EBIT margin (%) (1)	(10.6)	(1.6)	(8.9 p.)
Profit (loss) after tax margin (%)	(6.4)	0.5	(6.9 p.)
Operating revenue / ASK (euro cents) (1)	7.06	8.19	(13.8)
Operating cost / ASK (euro cents) (1)	7.81	8.32	(6.2)
Operating cost (non fuel) / ASK (euro cents) (1)	5.90	5.80	1.7
Resources			
Average headcount (FTEs)	20,435	21,345	(4.3)
Operating revenue per employee (thousands of euros) (1)	215	254	(15.3)
Productivity (thousands of ASK / employee)	3,042	3,097	(1.8)
Number of aircraft at year-end	109	119	(8.4)
Fleet utilisation (block hours / aircraft / day)	10.3	10.0	3.7

IBERIA GROUP	2009	2008	% Change
Revenue and results (millions of euros)			
Recurring operating revenue	4,409	5,450	(19.1)
EBITDAR (1)	61	500	(87.8)
Recurring EBIT	(464)	(79)	nm
Profit (loss) before tax	(435)	36	nm
Profit (loss) after tax	(273)	32	nm
Finance indicators and ratios			
Equity (millions of euros)	1,551	1,564	(0.8)
Adjusted net debt (millions of euros) (5)	1,229	1,012	21.4
EBITDAR margin (%) (1)	1.4	9.2	(7.8 p.)
Recurring EBIT margin (%) (1)	(10.5)	(1.5)	(9.0 p.)
Profit (loss) after tax margin (%)	(6.2)	0.6	(6.8 p.)

nm: Not meaningful
(1) EBITDAR (earnings before interest, tax, depreciation, amortisation and aircraft rentals), margins over recurring revenue, unit revenue and costs exclude non-recurring items.
(2) Profit (loss) from operations includes recurring and non-recurring profit / loss.
(3) Weighted average number of shares outstanding (in thousands): 925,205 in 2009 and 929,348 in 2008.
(4) Negative balance means cash equivalents in excess of interest-bearing debt (without including the measurement of hedges at year-end 2009

1. HIGHLIGHTS

Iberia, Líneas Aéreas de España, S.A. (hereinafter, Iberia) is one of Europe's largest passenger and cargo airlines. It operates an extensive network of scheduled flights. Its main hub is Madrid-Barajas airport where the carrier operates flights connecting with 83 international destinations across Europe, the Americas, Africa and the Middle East. Iberia carries the highest number of passengers between Europe and Latin America of any airline.

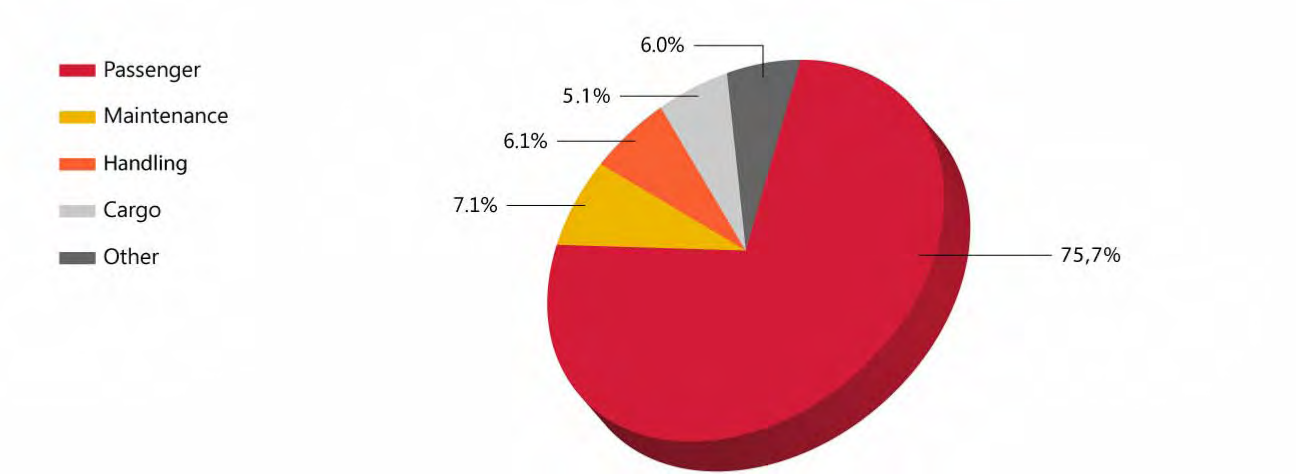
Iberia also engages in other businesses, with the aircraft maintenance and ground handling services standing out. In addition, over the years it has set up or invested in a series of companies that comprise the Iberia Group, and whose business activities complement or are related to those of the parent company.

All of the company's services are provided under the umbrella of its commitment to satisfy its customers' expectations and to create shareholder value on an ongoing basis. The company manages its businesses based on the principles of respecting and protecting the environment, while actively engaging in community work. Iberia is part of the DJSI World and FTSE4Good IBEX sustainability indexes, which track leading sustainability companies in terms of their economic, social and environmental strategies and management.

Iberia is a fully-fledged member of the **one**world alliance, one of the biggest airline alliances in the world.

Iberia's shares have been listed on Spanish Stock Exchange since April 2001. Its main shareholders are Caja de Ahorros y Monte de Piedad de Madrid, with a 22.99% shareholder interest, and British Airways, which owns 13.15% of the company. In November 2009, Iberia and British Airways signed a binding agreement setting the foundations for a merger of equals between the two companies.

IBERIA. BREAKDOWN OF RECURRING OPERATING REVENUE IN 2009



Economic climate

In 2009, the global economy suffered the worst recession since the 1930s. The economic contraction began mid-2008, reflecting the knock-on effects of the international financial crisis, with economic conditions rapidly deteriorating thereafter. The dramatic contraction in industrial output, paralysed financial markets, rising unemployment, and highly leveraged households, increased the risk of a deeper and more prolonged recession, which was sidestepped thanks to unprecedented intervention by governments and central banks, which rolled out a concerted battery of monetary and fiscal stimulus measures.

The International Monetary Fund (IMF) estimates that global gross domestic product (GDP) narrowed by 0.8% in 2009, compared to growth of 3.0% in 2008.

Real GDP growth (a)	2009	2008
Global (b)	(0.8)	3.0
US	(2.5)	0.4
Eurozone (b)	(3.9)	0.6
Japan	(5.3)	(1.2)
Latin America and Caribbean (b)	(2.3)	4.2
Spain	(3.6)	0.9

Source: IMF, World Economic Outlook (January 2010).
(a) Annual percent change in gross domestic product, constant prices.
(b) Global and regional growth aggregates reflect average GDP weighted according to purchasing power parity.

During the third quarter of 2009 certain economic indicators began to show signs of turnaround. Fourth-quarter economic figures confirmed the recovery in the main European economies and Japan, while the US economy posted its first quarter of growth since entering into a recession. Although uncertainty lingers as to the sustainability of this recovery, as it is heavily underpinned by economic stimulus measures, car purchase incentive schemes and inventory cycle factors, there is broad consensus that the international economy is set to improve. The expected pace of this recovery, however, varies significantly depending on the economic situation of each country. Members of the European Union are slated to post weak growth, while emerging and developing economies are expected to prove more dynamic, spearheaded by Asia, most notably China and India.

Turning to Spain, the combination of the global financial crisis with the collapse of the real estate market has had far-reaching economic consequences. In 2009, household spending and the construction sector, the drivers of the protracted economic boom that terminated abruptly in 2008, contracted sharply. Faced with slumping demand, inventory levels rose, prompting losses, bankruptcies and a significant drop in investment in capital goods. Most notably, the crisis has had a profound impact on unemployment in Spain, where the jobless rate as a percentage of the economically-active population stood at 18.8% at year-end.

Spain's GDP fell sharply during the first three quarters of 2009, albeit easing in the last quarter of the year to leave the annual year-on-year contraction at 3.6% according to the latest IMF estimates, for a decline of 4.5 points on the rate of growth registered in 2008.

The global economic crisis also had significant adverse ramifications for the Spanish tourist industry, which accounts for 11% of national GDP. Last year some 5.1 million fewer tourists visited Spain, a drop of 8.7% on 2008. However, the pace of year-on-year declines eased as the year progressed, having registered very high levels during the first half (down 16.3% in 1Q09 and by 11.4% in 2Q09). The majority of international tourists visiting Spain last year flew: 40.2 million visitors arrived by plane (77.1% of the total), 9.3% fewer than in 2008.

Airline sector performance

The global recession had significant repercussions for the airline sector, one of the industries hardest hit by the cutbacks in household and corporate spending. Overall, in 2009 the airline industry suffered the largest declines in passenger and cargo traffic and revenue in its entire history.

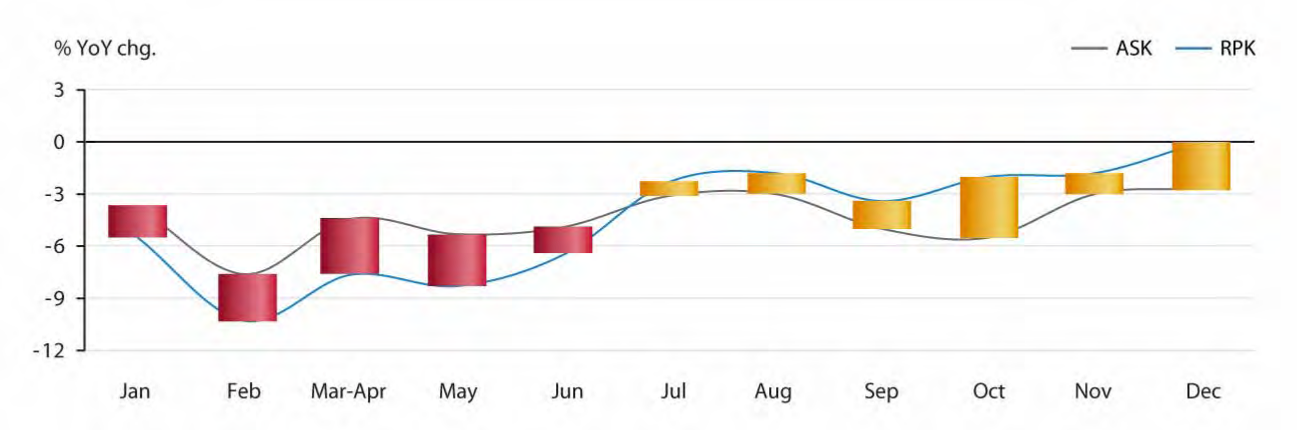
International passenger traffic across the global airline sector had begun to gradually wane in 2008, resulting in a moderate year-on-year contraction in the last quarter of that year. The situation worsened during the early months of 2009, when demand began to slacken at a record pace, reaching rates of over 10% in the months of February and March, easing gradually thereafter. During the last four months of 2009 international passenger traffic rose year-on-year, boosted by the incipient economic recovery, although also helped by an easier comparison. For the full year, international passenger travel, measured by revenue passenger kilometres (RPK), fell by 3.5% on 2008, according to International Air Transport Association (IATA) data, decreasing in virtually all regions of the world.

The European network carriers similarly sustained sharp drops in passenger traffic in the first months of 2009. Although the sharp pace of decline eased somewhat during the second half, the rebound in demand in Europe continues to lag that of other regions. According to the Association of European Airlines (AEA), the number of revenue passenger kilometres on scheduled flights fell 4.5% in 2009, underpinned by widespread declines in traffic that affected European routes as well as most long-haul routes.

Faced with weak demand, AEA carriers began cutting capacity at the end of 2008, cuts that were sustained throughout 2009. This meant that load factors began to improve year-on-year from July 2009. For the full year, the number of AEA available seat kilometres (ASK) narrowed 4.2%, yielding a load factor of 76.0%, 0.3 points below the 2008 figure.

Overall, the industry managed capacity astutely in 2009. However, unit revenue fell sharply.

SCHEDULED TRAFFIC AT AEA AIRLINES IN 2009
% YEAR-ON-YEAR CHANGE



The March-April figures are presented in aggregate to prevent the distortion arising from the fact that the Easter travel period was concentrated in different months in 2009 versus 2008.

In 2009, international air cargo traffic plummeted 10.1% on the back of the global trade crisis. Cargo traffic began to fall before passenger traffic, in mid-2008, and also fell more sharply (in December 2008 and January 2009 cargo traffic plunged by over 24%). This metric began to stage a gradual recovery mid-2009, underpinned by the improvement in the outlook for emerging Asian economies, registering positive growth from October on. Specifically, at AEA airlines, cargo traffic measured in revenue tonne kilometres (RTK) transported narrowed 16.5% year-on-year.

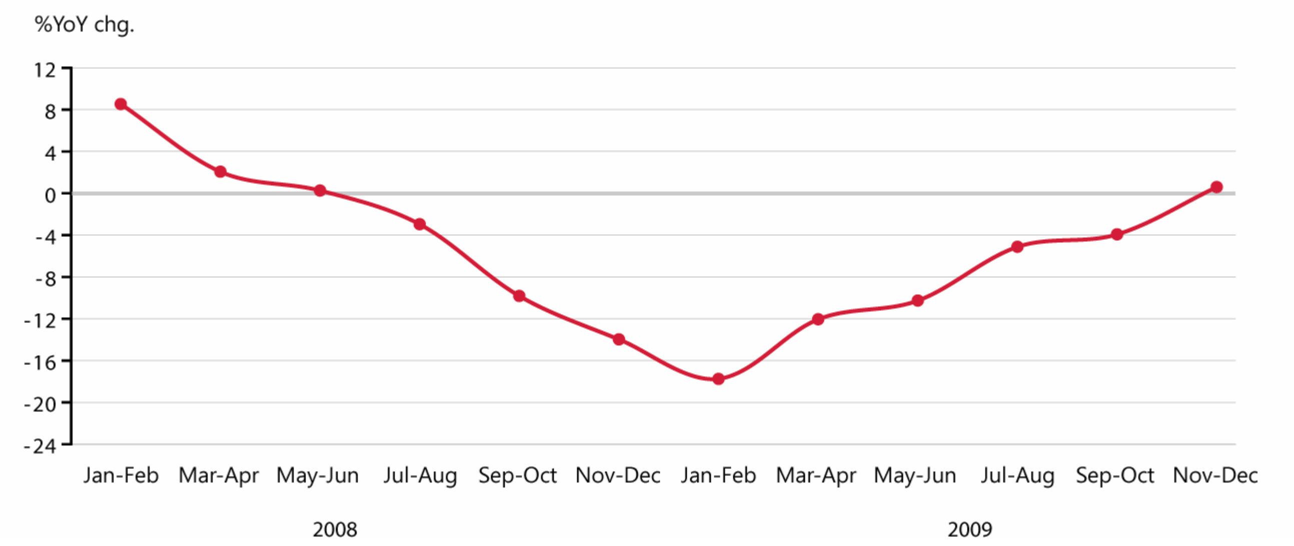
In addition to the significant drop in traffic volumes, the airline sector also suffered a sharp decline in unit passenger and cargo revenue in 2009. According to IATA estimates, the average decline in passenger fares on international flights in 2009 ranged between 10% and 15% compared to the previous year. At AEA carriers meanwhile, revenue per RPK narrowed 14.4% during the first nine months. One of the key drivers of this deterioration in unit revenue was the sharp drop in first and business class travellers, where traffic narrowed 17.1% through November according to the IATA.

Throughout 2009 the airlines intensified their cost cutting efforts, reduced flight frequency and took aircraft out of operation. However, new aircraft deliveries also took place, driving overall fleet utilisation lower across the industry. This did not benefit unit costs. On the other hand, fuel costs fell significantly on 2008 levels although kerosene prices rose sharply from mid-March 2009, climbing from $400/metric tonne to around the $670 mark by year-end. Escalating fuel prices also took their toll on the airlines' earnings, already hit very hard by the slump in revenue.

As a result, the most recent IATA figures point to net losses across the entire sector last year to the tune of 11 billion dollars. For its part, the AEA estimates its members will have notched up between 3 and 3.5 billion euros in losses in 2009. Faced with these circumstances, many airlines were forced to scale back capacity and jobs. And some airlines, particularly smaller operators, also had to deal with liquidity issues. Merger and acquisition activity intensified as a result.

Logically, the Spanish airline sector was not immune to the effects of the economic crisis, as well as having to tackle the major roll out of railroad infrastructure, notably the consolidation of the Madrid-Barcelona high speed rail connection which started to operate in February 2008. According to the Spanish Public Business Entity Aena, passengers travelling through Spanish airports fell 8.0% in 2009 in relation to the previous year. The monthly declines narrowed as the year progressed, partly reflecting the gradual weakening in traffic in 2008, climbing 2.1% year-on-year in December, the first positive reading since May 2008.

TOTAL PASSENGERS AT SPANISH AIRPORTS IN 2008 AND 2009
% YEAR-ON-YEAR CHANGES



In short, air traffic volumes in the airline sector, having contracted sharply in the last quarter of 2008 and in early 2009, began to stage a gradual recovery during the second half of the year, equalling or bettering 2008 levels at the end of 2009.

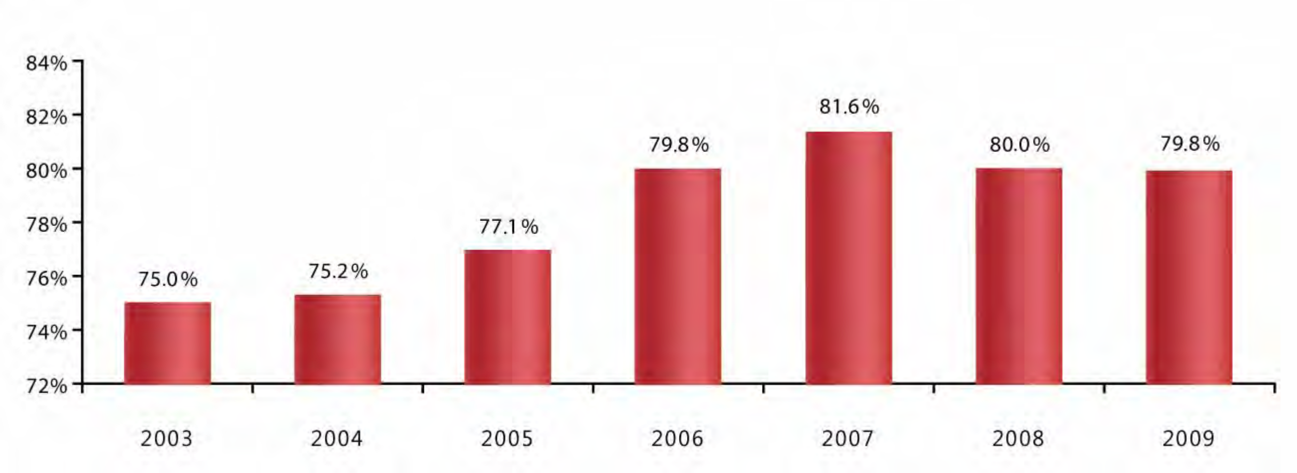
Iberia operating and financial performance

Capacity and demand

The adverse climate affecting the overall airline industry in 2009 naturally took its toll on Iberia's business performance. Weak demand and the sharp drop in unit passenger and cargo revenues had a profound effect on the company's profitability, pushing recurring operating result (EBIT) into the red by EUR 464 million. Recurring operating revenues narrowed 18.9% on 2008, albeit partially offset by an 11.8% reduction in recurring operating costs, thanks to cost control measures rolled out by the company and the drop in fuel prices.

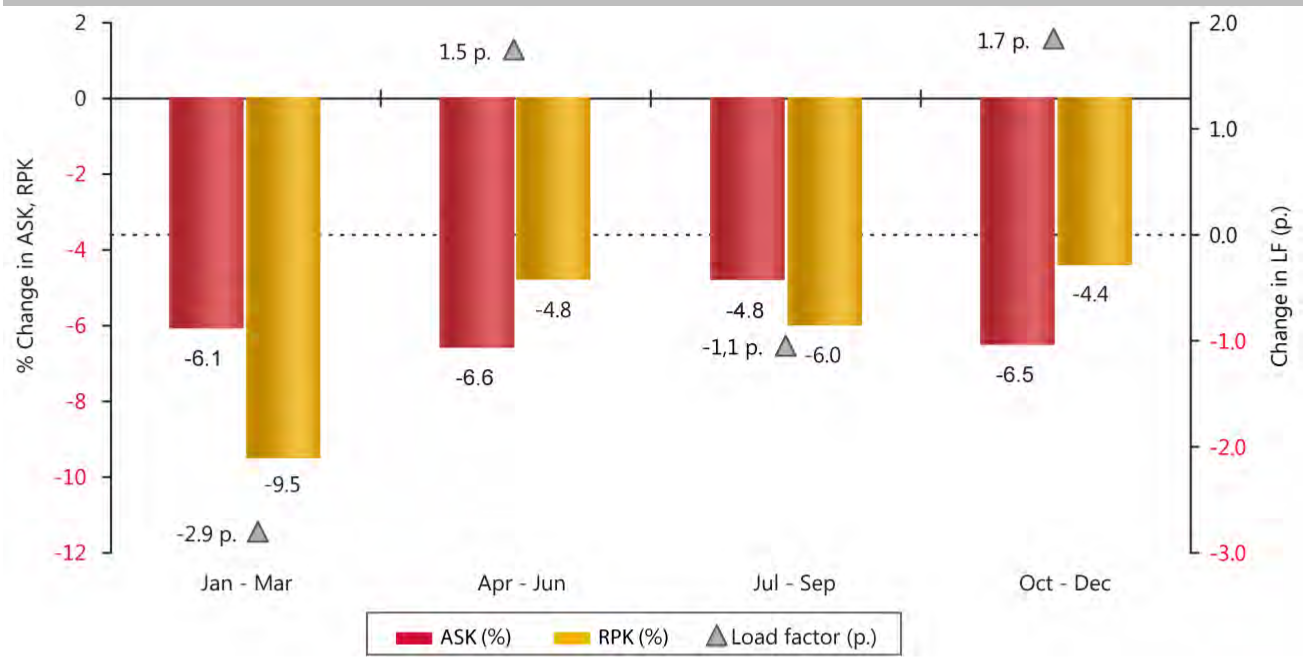
Throughout 2009, Iberia adjusted its flight capacity to the evolving and complex market conditions. The company reduced capacity, measured in available seat kilometres, by 6% with respect to 2008, while demand narrowed 6.2%. By maintaining capacity in line with demand, the company managed to keep its passenger load factor at 79.8%, very close to the 2008 level, remaining towards the top end of the range among full service European carriers.

TREND IN ANNUAL LOAD FACTOR. TOTAL NETWORK



Analysing Iberia's entire network, capacity cutting was fairly consistent throughout the year, while the best performance in terms of load factor came in the fourth quarter.

IBERIA PASSENGER CAPACITY AND DEMAND
QUARTERLY TREND. YEAR-ON-YEAR PERCENTAGE CHANGES



The capacity adjustment was less pronounced in the long-haul segment (-3.3%), which once again increased its weight in the company's overall demand mix, accounting for 63.9% of total revenue passenger kilometres. All year demand in this segment was lower than in 2008, contracting 5.4% over the full year, albeit showing signs of recovery in the fourth quarter. The load factor in the long-haul segment was 83.4% in 2009, 1.8 points lower than in 2008, but improved 0.6 points the last quarter. Iberia, with a market share of 20.1% in 2009, held onto the leadership spot in the Europe-Latin America market, which shrank by 8.8% on aggregate for all carriers.

In medium-haul international flights, the load factor improved by 2.5 points on 2008, reaching an average for the year of 75.6%, on the back of a 9.2% capacity adjustment, as the company fine-tuned its flight schedule in response to the challenging European market conditions. Demand was 6% lower in 2009, registering the largest drop in the first quarter (-10.7%), although slipping monthly by less than capacity from April onwards. The company continued to prioritise optimising connections through its Madrid-Barajas hub. Indeed, analysing medium-haul international flights departing from or landing at Madrid airport, the year-on-year decline in traffic narrows to 2.3% with respect to the previous year.

In accordance with strategic planning, Iberia continued to cut capacity on its domestic routes: this strategy resulted in an 11% reduction in ASK relative to 2008, pushing the load factor 0.4 points higher to 71.7%. Twenty per cent of capacity was taken off the Madrid-Barcelona route in 2009; capacity on this route was slashed by 36.5% during the first quarter and by 11.7% during the next three quarters. Iberia began restructuring its flight schedule on this route in April 2008, primarily by introducing smaller aircraft following the start-up of the high speed train in February of that year. This explains the higher percentage decrease during the first quarter of 2009.

Since 9 September 2009 all Iberia and associate airline flights operate from the new Terminal 1 at Barcelona airport. This new location saves time for shuttle passengers, while the new and extended installations have enabled the airline to raise customer service levels.

The global economic recession had an especially strong impact on business travel, which fell sharply in all markets. On Iberia's long-haul flights, the number of passengers travelling in the Business Plus class fell 13.3% on 2008. Nonetheless, the company held on to its leadership of the business travel segment in the Europe-Latin America market, commanding a market share of 23.6%.

Operating revenue

Passenger revenue from flights operated by Iberia in 2009 were EUR 754 million lower than in 2008, which translates into an annual decline of 19.4%, driven by a 14.1% drop in passenger revenue per RPK and, to a lesser extent, slumping demand. The decline in unit revenue reflected the adverse trend in the class *mix*, more intense fare pressure in most markets, and the impact of the (4.4%) increase in the average passenger stage length.

The economic crisis had even greater ramifications in the air cargo segment. The airline's cargo traffic began to fall mid-2008, earlier than passenger demand, while the recovery also took place early: in the fourth quarter, cargo traffic climbed 10.5% higher year-on-year, although contracting 11.6% for the full year in terms of revenue tonne kilometres. The drop in demand, combined with a sharp drop in unit cargo revenue, resulted in a 27.5% decline in cargo revenues.

Iberia's revenue from handling services, despite the lower volume of airlines' handled, narrowed moderately (easing 3.3% on 2008). Meanwhile, technical assistance revenue rose 4.2%, extending this business' healthy earnings performance.

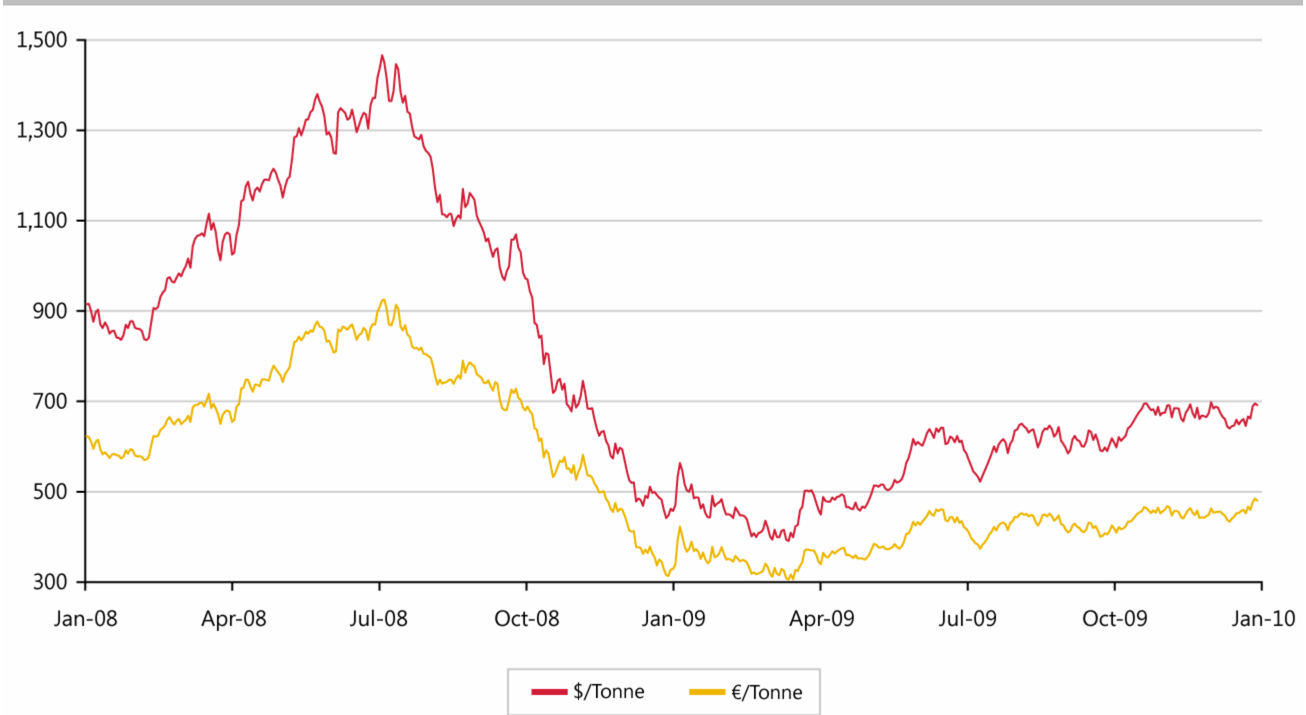
In all, the company's operating revenues (including non-recurring items) were 19.0% lower in 2009, at EUR 4,439 million.

Operating costs

Last year fuel costs fell a noteworthy 28.9% to EUR 1,184 million, a reduction of EUR 482 million, due mainly to the sharp drop in average market prices and lower consumption (6.6% measured in litres) as a result of lower business volumes and increased fleet efficiency.

The prices for oil and refined products, including aviation kerosene, flirted with historical highs throughout 2008, proving highly volatile, hindering the risk management function. In July 2008, kerosene prices (according to the Jet CIF NWE index) surpassed $1,400/metric tonne. They then changed tack, unpredictably, falling sharply through March 2009. Since then kerosene prices have responded to the successive upward revisions to economic forecasts, rising in tandem with the growing perception that economic recovery was underway. By year end 2009, kerosene prices had rallied 51% from January levels. However the average price for the year in dollars was 44% below the average 2008 level.

JET CIF NWE - PERFORMANCE 2008 - 2009



In 2009 non-fuel operating costs (recurring) narrowed 4.4% to EUR 3,668 million.

During the second quarter of 2009 Iberia began execution of its Contingency Plan in a bid to mitigate the profound impact the economic crisis was having on earnings. Under this program, the company scaled back capacity and personnel and general costs, selectively pruning planned capital expenditure.

Thanks to its flexible fleet management approach, Iberia was able to cut capacity more quickly and more significantly than its competitors. The company has temporarily taken out of operation eight owned short and medium haul aircraft (four since May, a fifth since June and the remaining three since October). In addition, mid-year it took back three long-haul aircraft operated under wet leases at the start of the year; these aircraft were accordingly operated using in-house resources during the second half. The company also agreed with Airbus to defer receipt of four aircraft to 2010, delivery of which was originally slated for 2009.

At year-end, Iberia's operating fleet comprised 109 aircraft, with an average age of 7.2 years, giving it one of the most modern fleets in the global airline industry, thanks to the strategic renovation pursued in recent years. This process has also resulted in significant aircraft standardisation: Iberia exclusively operates two families of Airbus aircraft, the A340 on long-haul flights and the A320 on short and medium-haul flights. This enables it to optimise the deployment of technical crews while providing operating management and cost control benefits.

In 2009, average fleet utilisation continued to improve, rising 3.7% on 2008 to 10.3 block hours per aircraft per day.

In 2009, Iberia put in place a series of measures to bring its employee costs in line with the economic environment and the slump in volumes and revenues. These measures included: a salary freeze applicable to the management team and all personnel not included in the collective bargaining agreements; a cut in certain variable pay components; a hiring freeze and the non-renewal of temporary contracts; and application of early retirement, contract renegotiation and leave with guaranteed job security formulae under its workforce restructuring plan (hereinafter ERE for its initials in Spanish). In 2009 a total of 1,012 Iberia employees opted for one of these options.

In April the company signed the VII collective bargaining agreement for technical crew workers, valid from 2005 to 2009, providing for wage moderation and a series of measures designed to raise flexibility and productivity. The agreement also allows pilots to continue to work half-time between the ages of 60 and 65. This last measure lowered the net present value of the estimated technical crew pension fund provision, with a positive impact on 2009 earnings.

Iberia's recurring employee costs narrowed 1.8% year-on-year to EUR 1,288 million, thanks to wage control measures and, above all, a 4.3% reduction in the average headcount to 20,435 full-time equivalents (FTEs). In addition, in 2009 Iberia topped up its provision for workforce restructuring by EUR 51 million (non-recurring) to reflect the extension of its prevailing program.

Most of the other cost headings registered year-on-year declines due to lower volumes, fine-tuned procedures, consumption rationalisation and contract renewal with goods and service suppliers. In all, operating costs narrowed 10.8% on 2008 to EUR 4,911 million, a figure that includes EUR 58 million of non-recurring costs. Profit from operations amounted to a loss of EUR 475 million in 2009 compared to a profit of EUR 4 million in 2008.

Net finance income

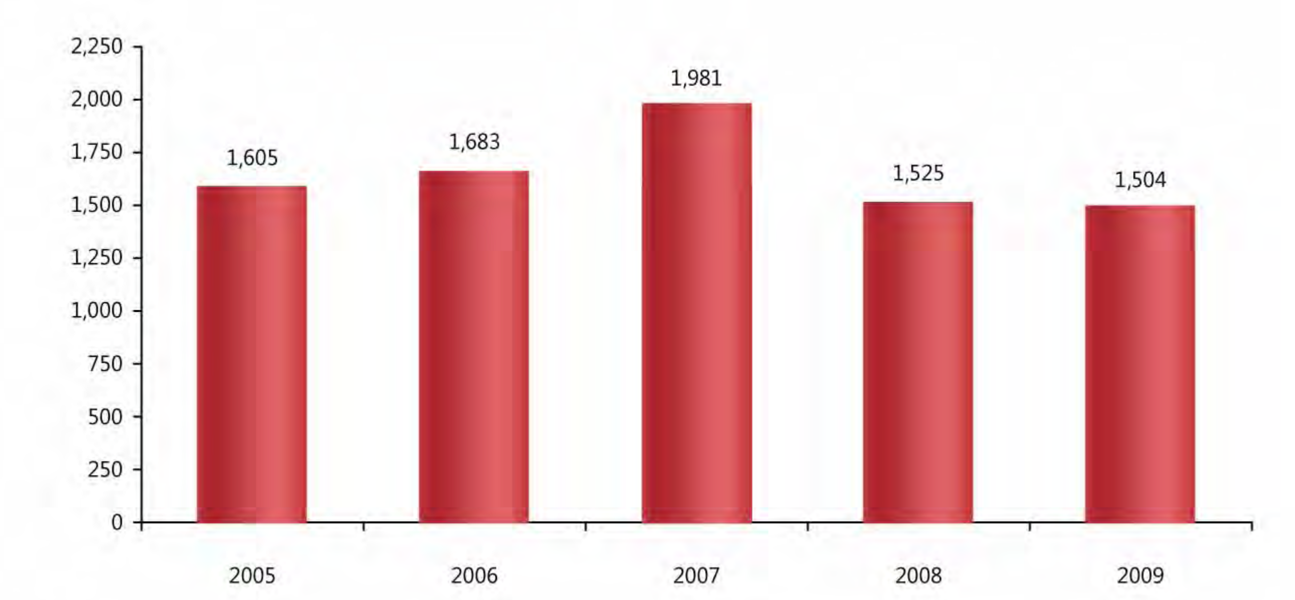
The merger between airlines Vueling and Clickair closed in July 2009 with Iberia taking a 45.85% stake in the merged entity. The transaction generated near EUR 21 million in gains for Iberia. Net finance income from other headings amounted to EUR 11 million in 2009, down EUR 19 million on 2008, due mainly to lower interest rates.

Net profit (loss) and balance sheet health

In 2009 the company posted a pre-tax loss in its individual financial statements of EUR 443 million compared to profit in 2008 of EUR 26 million. In all, the company's loss after tax was EUR 281 million in 2009, compared to profit of EUR 25 million the previous year.

The year-end statement of financial position illustrates the company's healthy financial position. At EUR 1,504 million, equity was broadly similar year-on-year.

ANNUAL TREND IN IBERIA'S EQUITY



The adjusted liquid balance (current financial investments plus cash and cash equivalents and excluding the measurement of derivatives) stood at EUR 1,904 million at 31 December 2009, down 15.4% on the 2008 year-end balance.

Adjusted net debt, including the capitalisation of operating lease costs, stood at EUR 1,244 million, up 20.4% on 2008. Leverage, measured as the ratio of adjusted net debt to total capital employed (the sum of equity and borrowings), stood at 45.3% at the end of 2009, up 4.9 percentage points on year end 2008.

Plan 2012

In 2009 Iberia put in action an initial Contingency Plan with the aim of mitigating the significant slump in revenues sustained as a result of weak demand. This plan prioritised capacity cuts in a bid to match supply to demand, although also focusing on scaling back costs and capital expenditure.

Although the plan was on target, the greater than initially forecast fallout from the recession prompted the company to design what it has termed Plan 2012. The overriding goal of this plan is to maintain and even improve Iberia's leadership position in its core markets. The plan extends to franchisees and investees. The idea is to enhance the airline's strategic positioning as both an independent company and against the backdrop of sector consolidation.

Plan 2012 is designed to transform Iberia, boosting its long-haul business and shaping Group companies and/or associates to compete competitively in the short and medium haul segments going forward. Accordingly, the plan calls for growth in transcontinental routes and gradual capacity cuts on domestic and European routes.

Plan 2012 also calls for significant employee cost savings, and therefore includes a wage freeze in 2010 and 2011. Other cost cutting measures will drive annual savings of EUR 37 million in 2011. Finally, the program calls for enhanced productivity across the company's entire workforce.

Capital expenditure under Plan 2012 amounts to EUR 200 million, EUR 120 million to upgrade business class on long-haul flights and EUR 80 million to extend the workforce restructuring measures already underway, which will result in the departure of around 325 employees.

Service quality

At the Iberia Group, customer orientation and service quality are core components of its strategic vision and competitive positioning. The company has prioritised investments that improve service quality based on its understanding that this yardstick sets it apart from its competitors. The airline takes a segmented approach to customer service.

In 2009, Iberia launched its **Total Customer Care Program**. This is a multi-year plan designed to achieve excellence in customer service and quality. It is a cross-departmental plan in which all management disciplines are engaged. It takes a three-pronged approach: (i) enhancing product and service levels; (ii) overhauling all operational processes that affect the customer; and (iii) a structured approach to systematically improving staff's attitude towards customers via both training initiatives and selective hiring. Based on feedback from its ongoing customer satisfaction evaluation systems and procedures, Iberia has been able to verify that customers indeed perceive an improvement in service quality, thanks to the host of initiatives rolled out during the year.

In 2009 Iberia embarked on a project to transform **Business Plus** cabins on its long-haul aircraft with a view to increasing passenger legroom and comfort. By the end of 2010 all its Airbus A340 aircraft will have been upgraded and business class customers will be able to enjoy up to 2.20 metres of personal space as well as the option of putting their modern seats into a fully reclined bed position. The new configuration of the business class cabin is rounded out with best of class communication and entertainment systems. In addition, the company is collaborating with prestigious chefs, sommeliers and renowned companies to update the broad range of Spanish cuisine and fine wines offered on board and in its VIP lounges.

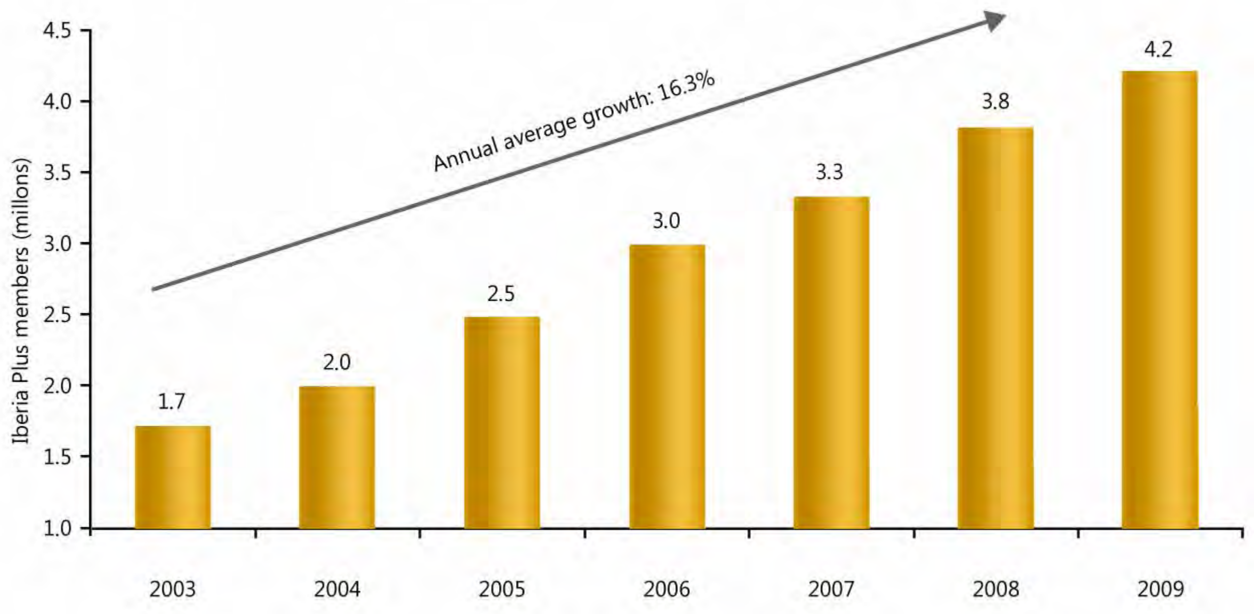
Iberia passengers can choose from a total of 65 **VIP lounges**, which are especially designed and fitted out to make the time spent in the airport by Iberia's Business Plus and Business Class passengers and **one**world alliance business class passengers more pleasant. Holders of Iberia Platinum, Gold and Fiesta Club cards are also entitled to use these facilities. Notably, the company has fully remodelled its VIP lounges in Madrid-Barajas airport's Terminal 4: passengers can now enjoy a total of 4,600m^2 equipped with meeting rooms, relaxation zones, showers, computers and internet connections, among other services and comforts. As part of its Total Customer Care Program, the company also upgraded its VIP lounges in Valencia, Bilbao, Santo Domingo and Frankfurt.

A very significant percentage of the tickets issued and passenger revenues booked by the company is generated by members of its **Iberia Plus** frequent flyer program, which the Iberia Group views as a valuable tool for interacting with and acknowledging the loyalty of its best customers. At the end of 2009 Iberia Plus had 4.2 million members, growth of 10.5% for the year, located across 200 countries worldwide. Over half of these have signed up for Iberia Plus online, a direct channel accessed via the Iberia website.

Throughout its 18-year history, the frequent flyer program has been incorporating leading companies from a range of sectors. In December 2009 the number of corporate affiliates totalled 89, following the addition of 12 new members last year, including: Fiesta Hotels, Rusticae, Heineken, Mutua Madrileña, Cortefiel and Vueling.

Iberia Plus is the best-rewarding frequent flyer program. According to a report carried out by international consultant IdeaWorks on how easy it is to find reward seats and other services online, querying ten US and European airlines' websites, Iberia's frequent flyer program topped the chart on seat availability.

IBERIA PLUS MEMBERS



Iberia's **punctuality** (industry standard, flights departing within 15 minutes of schedule) was 81.2% for the overall network in 2009, similar to the 2008 figure (81.4%). The company's punctuality performance was negatively impacted in January and December of last year by adverse weather conditions at Madrid-Barajas airport.

Innovation and technology

Iberia has always prioritised innovation, viewing this driver as a value that encompasses all the important business elements: strategy, processes, services and products. The company has pioneered the use of cutting-edge technologies, viewing them as essential tools for raising competitiveness and quality in the airline industry. This innovation is reflected in the company's investment in technology. Specifically, in 2009, Iberia received recognition for 34 innovation projects through certification or independent appraisals from public bodies such as the Ministry of Industry, Tourism and Commerce, the Ministry of Science and Innovation and the Centre for the Development of Industrial Technology, among others, spanning different areas relating to information technology and aircraft and engine maintenance and engineering.

iberia.com, the company's website and online marketing tool, is one of the most comprehensive and innovative e-commerce sites in Spain, as evidenced by the numerous prizes it has received in recognition of its quality and design. In Spain it is the highest grossing e-commerce site. Outside Spain 42 country-specific websites are available in seven different languages. Average daily visits in 2009 amounted to 343,000.

Passengers can reserve flights and book tickets at www.iberia.com. Thanks to agreements in place with other companies, customers can also purchase other products and services, such as hotel bookings, car rental, tour packages, travel insurance, excursions, airport transfers and even Business Plus wines.

In 2009, revenue from online flight bookings (tickets and fees) approached EUR 588 million, up 10% on 2008. Iberia's international websites registered the highest growth: ticket issuance via these sites jumped 21.0% compared to growth of 10.2% in Spain. Adding in other products and services purchased, total revenue from online purchasing amounted to EUR 600 million.

The company provides a wide range of information on its website (flight schedules, fares, arrivals and departures, weather conditions at destination) as well as other services, including, notably, self check-in online from any computer, allowing passengers to go straight to the boarding gate without passing by a check-in desk if not checking in luggage. In 2009, Iberia passengers issued around 14,500 boarding passes via the website each day. Iberia has also added new functionality such as the ability to download boarding passes onto a mobile phone or PDA for scanning at the gate. This innovative system was available at 13 of Iberia's airports at year end. New destinations will be added as the airports are fitted out with the enabling technology.

The company continually renews and extends the functionality of its website in a bid to provide an increasingly interactive and efficient service. Noteworthy developments and upgrades added in 2009 include: a destination map featuring special offers; the ability to buy tickets from any city in all markets; last minute availability information; access to detailed and personalised flight information, enabling reservation changes, seat selection and special requests; adaptation for access and use by the visually or hearing impaired; a new tool for advance payment of excess baggage; family discounts; lost luggage enquiries; and integration of ticketing and billing for Vueling flights, among others.

Last year the company created a new portal, **iberiacorporate.com**, to provide an open channel enabling travel staff at over 1,300 companies to access all the information relating to the agreements in place with Iberia. The new portal includes exclusive offers and provides practical information on all aspects of business travel, among other features.

Iberia has joined the most recent tool for introducing electronic ticketing for interline travel of airline staff, myIDTravel, which enables Iberia employees to self-issue tickets on any airline associated with this program.

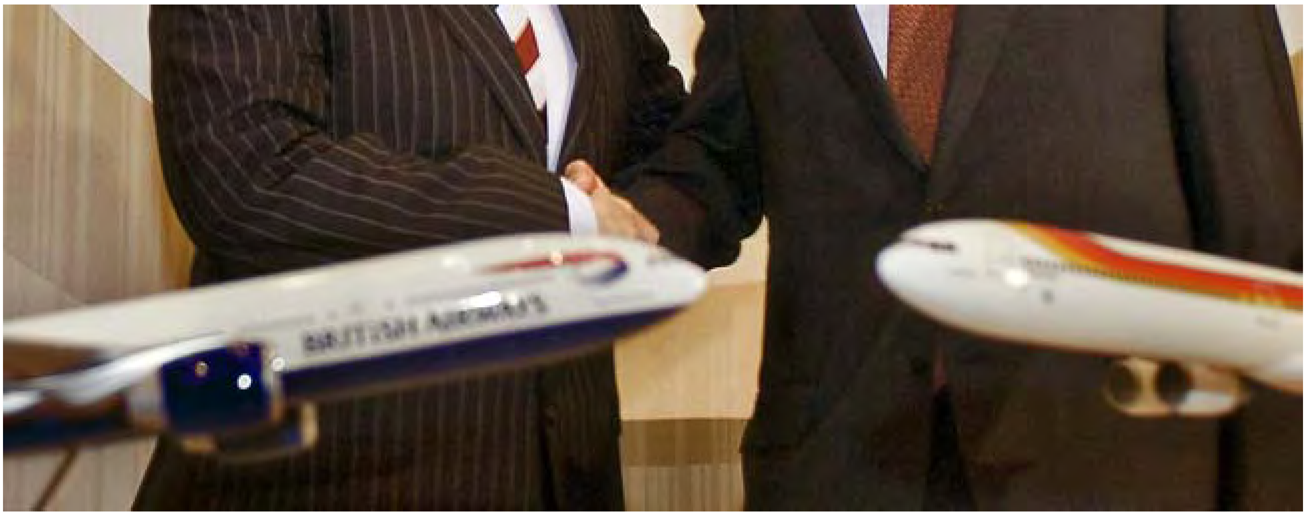
Iberia's cargo management team and the International Air Transport Association (IATA) continued to implement the IATA *e-Freight* initiative in Spain. e-Freight, or paperless electronic cargo documentation, is a series of electronic records that store all information relating to each dispatch, eliminating the need to send as many as 13 paper documents, thereby shaking up process, improving speed and reliability and lowering costs. In 2009 the e-Freight system was rolled out in new European and US destinations.

Iberia's airport management team implemented a new baggage handling and control system in Madrid which significantly raises passenger service levels and reduces the costs incurred by the company in relation to lost luggage incidents. This initiative, developed with the Orión-BRS/SAMB group, is an innovative solution for automatically reconciling luggage with its owner and his or her corresponding flight.

Corporate transactions

Agreement with British Airways

On 12 November 2009 the boards of Iberia and British Airways approved a binding agreement that sets the foundations for a merger between the two airlines, theoretically allocating equal participation on the enlarged group's board and other governing bodies.



The merger agreement contemplates the creation of a newco, **TopCo**, owned by both Iberia and British Airways, under which each company will continue to operate existing brands and rights, remaining responsible for daily operations management.

TopCo will be owned by the current shareholders of Iberia and British Airways. Under the terms of the planned merger, the shareholders of the British company will receive one ordinary share in TopCo for every share currently owned in British Airways, while Iberia shareholders will receive 1.0205 ordinary shares in TopCo for every common share held in the Spain airline. Based on this exchange ratio, and following cancellation of Iberia's treasury shares and prior to cancellation of the current cross shareholdings between British Airways and Iberia, Iberia shareholders will own 45% of Topco's equity, with British Airways shareholders holding the remaining 55%.

TopCo's registered business address will be Madrid and it will be a tax resident of Spain, while the financial and operational head office will be in London where the group's main functions will be located, although the necessary Madrid offices will be maintained. There will be 14 seats on the Board of Directors of TopCo, to be appointed in equal proportion by both airlines. Antonio Vázquez will chair the new group while Martin Broughton will serve as vice-chair.

The two companies are continuing to make progress, having set a deadline of one year from signature of the letter of intent to close the merger which will create one of the world's biggest airlines. The merger will benefit both airlines' shareholders and employees who will be partners in a more robust, global company. Meanwhile, the carriers' passengers will have more flight and destination options, among other benefits under the deal.

Merger between Vueling and Clickair

The publicly notarised deeds to the merger of Clickair and Vueling (with the former merging into the latter) were filed with the Barcelona Companies Register on 16 July 2009, having been ratified by both companies' shareholders in general meeting on 5 May. Registration of the merger deeds resulted in the official dissolution of Clickair (an Iberia investee) and the transfer en bloc of its assets and liabilities to Vueling, which acquired all the rights and obligations of Clickair by universal succession.

In accordance with the terms of the merger, and after receipt of the pertinent waiver from the securities market regulator exempting Iberia from having to launch a tender offer, Clickair converted outstanding privileged shares into common shares, leaving a single series of shares with a face value of EUR 10 each. Subsequently, Clickair increased capital by EUR 25 million and Iberia bought out the remaining Clickair shareholders, except for Nefinsa, at the updated acquisition price. Vueling also increased capital by enough to cover the share exchange in a rights issue reserved exclusively for Clickair shareholders. As a result of the merger and agreed exchange ratio, Iberia is now the largest shareholder and strategic partner in Vueling, with a 45.85% shareholding.

Changes in Iberia's governing bodies

On 9 July 2009 the Board of Directors of Iberia accepted the voluntary resignation of its Chairman, Mr. Fernando Conte García, agreeing to name Mr. Antonio Vázquez Romero Chairman of the Board and Chief Executive Officer of the company. At the same meeting, the Board of Directors agreed to appoint Mr. Rafael Sánchez-Lozano Turmo, who had served on the airline's Board since 2007 as representative of Valoración y Control, S.L., as Chief Operating Officer.

At the Iberia Board of Directors' meeting held on 17 December 2009, Mr. Keith Williams was appointed director at the proposal of British Airways.

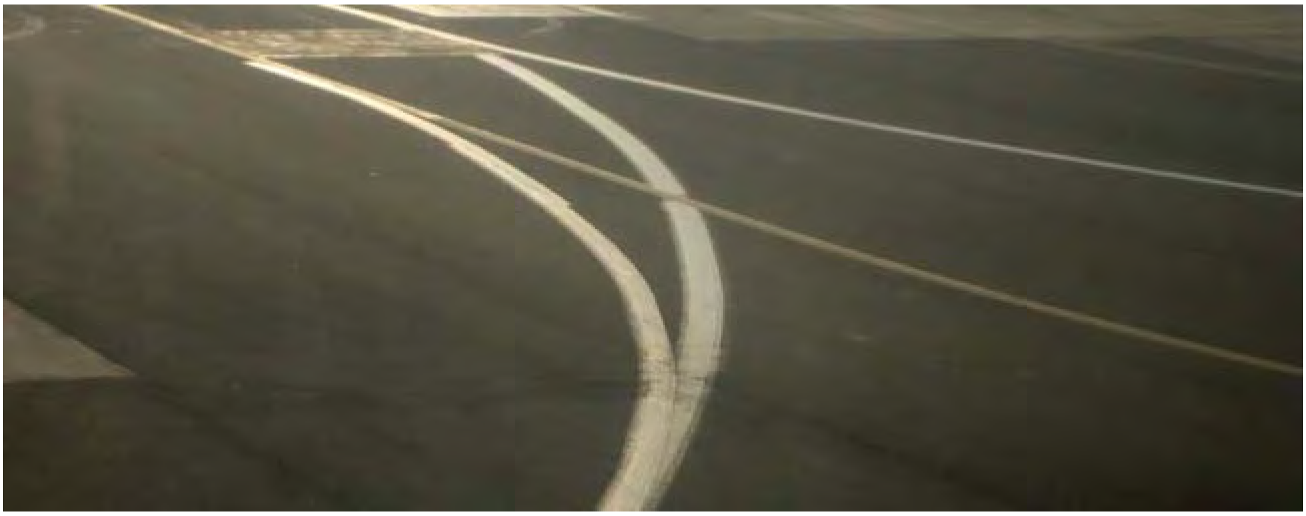
At the end of August 2009 Iberia shook up its top management, simplifying the management structure with a view to reinforcing the company's competitive positioning. As a result, two major areas have been set up within the transport business: a Sales and Customer Department focused on revenue generation and run by Mr. Manuel López Aguilar, former managing director of Maintenance and Engineering, and the Production Department, oriented towards enhancing operations and raising productivity, and headed by Mr. Juan Manuel Bujía Lorenzo. This restructuring led to the elimination of the Airline Department under the stewardship of Mr. Enrique Donaire Rodríguez.

A Purchasing and Services Department was also set up and entrusted to Mr. José María Fariza Batanero, former Head of Control and Administration, with the overriding task of streamlining costs. The administrative and control functions have been brought under the remit of the Finance Department; the Chief Financial Officer is still Mr. Enrique Dupuy de Lôme Chávarri. Lastly, Mr. José Luis Ruíz de Castañeda de la Llave was appointed Managing Director of Maintenance and Engineering.

Events after the statement of financial position date

At Iberia's Board of Directors' meeting held on 12 February 2010, Mr. Rodrigo de Rato Figaredo was appointed member of the Board at the proposal of Caja Madrid, to fill the vacancy left following the voluntary resignation of Mr. Miguel Blesa de la Parra. As such, he will act as Vice Chairman of Iberia and will be a member of the Executive Committee of the company's Board of Directors.

There were no other significant events subsequent to year-end.



2. Financial and Operating Performance

2.1. Business

The 2009 Group Management Report provides a more detailed description of Iberia's operating performance in relation to the transport and other core businesses.

2.1.1. Transport

Passenger transport

In the early months of 2009 the global airlines sector sustained a sharp drop in demand, followed by a pronounced contraction in unit revenue, reflecting the fallout from the global economic recession. According to International Air Transport Association (IATA) data, during the first half of 2009 international passenger traffic, measured by revenue passenger kilometres (RPK), fell by 7.5% in comparison to the previous year. During the second half, demand recovered substantially, so that the overall year-on-year contraction in traffic in 2009 narrowed to 3.5%. In the case of the European network carriers, RPK narrowed 4.5% on 2008. In addition, the dip in business class travel was proportionately higher than the headline figure in virtually all markets, exacerbating airlines' losses.

The recession hit the Spanish airline industry particularly hard. Domestic air travel in Spain was also faced with having to tackle the competition posed by the development of the nation's high speed rail network. According to the Public Business Entity Aena, commercial traffic passing through Spain's airports (measured in passengers) fell 8.0% in 2009. Nonetheless, Spanish air traffic similarly improved as the year progressed, so that the pace of contraction eased gradually, narrowing to a decline of 0.7% year-on-year in 4Q09.

The table below depicts the key passenger transport metrics for Iberia for across all segments:

Passenger transport	2009	2008	% Change
ASK (millions)	62,158	66,098	(6.0)
RPK (millions)	49,612	52,885	(6.2)
Load factor (%) (a)	79.8	80.0	(0.2 p.)
Block hours	432,590	466,645	(7.3)
Yield (euro cents)	6.32	7.36	(14.1)
Revenue per ASK (euro cents)	5.05	5.89	(14.3)
Passenger revenue (millions of euros) (b)	3,137	3,891	(19.4)

(a) Year-on-year difference expressed in percentage points.
(b) Revenue includes only that generated on flights operated during the year (i.e., excludes other passenger revenue from the cancellation of customer deposits and other accounting adjustments).

Iberia attained a passenger load factor at 79.8% in 2009, very close to the prior year's level and once again one of the highest levels seen at any European full service carrier.

Throughout the year the company fine-tuned its flight schedule in order to bring capacity in line with weakened demand. Available seat kilometres (ASK) fell 6.0% on 2008, while traffic (measured in RPK) narrowed 6.2%.

Iberia's total passenger fleet production, measured in block hours, narrowed 7.3% on 2008, with a significant 66.9% correction in block hours operated under *wet lease* arrangements.

Iberia's passenger revenue for the entire network was 19.4% lower than in 2008, at EUR 3,137 million. In 2009 the *yield* (revenue per RPK) narrowed 14.1% due to the significant deterioration in the class *mix*, more intense fare pressure in most markets, and the impact of the (4.4%) increase in the average passenger stage length. The lower yield, combined with a slight drop in load factor, drove a 14.3% decline in passenger revenue per ASK. The impact of exchange rate movements on unit revenue accounted for a slight 0.8 percentage point increase in this metric.

In 2009 Iberia carried 20.9 million passengers across its entire network, of which 4 million corresponded to long-haul flights.

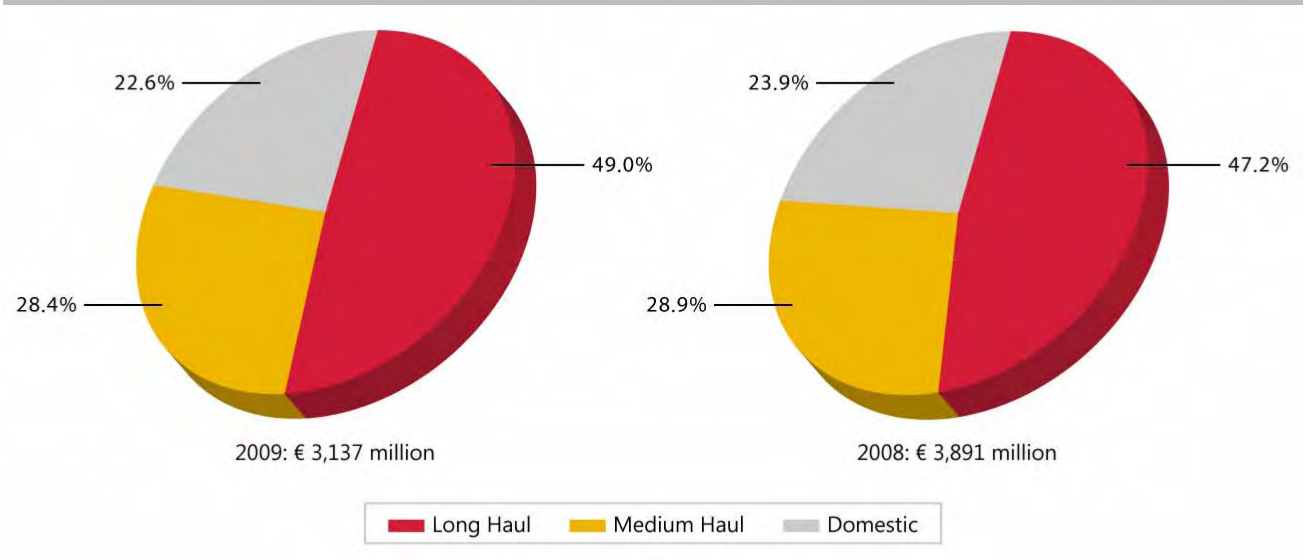
The **long-haul** segment suffered the smallest adjustment to capacity (-3.3%); in this segment RPK contracted by 5.4% on 2008 so that the load factor deteriorated by 1.8 points to 83.4%. Extending the trend of recent years, the contribution of long-haul to total network traffic increased 0.6 percentage points to 63.9%.

The North American market sustained the narrowest contraction in business volumes: capacity was cut by 2.9% while demand eased by 3.7%. In Central America, capacity contracted 5% on 2008 while traffic narrowed 6.5%, driven mainly by lower traffic on Mexican routes, hit by the outbreak of swine flu from the end of April. In South America, capacity was trimmed a slight 0.3%, while demand narrowed 4.1%.

In the long-haul segment, the *yield* fell 11.6% in 2009 as a result of more intense competition on the back of slumping demand. Revenue per ASK narrowed 13.5% on 2008, compounded by the drop in the load factor. The 13.3% year-on-year drop in business class passengers had a significant adverse effect on unit revenue. However, business class traffic has been staging a recovery since the summer, in part stirred by sales and marketing efforts. Business class traffic slid 6.0% during the second half compared to a drop of 20.4% in the first half.

Long-haul passenger revenues declined 16.4% on 2008 to EUR 1,538 million, to account for 49% of total network passenger revenues in 2009 (1.8 points higher than the 2008 contribution).

BREAKDOWN OF REVENUE



In short and medium haul flights, capacity and traffic narrowed by 9.8% and 7.6%, respectively, while the load factor rose 1.8 points on 2008 to 74.2%.

In the **international medium haul** segment the load factor climbed 2.5 points to 75.6% (this increase widens to 3.2 points considering European flights only). The company cut capacity on international medium haul flights by 9.2%, reflecting the streamlining planned on certain point to point routes and additional cuts made to match capacity to falling demand (-6.0% on 2008). Analysing medium-haul international flights originating or landing at Madrid airport, the drop in capacity was 5.0% compared to a 2.3% decline in traffic to leave the load factor 2.1 points higher at 75.7%.

The *yield* across the overall medium-haul segment declined 15.7% in 2009 due to the collapse in business class travel at all airlines operating in the Spain-Europe market (off 32.0%), mirroring fierce competition on European routes and the impact of the (3.2%) increase in the average passenger stage length. The improvement in the load factor meant that revenue per ASK fell by almost three points less than the yield (-12.8%). Passenger revenues in this segment fell 20.8% on 2008 to EUR 890 million.

The load factor in the **domestic** segment rose 0.4 points to 71.7% in 2009, driven by an 11.0% capacity cut. These cuts were higher in the first quarter of 2009 (-20.9%) than in the rest of the year (-7.3% between April and December) due in part to the capacity restructuring initiated on the Barcelona-Madrid route in April 2008 in response to the start-up of the high speed rail connection. In relative terms, the routes connecting these two cities sustained the most significant contractions in capacity and traffic, down last year by 20.0% and 27.6%, respectively. The yield on domestic flights fell 14.6% year-on-year due to a 3.3% increase in the average stage length in this segment, the sharp deterioration in the class *mix*, and the reduction in fuel surcharges, while revenue per ASK narrowed 14.2%. Passenger revenues from the domestic segment narrowed 23.6% to EUR 709 million.

Cargo

At Iberia, freight and mail revenue tonne kilometres (RTK) totalled EUR 1,021.5 million in 2009, a drop of 11.6% on 2008, driven by the significant fallout from the economic slump on global air cargo traffic. In line with the broader sector trend, Iberia's cargo traffic registered steeper declines in the first half (24%), gradually recovering during the second half. RTK climbed 1.2% higher year-on-year in 2H09.

Iberia cut available tonne kilometres (ATK) by 1.8% in 2009. As a result, the load factor deteriorated by 6.8 percentage points to 60.7% with respect to the 2008 annual average, albeit with a 7.9 point improvement during the last quarter. 94.4% of total cargo traffic was carried in the Iberia passenger aircraft holds, a slight increase on the 2008 balance (93.5%).

In 2009, revenue from freight and mail transport at Iberia fell 29.9% to EUR 208 million, although, driven by the gradual recovery in demand, this decline narrowed to 19.7% in the last quarter, compared to 33.4% during the first nine months.

The *yield* (revenue per RTK) stood at 20.4 euro cents, a drop of 20.6% on 2008, due to three factors: (i) widespread price cuts across the sector as a result of surplus capacity, (ii) the drop in fuel prices, and (iii) the decision to maximise utilisation of Iberia's holds by pursuing a very aggressive price strategy.

The key performance indicators for this business are as follows:

Cargo	2009	2008	% Change
ATK (millions)	1,683.9	1,714.2	(1.8)
RTK (millions)	1,021.5	1,156.1	(11.6)
Load factor (%) (a)	60.7	67.4	(6.8 p.)
Revenue/RTK (euro cents)	20.37	25.67	(20.6)
Cargo transport revenue (millions of euros) (b)	208	297	(29.9)

(a) Year-on-year difference expressed in percentage points.
(b) Revenue from freight and mail transport (i.e., does not include excess baggage fees).

2.1.2. Handling

Iberia Airport Services provides ground handling services at Spanish airports to both third party carriers and Iberia itself. In 2009, the company continued to act as ramp handling agent at 36 airports by virtue of 21 concessions in effect since 2007. The company also operates in Barcelona, Lanzarote and Fuerteventura airports through its interests in the joint venture concessionaires (holding 32% of the Barcelona JV and 30% of the Canary Island airport JVs).

Since July 2008 the company also provides meet and greet services to persons with reduced mobility (PRM) under concession, operating directly at the airports where Iberia is the sole ground handler and in JV in Madrid, Palma de Mallorca and Alicante (with shareholdings of 51%, 50% and 50%, respectively). This business line made a EUR 2.5 million contribution to Iberia Airport Services' income statement.

2009 will go down in history for the widespread fallout on productive sectors from the economic crisis. This fallout was particularly harsh in commercial aviation and related businesses. The overall Spanish ground handling market, measured in aircraft operations, shrank 10.8% on 2008, although the volumes handled by Iberia Airport Services fell by a narrower 7.8% (including handling for Iberia and measured in terms of notional aircraft handled). The number of passengers handled by Iberia Airport Services narrowed 8.7% in 2009 to 73 million.

In 2009, third party handling operations accounted for 56.6% of total production, measured in terms of the number of equivalent notional or standard aircraft handled, slightly above the 2008 level (56.2%). Despite the adverse economic climate and the handling market conditions, the company managed to pick up market share from 30.7% in 2008 to 31.5% in 2009 by shoring up its customer portfolio with 22 new airlines adds.

Handling revenues (including the JVs and services provided to Iberia itself) tapered off 2.5% on 2008 to EUR 478 million, owing to the drop in volumes. Unit revenue rose 2.7%.

2.1.3 Maintenance

Iberia Maintenance provides engine, aircraft and part maintenance, repair and overhaul (MRO) services for the company and other aircraft operators. In 2009 this unit carried out a total of 220 C and D inspections, weighted for value, which marks a drop of 2.3% on last year. Of these, 56.6% were performed for third parties (2008: 59.7%). In engine maintenance, production (Iberia and third party) declined 11.9% to 214.

Total operating revenue from third party maintenance (which includes, in addition to technical support services, other work undertaken by the company, rental income and sales) rose 4.1% to EUR 322 million in 2009.

A number of important sales agreements were signed last year with various operators and manufacturers. The following agreements stand out for their economic or strategic significance:

- Line maintenance agreement for the B757 fleet operated by DHL Air in Spain. The agreement expands the scope of the existing maintenance agreement signed in May 2008 covering Rolls Royce RB211-535 C37 engines.
- Component support agreement with Finnair Technical Services for the provision of spare components and related repair services for Finnair's Airbus A330 and Airbus A340 aircraft.
- Exclusive contract from SAS for the provision of major maintenance operations (C and D checks) for the MD80s and Airbus A330s and A340s operated by the Scandinavian airline.
- Two new contracts to repair and maintain Rolls Royce aircraft engines, one for the provision of MRO services on Rolls Royce RB211-535E4 engines belonging to Russian airline Yakutia, and an MRO contract on the engines powering the B757/200 aircraft owned by India's Blue Dart Aviation Ltd.
- Renewal of the contract with Xiamen Airlines for the overhaul of the RB211-535E4 engines installed in its B757/200 fleet.
- Overhaul contract with Federal Express (Fedex) for its RB211-535E4 engines.
- Binding agreement with SR Technics for component maintenance for different aircraft.
- Agreement with Airbus Military for the conversion of A330 passenger aircraft to Multi-Role Tanker Transport (MRTT) configuration with in-flight refuelling capacity.

With respect to the RB211-535 engine, Iberia is one of the few MRO support centres in the world, and the only one in Europe. Also the engine subdivision is the only centre in Spain and one of just three in Europe equipped to provide maintenance on General Electric's CF34 engine.

Iberia Maintenance's customer portfolio includes nearly all the Spanish carriers, where it is market leader, as well as a significant number of international companies. Noteworthy customers include Air Europa, Airbus, Alitalia, Audeli, Eurofly, European Air Transport, Finnair Technical Services, Gestair, Iberworld, ILFC, Interjet, MAeS, Meridiana, Olympic Airways, Pluna, Presidencia Mexicana, Pullmantur, Spanair, SR Technics, Swiftair, Tunisair, Varig and Vueling.

On 19 May 2009 Iberia Maintenance, together with ST Aerospace, inaugurated its landing gear maintenance repair workshop for Airbus' A320, A330 and A340 aircraft in Madrid. The new venture, called MAeS (Madrid Aerospace Services) marks an important strategic milestone, opening the door to new markets in Europe, Africa and the Middle East

Iberia Maintenance invested a total of EUR 14 million to upgrade its facilities and services in 2009. Within the capex program the following initiatives stand out: development of technology to handle compressors in the engine workshop and the installation of a new vertical vacuum furnace; the upgrade and remodelling of Hangar 5, dedicated to the A330 MRTT project, and of the Hangar 4 painting booths; and kitting out of a component test bench. In addition, in a joint venture with the Barcelona free trade consortium, a hangar is being built at Barcelona's El Prat airport which will entail investment of an estimated EUR 24 million.

2.2. Resources

2.2.1. Fleet

At the end of 2009, Iberia had a total of 109 passenger aircrafts in operation, 32 for long-haul travel, with the remaining 77 airplanes earmarked for short and medium haul flights. The table below breaks down the fleet by aircraft type and ownership regime:

Aircraft type (a) (b)	Owned outright	Finance lease	Operating lease	Wet lease	Total operated
A340/300	6	1	13		20
A340/600			12		12
Largo radio	**6**	**1**	**25**		**32**
A319			22		22
A320	2	6	28		36
A321		4	15		19
Short/medium-haul	**2**	**10**	**65**		**77**
TOTAL	**8**	**11**	**90**		**109**

(a) The number of passenger jets in operation by Iberia at 31 december 2009, excluding aircraft temporarily grounded or grounded pending sale.
(b) In addition, at 31 december 2009, Iberia had leased one Boeing B757 to another carrier.

At the end of 2008, Iberia had a total of 119 passenger aircraft in operation. Operating fleet additions and retirements during 2009 are listed below:

Additions

- One A320 under operating lease (leased out at the end of 2008).

Returns

- Two A320s under operating lease.
- One A340/300 under operating lease

Grounded

- Eight owned A320s (temporarily grounded).

In February, Iberia added one A320 to its short/medium haul fleet under an operating lease arrangement. This plane had formerly been leased out to another carrier.

One of the measures contemplated under the **Contingency Plan** is to cut capacity to match declining market demand. As a result, in the short and medium haul fleet, the company has temporarily grounded eight owned A320s (four since May, a fifth since June and the other three since October). In April and October, the company ceased operating two A320s leased under operating lease arrangements (see returns). In the long haul fleet, the company retired one leased A340 in October.

Also throughout the course of the year, fleet ownership and lease arrangements shifted considerably. The three A340/300s that Iberia was operating under *wet lease* at the start of 2009 were switched to operating lease regimes, two in the first half and the third at the end of August. The number of block hours operated under wet lease *wet lease* declined 66.9% in 2009.

At present over 80% of the passenger fleet is held under operating lease, providing the company with greater flexibility to match capacity to unfolding market circumstances without jeopardising its financial health.

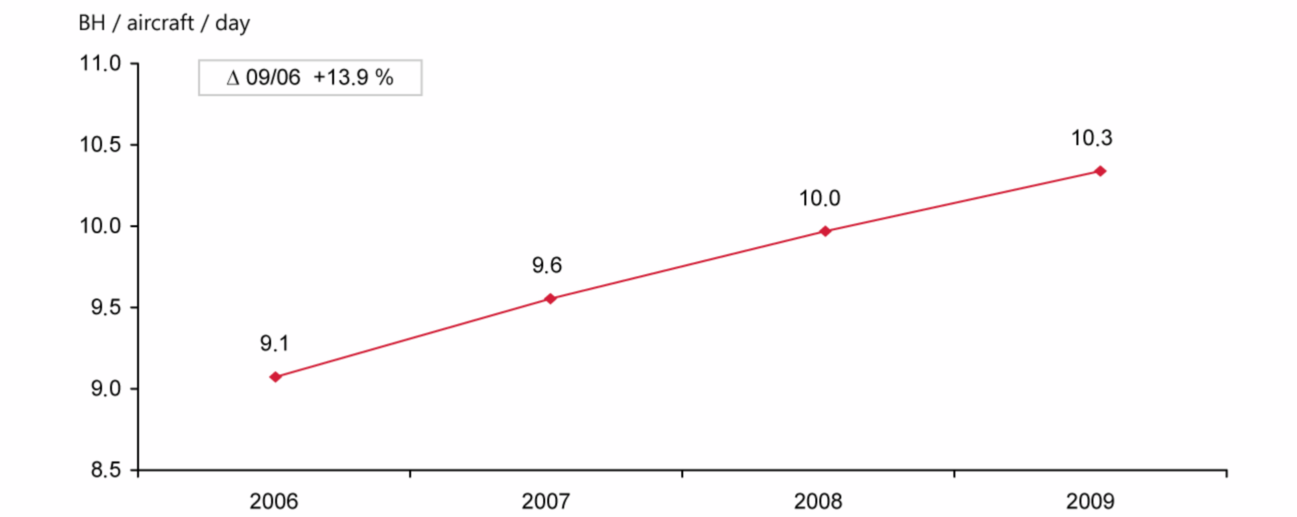
One of the company's greatest achievements in recent years has been to standardise its fleet into two families of aircraft: the Airbus A340 for long haul flights, with an average age of 8.8 years, and the Airbus A320 (which includes the A319, A320 and A321 models) for short and medium haul flights, where the average age of the fleet is 6.6 years.

One of the highlights of 2009 is the improvement in average fleet utilisation: this metric improved 3.7% on 2008. Considering only the aircraft operated by Iberia crew (namely, excluding *wet lease*), the year-on-year increase is 4.5%.

BH / aircraft/ day	**2009**	**2008**
Average fleet utilisation, short and medium haul	8.8	8.4
Average fleet utilisation, long haul	14.3	14.5
Average fleet utilisation, Iberia crew	**10.3**	**9.8**
Average fleet utilisation, wet lease (a)	14.5	13.4
Average fleet utilisation, total	**10.3**	**10.0**

(a) In 2009 three A340/300s were operated under wet lease for Iberia. These contracts ended in June and August.

TREND IN FLEET UTILISATION AT IBERIA



2.2.2. Personnel

Headcount

Iberia's average headcount fell 4.3% to 20,435 full time equivalents (FTE) in 2009. At 31 December 2009, 38% of total company employees were female.

The table below depicts the headcount mix by business segment during the last two years:

	GROUND		IN-FLIGHT		TOTAL	
	2009	2008	2009	2008	2009	2008
TRANSPORT	2,959	3,090	5,335	5,567	8,294	8,657
HANDLING	7,132	7,769			7,132	7,769
MAINTENANCE	3,845	3,767			3,845	3,767
OTHER (*)	1,164	1,152			1,164	1,152
TOTAL IBERIA	**15,100**	**15,778**	**5,335**	**5,567**	**20,435**	**21,345**
Year-on-year change (%)	(4.3)		(4.2)		(4.3)	

(*) Includes Corporate staff and IT.
Iberia's senior officers (ten in both years) are included in "Ground".

Iberia ground staff (FTEs) fell 4.3% in 2009, with headcount reductions in Spain (-4.4%) and abroad (-2.6%). The drop in headcount at Iberia Airport Services, 637 FTEs or 8.2%, is noteworthy, leaving the average headcount at 7,132 FTEs in 2009 (including the 515 transferred to the Barcelona JV concession).

Iberia's average in-flight headcount stood at 5,335 FTEs in 2009, accounting for 26.1% of the company total. By union member categories, the average technical crew headcount narrowed 3.3% on 2008, while passenger cabin crew was 4.5% fewer.

Iberia continued to execute its workforce reduction program in a bid to bring its human resources into line with the sector's difficult situation. Most of last year's employee departures came under the company's workforce restructuring programs (EREs for their initials in Spanish) which are voluntary on the part of both employee and employer. The labour authorities authorised the extension of ERE 72/01 covering ground and cabin crew staff to 31 December 2010. The rollover of ERE 35/05, specific to Iberia handling staff, to 31 December 2014 was similarly authorised.

In April 2009 representatives of the company's management and of the pilot union SEPLA agreed to request inclusion of pilots under the framework of extended ERE 72/01, in this particular instance extending validity until 31 December 2013. Once authorised, a total of 236 technical crew members over 60 years of age, on reserve, left the company in 2009.

In 2009, 185 passenger crew employees and 591 Iberia ground staff opted for one of the options afforded under ERE 72/01, with most choosing early retirement or leave with guaranteed job security. A further 44 ground staff left the company, 16 under the Spanish employment plan, while the remaining 28 worked abroad and will not be replaced.

The table below provides a breakdown of employee departures from the company under the auspices of its workforce restructuring programs:

Iberia workforce. Departures in 2009	Technical crew	Passenger cabin crew	Ground	TOTAL
Early retirement	236	16	342	594
Leave with job security	-	98	190	288
Paid leave	-	1	14	15
Contract renegotiation	-	70	45	115
Total ERE 72/01	**236**	**185**	**591**	**1,012**
ANE (National Employment Agreement)	-	-	16	16
Personnel located outside Spain	-	-	28	28
TOTAL	**236**	**185**	**635**	**1,056**

These come on top of the 462 employees that left the company in 2008 (339 ground staff and 123 cabin crew), mostly during the second half of the year, just over half of which took early retirement under the scope of ERE 72/01.

In April 2009, management of Iberia and the company section of pilot union SEPLA signed the VII technical crew workers' collective bargaining agreement which was valid through 31 December 2009. The XV passenger cabin crew agreement, initially valid from 2005 to 2007, was extended to 31 December 2008. Meanwhile, the XVIII collective bargaining agreement covering Iberia ground staff (signed in July 2008) ended on 31 December 2008. Talks are currently underway to hammer out new agreements with all three of the company's union groups.

Productivity

Iberia's workforce productivity was 3.04 million ASK per employee in 2009, an annual decline of 1.8%. This reflects the decline in capacity (ASK down 6.0% vs. 2008) in response to slumping demand, which was only partially offset by the reduction in average headcount.

In the case of handling staff (which accounted for 34.9% of the total headcount in 2009), the number of man-hours worked declined in line with production, so that employee productivity held steady (measured in block hours per equivalent aircraft handled), despite the higher number of incidents sustained in 2009 (cancellations and delays due to cabin crew strike actions, adverse weather conditions, etc.).

In the maintenance segment, workforce productivity rose 3.2% on 2008.

The table below shows the trend in productivity broken down by segment and by staff group:

Iberia workforce productivity	2009	2008	% Change
Total workforce ('000 ASK per employee)	3,042	3,097	(1.8)
Ground staff ('000 ASK per employee)	2,101	2,139	(1.8)
Technical crew (BH per crew member)	267.3	270.9	(1.3)
Auxiliary crew (BH per crew member)	115.3	118.8	(3.0)
Handling (man hours per notional aircraft) (a)	32.68	32.75	0.2
Maintenance (operating revenues per employee) (€, '000)	19,052	18,457	3.2

(a) A lower number of man-hours per equivalent aircraft handled implies an improvement in productivity.

2.3. Company earnings performance

Since 2008 Iberia has drawn up its individual financial statements in accordance with the new Spanish general chart of accounts (Spanish GAAP) enacted by Royal Decree 1514/2007. The changes introduced by new Spanish GAAP mark a milestone in the process of harmonising national EU member accounting standards, specifically bringing them significantly closer to international reporting requirements, the basis upon which the Iberia Group has been preparing its consolidated financial statements since 2005.

2.3.1. Profit from operations

As a result of the global recession, 2009 was one of the worst years in aviation history. The entire airline sector suffered an unprecedented contraction in traffic and a significant drop in revenue. Against this backdrop, Iberia's revenue fell 19.0% on 2008. The impact was partially cushioned by continual rationalisation of capacity in response to unfolding market weakness and the introduction of new cost cutting measures.

Iberia posted a loss at the operating level of EUR 475 million in 2009 (including non-recurring items). The loss narrows to EUR 464 million if we strip out non-recurring items, compared to a loss of EUR 88 million in 2008.

Iberia generated positive EBITDAR (earnings before interest, taxes, depreciation, amortisation and aircraft rentals) of EUR 60 million in 2009.

Below is Iberia's income statement for 2009 and 2008, including the breakdown of the most significant revenue and cost headings:

Millions of euros

IBERIA	2009	2008	% Change
PROFIT (LOSS) FROM OPERATIONS	**(475)**	**(4)**	**nm**
OPERATING REVENUE	**4,439**	**5,480**	**(19.0)**
REVENUE	**4,212**	**5,188**	**(18.8)**
Passenger revenue	3,325	4,218	(21.2)
Cargo revenue	224	309	(27.5)
Handling revenue	266	275	(3.3)
Technical assistance to airlines	310	297	4.2
Other revenue	87	89	(1.1)
OTHER OPERATING INCOME (a)	**227**	**292**	**(22.3)**
Recurring	177	227	(21,8)
Non-recurring	50	65	(24.1)
OPERATING COSTS	**4,911**	**5,508**	**(10.8)**
PROCUREMENTS	**1,409**	**1,864**	**(24.4)**
Aircraft fuel	1,184	1,666	(28.9)
Aircraft spare parts	191	160	19.0
Catering materials	19	21	(6.8)
Other purchases	15	17	(12.7)
EMPLOYEE COSTS	**1,339**	**1,313**	**2.0**
Of which: non-recurring	51	1	nm
DEPRECIATION AND AMORTISATION	**175**	**198**	**(11.6)**
OTHER OPERATING COSTS	**1,988**	**2,133**	**(6.8)**
Aircraft leases	349	386	(9.5)
Other rentals	72	75	(4.5)
Aircraft maintenance	202	228	(11.5)
Commercial costs	151	201	(24.9)
Traffic services	399	415	(3.9)
Navigation charges	252	258	(2.3)
In-flight services	66	72	(7.3)
Booking systems	134	137	(2.7)
Other costs	363	361	0.5
Of which: non-recurring	7	4	74.9
IMPAIRMENT LOSSES AND NET GAINS ON DISPOSAL OF NON-CURRENT ASSETS	**(3)**	**24**	**nm**
RECURRING EBIT	**(464)**	**(88)**	**nm**
Operating revenue (recurring)	4,389	5,415	(18.9)
Operating costs (recurring)	4,853	5,503	(11.8)
EBITDA	**(289)**	**110**	**nm**
EBITDAR	**60**	**496**	**(87.7)**

nm: Not meaningful

(a) Includes overprovision, work performed by the entity and capitalised and other operating income.

Operating revenue

In 2009 operating revenues were 19.0% lower than in 2008. Excluding non-recurring items, the drop in operating revenue was 18.9%, due mainly to the slump in passenger and cargo transport revenue (-21.6%), hit hard by the drop in unit revenue and traffic. The limited decline in handling revenue (-3.3%) should be viewed against the backdrop of the sharp contraction in airport flight volumes. Aircraft maintenance revenue rose yet again last year, climbing 4.2% on 2008.

Total **passenger** revenues fell 21.2% on 2008 to EUR 3,325 million. This income statement heading includes passenger revenues from actual flights every year (as reflected in the "Key Data" table at the beginning of this report and in the tables in the "Transport" section 2.1.1.) and revenue from expired unused tickets, revenue from frequent flyer programs and adjustments of an accounting nature.

Passenger revenue from used tickets totalled EUR 3,137 million, down 19.4% on 2008, driven by price erosion (which accounted for a 12.6% decline in revenue) and, to a lesser extent, lower traffic volumes. All three segments (long haul, international medium haul and domestic) were affected by the drop in yield, especially European flights, due to competitive pressure and the deterioration in the class *mix*. The slump in traffic was also widespread, with the domestic segment contracting the furthest in relative terms. Iberia cut capacity by 11% in response to this.

Other passenger revenue, which in aggregate accounted for 5.6% of total passenger revenue in 2009, declined 42.6%, in part due to the application of the new accounting treatment for frequent flyer points from 2009 on (this change also entails a reduction in commercial costs).

Iberia's **cargo** revenue (which includes invoicing of freight and mail transport services, fuel and security charges or top-up charges and excess baggage fees) fell 27.5% in 2009 to EUR 224 million, driven by the decline in traffic and the sharp drop in yield, partly caused by lower fuel surcharges.

Revenue from third party ground **handling** (passengers and aircraft) declined by EUR 9 million on 2008, due to the drop in ramp handling for third party airlines (-7.3% measured in equivalent notional aircraft), partially mitigated by an increase in unit revenue (2.1%) and higher revenue from other airport handling services, notably from services provided under concession to persons with reduced mobility. During the second half of 2009, handling revenue climbed 1.0% on 2H08, as the drop in third party handling was stemmed at 2.9% following the addition of Vueling to the customer portfolio.

Although the recession also drove aviation maintenance prices lower, revenue from **technical assistance to airlines** at Iberia rose EUR 12.6 million to EUR 310 million in 2009, in part due to dollar appreciation relative to the average 2008 exchange rate. The growth in third party invoicing was driven mainly by engine inspections (particularly on the CFM56), maintenance work performed for the Spanish department of defence and landing gear MRO work.

"Other revenue" narrowed by 1.1% on 2008. Revenue from the use of booking systems, where Amadeus stands out, fell 7.4% to EUR 59 million. This was partially offset by higher revenue from other sales.

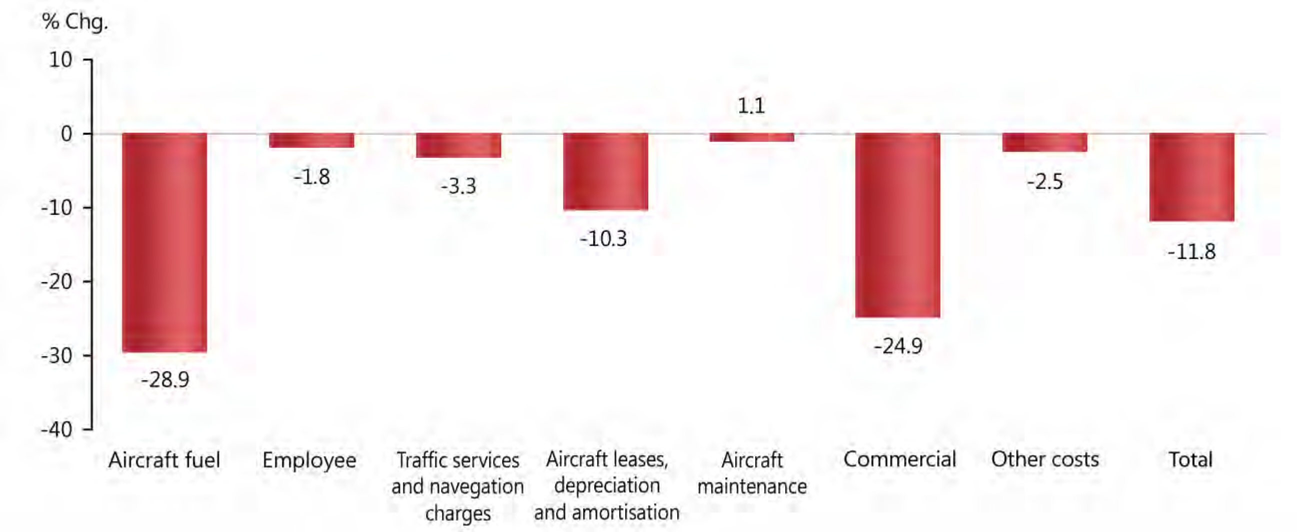
"Other operating income - Recurring" (fees, deferred revenue, income from assigning employees to JV concessions, rental income, own work capitalised and sundry other items) fell on aggregate by 21.8% on 2008, with the decline in passenger fees and sundry revenue items standing out.

In 2009, the company booked one-off revenue of EUR 50 million, most of which (EUR 45 million) corresponds to the reversal of a portion of the provisions recognised to cover pension obligations vis-à-vis technical crew members as a result of actuarial studies completed following execution of the VII Collective Bargaining Agreement, which gives pilots the chance to keep flying until the age of 65. In 2008 the company recognised EUR 65 million in non-recurring revenue related mainly to the reversal of a number of provisions and an aircraft insurance settlement.

Operating costs

In 2009 Iberia's operating costs, including non-recurring items, amounted to EUR 4,911 million, down 10.8% on 2008. Stripping out non-recurring expenses recognised in both years, the reduction in operating costs rises to 11.8%, with a noteworthy 28.9% year-on-year drop in fuel costs. Other cost headings also declined on the back of lower business volumes (capacity - ASK - down by 6.0%) and the raft of cost savings initiatives rolled out by the company under the umbrella of its Contingency Plan. Unit recurring operating cost narrowed 6.2% on 2008 to 7.81 euro cents per ASK.

IBERIA'S RECURRING OPERATING COST COMPONENTS
% YEAR-ON-YEAR CHANGES



Cost control efforts proved satisfactory in 2009: during the first half of the year recurring operating costs narrowed 9.4% year-on-year, intensifying sharply during the second half, as evidenced by a 14.1% decline on 2008.

Iberia's fuel cost, which accounted for 24.4% of total recurring operating costs in 2009, narrowed EUR 482 million to EUR 1,184 million last year, driven by a significant drop in market fuel prices and lower consumption (down 6.6% in litres), as a result of reduced business volumes and enhanced fleet efficiency.

The table below breaks out last year's fuel savings by component drivers:

Millions of euros

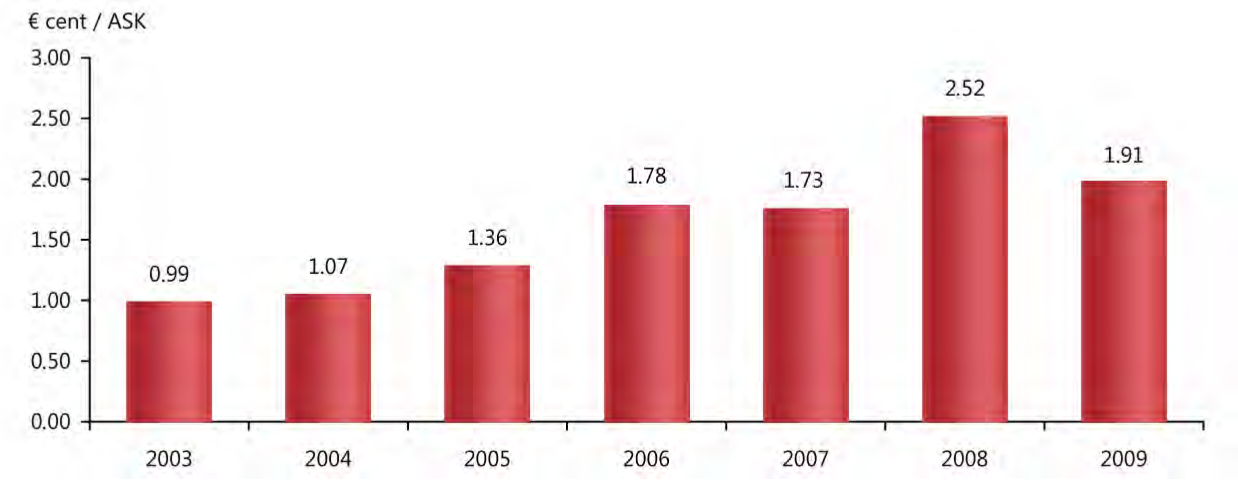
	Drivers of reduction in fuel spend				Total change on 2008
	Price (*)	Volume	Exchange rate (*)	Fleet efficiency	
Iberia	(368)	(90)	(17)	(7)	(482)

(*) The changes in prices and exchange rates include the effect of hedges.

The market price of aviation kerosene (CIF NWE) rose steadily throughout the first half of 2008, registering heady levels and peaking at an all-time high in the summer of 2008. Prices then corrected sharply during the second half of 2008 and throughout the first quarter of 2009, bottoming out at around $400 per metric tonne in March 2009. From that point on prices escalated rapidly, rising to over $600 per tonne by June. Prices stabilised at around $600 in the third quarter, heading higher once again during the last quarter to around $665. Despite rising steadily throughout most of 2009, average market kerosene prices in dollars were 44% lower year-on-year. The company benefited from this trend only partially, due to hedges arranged mid-2008.

As a result, the unit fuel cost fell 24.4% on 2008 to 1.91 euro cents per ASK.

ANNUAL TREND IN IBERIA'S UNIT FUEL COST



Iberia's recurring **employee costs,** which represent 26.5% of total operating costs, narrowed 1.8% year-on-year to EUR 1,288 million, thanks to wage control measures and a 4.3% reduction in the average equivalent headcount, primarily on account of voluntary redundancy formulae provided for under the company's workforce restructuring initiatives.

Ground staff costs narrowed 1.5% on 2008 on the back of a 4.3% reduction in the average headcount. The number of in-flight staff (technical and passenger cabin crews) fell by a similar amount (-4.2%), while related employee costs narrowed 2.1% in aggregate on 2008.

Total salaries, wages, severance and similar items amounted to EUR 990 million in 2009, down 0.5% on 2008, including the impact of wage drift and compensation deals struck with in-flight staff. Social security and other social benefit payments totalled EUR 298 million, down 5.9% on 2008, in part due to the adjustment to crew member pension plans.

Non-recurring employee costs amounted to EUR 51 million in 2009 (2008: EUR 1.4 million), corresponding to a one-off provision to recognise the impact of management's updated estimate of restructuring expenses upon authorisation of the program's extension.

The **depreciation and amortisation** charge was 11.6% lower last year, at EUR 175 million. Almost 60% of this balance corresponds to fleet equipment, for which the depreciation charge was 18.2% lower due to the lower number of in-balance sheet aircraft in operation, mainly due to the process of retiring the MD87/88 fleet, which concluded in the last quarter of 2008.

Aircraft lease costs narrowed 9.5% on 2008 to EUR 349 million. This marks an annual saving of almost EUR 37 million and was driven by all heading components. Passenger aircraft operating lease cost was EUR 315 million, EUR 9 million lower due, in part, to lower interest rates, as well as a slight reduction in the average number of aircraft in operation. The cost of renting seats on other airline operated flights fell by EUR 6 million on 2008 to EUR 7 million. The biggest component drop was sustained in wet lease cost which stood near EUR 16 million in 2009 compared to EUR 33 million in 2008, due to the drop in the number of aircraft and block hours operated, which were down 66.9% on volumes leased in 2008. Lastly, cargo aircraft lease costs fell almost EUR 5 million to EUR 11 million, due to a 32.5% decline in block hours leased as the company responded to the sharp drop in demand for cargo transport by scaling back capacity. Unit lease cost narrowed 3.8% on 2008 to 0.56 euro cents per ASK.

Aggregate recurring **aircraft maintenance** costs (which include outsourced external services, provisions for major repairs and spare parts) amounted to EUR 393 million in 2009, up 1.1% on 2008. The increase reflects growth of 19.0% in expenditure on spare parts, mainly due to the appreciation of the dollar against the euro, as well as higher volumes of maintenance work performed in-house. The increase in spare parts cost was partially offset by an 11.5% reduction in spending on outsourced services.

In 2009 **commercial cost** was EUR 50 million, or 24.9%, lower than in 2008. Aggregate commissions, promotional costs and development expenditure narrowed by 47 million euros on 2008 (by 26.7%) due, in part, to the impact of first-time application of IFRIC 13 (affecting measurement of points or miles associated with the frequent flyer program) from January 2009. In 2008 close to EUR 23 million was recognised as commercial cost in connection with the measurement of the points earned by the company's frequent flyers under the Iberia Plus program. In 2009, under the new standard, the value of points earned was recognised as a deduction from revenue. Advertising costs fell EUR 3 million (by 12.2%).

Traffic services costs narrowed 3.9% in 2009 due mainly to the reduced number of flights operated (11.8% fewer take-offs than in 2008), which had an impact on the items included under this heading: landing fees, as well as fees for the use of jet bridges and other airport services fell by EUR 5 million on 2008. Aircraft dispatch, Tariff H and other traffic services dropped by EUR 9 million. Aircraft cleaning and catering equipment handling services were down by EUR 5 million, while flight staff accommodation costs fell by EUR 3 million on 2008. Costs for flight disruptions, missed connections and baggage reclaim, on the other hand, increased by EUR 6 million, essentially due to operational difficulties caused by labour disputes involving cabin crew and by adverse weather conditions.

Navigation charges fell by 2.3% on 2008, mainly as a result of reduced business volumes during that period. This impact was partially mitigated by the appreciation of the dollar, and above all, by price increases. In-flight navigation assistance charges were 0.9% lower in 2009, at EUR 208 million. Airport approach fees fell 8.5% on 2008 to EUR 44 million, due primarily to reduced flight traffic. Unit approach fees at Spanish airports rose 3.0% on 2008.

The aggregate cost of **in-flight services** and catering materials was just over €85 million in 2009, down 7.2% on 2008. This was primarily due to reduced traffic and more specifically a drop in the number of business class passengers, together with savings unlocked as a result of renegotiating supplier contracts.

Reservation system costs fell 2.7% to EUR 134 million, due to lower booking volumes as a product of the decline in traffic. This was again partially eroded by the appreciation of the dollar and an increase in average prices.

"**Other costs – recurring**" amounted to EUR 356 million in 2009, down 0.4% on 2008. The main components of this heading are severance revenues, ground equipment maintenance charges, other mechanization expenses, security services, levies and transport services.

In 2009 the company recognised EUR 7 million of non-recurring costs, mainly comprising a series of provisions and fines. In 2008 non-recurring costs, which also included sundry provisions, amounted to EUR 4 million.

"Impairment losses and gains (losses) on disposal of non-current assets" came to a net loss of EUR 3 million in 2009, compared to a net gain of EUR 24 million in 2008, almost all of which came from aircraft sales.

2.3.2. Other income and costs

The table below shows the rest of the Iberia's income statement headings:

Millions of euros

IBERIA	2009	2008	% Change
PROFIT (LOSS) FROM OPERATIONS	**(475)**	**(4)**	**nm**
NET FINANCE INCOME	**32**	**30**	**8.2**
Finance income	64	137	(53.7)
Finance cost	(40)	(52)	(24.5)
Exchange differences	(17)	(1)	nm
Change in the fair value of financial instruments	4	(28)	nm
Impairment and gains (losses) on disposal of financial instruments	21	(26)	nm
PROFIT (LOSS) BEFORE TAX	**(443)**	**26**	**nm**
INCOME TAX	162	(1)	nm
PROFIT (LOSS) AFTER TAX	**(281)**	**25**	**nm**

nm: Not meaningful

Net interest amounted to EUR 24 million in 2009, EUR 61 million less than in 2008, reflecting a 53.7% drop in finance income due to a lower average balance of short term investments and lower interest rates on deposits. Finance costs declined by a narrower 24.5% due to lower interest on loans.

Net exchange losses were EUR 17 million in 2009, EUR 16 million wider than in 2008. Due to a 50% devaluation of the Venezuelan currency (the Bolivar) against the US dollar, Iberia was forced to recognise a EUR 6 million provision at year end 2009 to cover the impact on local currency deposits related to revenue generated in Venezuela pending receipt.

"Change in the fair value of financial instruments" includes the measurement of hedging instruments, resulting in a gain of EUR 4 million in 2009, compared to a loss of EUR 29 million in 2008. The 2008 loss primarily reflects the decline in value of the inefficient portion of fuel hedges (loss of EUR 23 million).

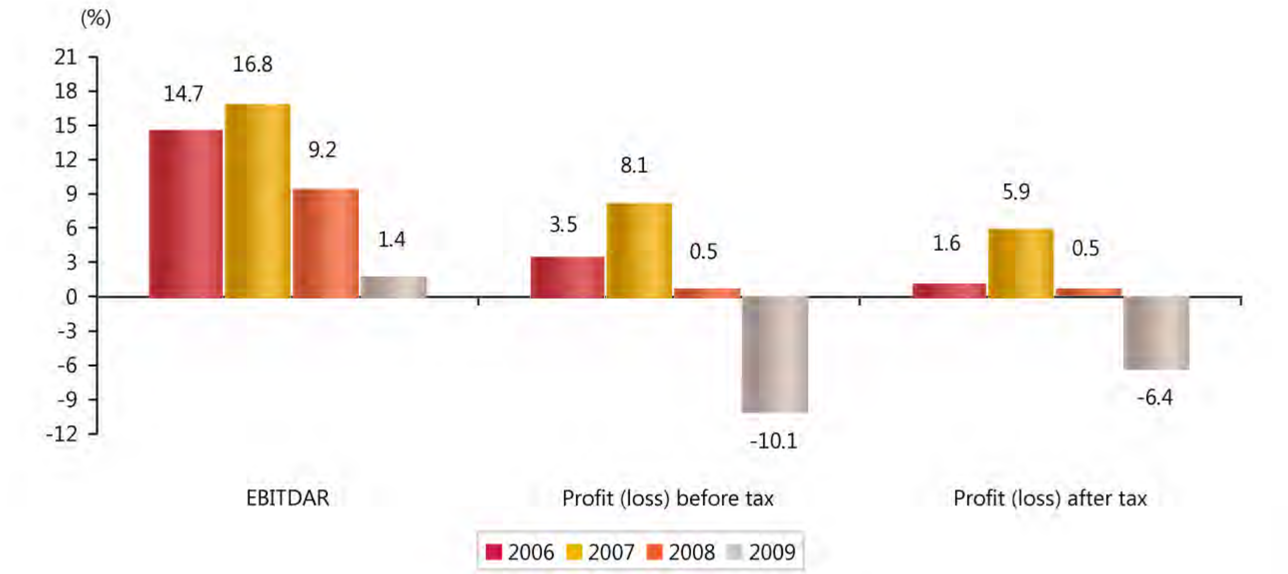
In 2009, "Impairment and gains (losses) on disposal of financial instruments" includes the gains on the Clickair and Vueling share exchange as part of the merger between the two companies (EUR 20.5 million). In 2008 this heading included changes in the impairment provisions on investments in Group companies and associates for a net loss of EUR 26 million, mostly related to the company's shareholding in Clickair.

In 2009 the company posted a loss before tax of EUR 443 million due mainly to the erosion in revenue, driven by the fallout on the airline sector from the recession. In 2008 the company recognised profit before tax of EUR 26 million.

In 2009 tax income included recognition of the tax credit corresponding to the tax loss for the year, as well as restatements of amounts paid in prior years. This left a loss after tax of EUR 281 million in 2009 compared to a profit of EUR 25 million in 2008.

The chart below reflects the company's key margins during the past four years:

IBERIA. PROFIT MARGINS AS A % OF RECURRING OPERATING REVENUE



2.4. Balance sheet

Iberia's equity stood at EUR 1,504 million at 31 December 2009, 1.4% below the 2008 balance. The impact of the loss for the year (EUR 281 million) was almost fully mitigated by the remeasurement to fair value of hedge arrangements and, to a lesser extent, the impact of the revaluation of the company's British Airways shares.

There were no transactions in treasury shares in 2009. As a result, at 31 December 2009 the company's statement of financial position registered a gain of EUR 64 million on the 27,898,271 treasury shares (2.927% of equity) recognised, with an overall nominal value of EUR 22 million and at an average acquisition price of EUR 2.313 per share.

Non-current provisions for contingencies and charges stood at EUR 1,235 million at year end 2009, a drop of 5.7% on the year end 2008 balance. This balance breaks down as follows: EUR 598 million in provisions for employee commitments (down 10.6% on 2008) including the provision recognised for flight personnel put on reserve; EUR 86 million in provisions for major fleet repair work; and EUR 551 million for other obligations, including workforce restructuring initiatives.

Current and non-current interest-bearing borrowings (bank loans and finance lease obligations) stood at EUR 502 million at the end of 2009, up 7.2% on the year earlier balance.

The adjusted liquid balance (current financial investments plus cash and cash equivalents and without including the derivative measurement impact) stood at EUR 1,904 million at 31 December 2009, EUR 347 million less than at year-end 2008.

Iberia continued to present a net cash balance surplus at year-end: i.e., the balance of current assets (excluding hedge measurement) was greater than interest-bearing borrowings by EUR 1,401 million at 31 December 2009, compared to a net cash balance of EUR 1,782 million twelve months earlier.

Adjusted net debt, including the capitalisation of aircraft lease cost (and adjusting for interest on the loans to the Iberbus companies), stood at EUR 1,244 million, up 20.4% on 2008.

Million of euros

Balance sheet situation	2009	2008	% Change
Adjusted liquid balance (a)	1,904	2,250	(15.4)
In-balance sheet interest-bearing borrowings	502	468	7.2
In-balance sheet net debt	**(1,401)**	**(1,782)**	**(21.4)**
Aircraft lease capitalisation (×8) (b)	2,646	2,816	(6.0)
Adjusted net debt	**1,244**	**1,034**	**20.4**

(a) Current financial assets and cash and cash equivalents, excluding the measurement of hedge arrangements.
(b) Leases capitalised over eight years and adjusted for the interest capitalised on the Iberbus company loans.

2.5. Outlook

2.5.1. Business outlook

In the wake of the severest recession in recent history, the **global economy** is beginning to come back to life, driven largely by extensive intervention by governments and central banks worldwide, whose actions have diminished financial market uncertainty and stimulated demand. The most recent International Monetary Fund (IMF) estimates point to global gross domestic product (GDP) growth of 3.9% on average in 2010, compared to a contraction of 0.8% in 2009.

However, growth is expected to prove very uneven geographically; economic performance could even vary significantly among countries in the same economic region depending on pre-recession circumstances, structural imbalances and policy measures implemented. In most developed economies, the recovery looks set to be slower than following earlier episodes of recession: GDP growth is forecast at 2.1% in 2010, while economic expansion is expected to be relatively buoyant in many emerging economies, at around 6.0%. The IMF forecasts scant growth of around 1% for the eurozone in 2010, compared to around 3.7% in Latin America.

The Spanish economy remained recessionary in 2009, although performing slightly better than forecast in recent months, underpinned by a stronger than anticipated trend in consumption and gross fixed capital formation. Based on this recent relative improvement in national and international indicators, the IMF (as of January 2010) estimates that the Spanish economy will contract by 3.6% in 2009 and by a further 0.6% in 2010.

Although Spanish households have deleveraged, debt remains high. This, combined with very high unemployment, will curtail the scope for any consumption-led recovery. This potential will be further undermined by the ongoing credit crunch: lending is not expected to flow freely until the banks and savings banks, also embroiled in deleveraging and absorbing losses on real estate loan books, shore up their balance sheets. This factor will also curtail scope for expansion in corporate spending for some time. In addition, the need to clean up the state accounts will result in restrictive fiscal policy over the coming years, further limiting the Spanish economy's growth potential.

The fate of the **airline sector** is directly tied to economic growth. Accordingly, following the sharp contraction sustained during the first half of 2009, global air traffic began to stage a gradual recovery during the second half, with cargo traffic rebounding first, followed by passenger traffic. However, the recovery is proving uneven across the various economic regions. Indeed, demand has rebounded sharply in Asia-Pacific, Latin America and the Middle East, in line with the healthy growth in these regions' emerging economies. Meanwhile in Europe and the US traffic is staging a more tentative recovery. The latest International Air Transport Association (IATA) forecasts call for growth in global traffic (domestic and international) in 2010, measured in TKP (passenger and cargo), of 5.2%.

Unit revenue fell drastically across the airline sector during the first half of 2009, similarly staging a relative recovery in long-haul flights since mid-2010. For the European full service airlines traffic continues to improve slowly, lifting load factors. The airlines are expected to continue to scale back capacity in their ongoing search for equilibrium vis-à-vis demand in an attempt to drive unit margins higher. The recovery in corporate spending, which will lead any recovery in consumer spending, should drive the recovery in business travel, which is already showing signs of strengthening. The business travel segment on transatlantic routes is forecast to be the first to recover.

Meanwhile, oil prices are expected to continue to firm, in line with recovering demand on the back of the economic rebound. Higher fuel prices could offset the effect on earnings of airlines' efforts to cut costs and capacity. As a result, IATA forecasts (as of December 2009) that the global airline sector will see revenue rise by 4.9%, but that this will not be enough to eliminate the red ink: the airline association is forecasting net losses of $5.6 billion in 2010.

In 2009, Iberia took some important decisions that it believes will be decisive to its performance.

On 12 November 2009 the boards of Iberia and British Airways approved a binding letter of intent that sets the foundations for a merger between the two airlines, in a bid to create Europe's third largest carrier by revenue. The merger is expected to close at the end of 2010. Both British Airways and Iberia will preserve their respective brands and operations; however, the combination of the two airlines will improve their strategic position in the global aviation industry. The merged airline's growth potential will be underpinned by optimisation of their two main traffic hubs, Madrid and London, unlocking synergies medium term.

Elsewhere, Iberia expects the US and European authorities to approve application for anti-trust immunity (submitted in August 2008) for the combined marketing, together with British Airways and American Airlines, of flights on routes between Europe and the US, during the first half of 2010. This is a multilateral project that will improve all three carriers' competitive position in this important market.

Faced by a deteriorating operating climate, slumping demand and falling profitability, in October 2009 Iberia approved its Plan 2012. The new business plan prioritises revenue generation and the search for cost efficiency in order to ensure the company's sustainability and strength.

The company's management is focused on tackling the economic crisis and reinforcing the airline's leadership in strategic markets. To this end, Iberia plans to continue to focus its efforts and investments on raising quality and customer service levels by executing the measures drawn up under the Total Customer Care Program.

The airline will continue to strategically increase its network of intercontinental flights. In addition, Plan 2012 calls for a radical shift in operating strategy in the short and medium haul segments where the company is less competitive since the advent of low cost carriers and the rollout of the high speed rail network.

In 2010 Iberia expects overall network capacity to be reduced by a further 1.8% on 2009. However, it has the flexibility to adapt to market trends, specifically to respond to higher than forecast demand if necessary. In 2010 Iberia will continue to renew its fleet, adding two new narrow-body and as many as five wide-body aircraft.

Meanwhile the company plans to consolidate its position in the maintenance and handling businesses, by leveraging any new opportunities to increase revenue and raise productivity, while maintaining an iron grip on costs.

2.5.2. Overview of main risks and uncertainties

The current outlook for global economic growth remains hostage to significant risk factors. On the bright side, it is possible that resolution of the confidence crisis and reduced uncertainty will continue to underpin a stronger than forecast improvement in financial markets, and higher than anticipated growth in capital flows, trade and private demand.

On the down side, the clearest risk factor is that a premature withdrawal of public stimulus measures will drag down global growth. Another important risk is that the deterioration in the financial systems and housing market, or spiralling unemployment in most advanced economies, will curtail the forecast recovery in household spending. In addition, growing concerns over the budget deficits of certain countries could destabilise the financial markets and snuff out recovery by increasing the cost of household and corporate debt. Another downside risk is that the spike in commodity prices could erode the recovery in developed economies.

Uncertainty over the recovery in demand for business class travel is key. The loss of business class passengers was very significant in 2009, and had a devastating impact on *yields*.

Similarly, the industry is facing fuel price uncertainty in terms of absolute price levels and volatility. Oil prices climbed steadily throughout 2009 and are expected to extend this pattern in response to the brightening perception of the economic situation. The International Air Transport Association (IATA) estimates that the average price per barrel of Brent crude oil will be $75 in 2010. Medium term, the outlook for oil and the attendant risk of renewed price escalation will depend on the balance between supply and demand. Demand for oil is expected to grow sharply in emerging economies while remaining stable across developed economies.

The outlook for the US dollar is another source of uncertainty. The analyst community believes that the euro is overvalued relative to the dollar and expects the trend over the coming months to be one of depreciation. Dollar appreciation would increase both revenue and expenses at Iberia, as around 41% of the company's costs and 22% of revenues are tied to the greenback.

Iberia has in place 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. Specifically, the fuel price hedges in place at the start of 2010 should cover 65% of estimated consumption for the year.

In 2010, Iberia's management team will work towards reaching agreement with its union members on renewal of their respective collective bargaining agreements; the pertinent negotiating committees have already been appointed. On 20 April 2009, management of Iberia and of the company section of pilot union SEPLA signed the VII technical crew workers' collective bargaining agreement which was valid through 31 December 2009. The XV passenger cabin crew agreement was extended to 31 December 2008. The XVIII ground staff collective bargaining agreement similarly ended in December 2008.

3. Financial Risk Management

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

The derivatives arranged to this end are designed to partially or fully mitigate price risk; the idea is to write highly effective hedges in accordance with the risk management strategy documented at hedge inception for each instrument in order to quality for hedge accounting under IFRS and the new Spanish accounting standards.

The next three sections deal with the company's hedging program.

3.1. Foreign exchange risk

Due to the nature of its activities, Iberia is exposed to exchange rate risk at both the operating (cash flows) and balance sheet levels. The main dollar hedges are detailed below.

- ***Flows***

  The company had US dollar exposure of around EUR 1,417 million in 2009. This short position reflects the fact that revenues denominated in this currency (22% of the total) were lower than dollar expenses (41% of the total).

  Under the hedge program, this position is hedged as follows:

  - Up to 50% of the short position is hedged with strategic hedges with durations of up to five years using *swaps* into euros to cover aircraft rentals denominated in dollars.
  - The remaining exposure is managed via tactical hedges with a time horizon of between one and three years. This enables risk officers to adapt to market conditions and to respond to actual payments flows in dollars.

  At year-end 2009, Iberia had hedged 77% of forecast dollar flows in 2010.

- ***Balance sheet***

  The company has EUR 551 million of dollar-denominated assets. The most notable are the loans extended to the Iberbus companies, advance payments to aircraft and engine suppliers, the *capital* in the A340 and guarantees. The dollar denominated liability balance meanwhile is EUR 254 million which helps neutralise the impact of translation differences, in addition to the hedges arranged.

3.2. Interest rate risk

Although Iberia enjoys a net cash surplus, adding in the notional debt corresponding to its operating leases (by multiplying aircraft lease obligations by a factor of 8), total adjusted net debt (in the individual financial statements) stands at EUR 1,244 million. At 31 December 2009, 49% of adjusted net debt carried fixed rates, another 6% carried floating rates that have been hedged, and the remaining 45% was freely floating.

Sensitivity to a percentage point increase in euro interest rates is a positive EUR 11 million, due to the company's cash balance. However, sensitivity to a percentage point increase in dollar interest rates is a negative EUR 6.1 million.

Liquidity risk

As per Iberia's individual financial statements, at 31 December 2009, the company had cash and cash equivalents (cash and liquid assets plus short term financial investments redeemable in less than three months and not including derivatives or loans to companies) amounting to EUR 1,746 million. These balances are invested in highly liquid, short term instruments such as debt repos, euro deposits and commercial paper at top rated Spanish banks in accordance with the company's prevailing risk management policy which stipulates that counterparties have a short term credit rating of at least P1.

3.3. Fuel price risk

Iberia controls its aviation fuel costs, which are directly linked to fluctuations in oil prices, using active risk management policies to mitigate the impact of fluctuations in kerosene prices on the international market and minimise budget deviations in this significant cost heading.

The company has pursued a policy of directly hedging kerosene prices using a combination of financial instruments such as swaps and zero-cost option structures.

Following the price *shock* in 2008, oil prices climbed steadily higher throughout the first half of 2009, rebounding from $40 a barrel during the first quarter to stabilise in the range of $65-75 a barrel, fuelled by brightening expectations for economic recovery. In the fourth quarter prices hovered around the $70-80 mark. Hedges locking in fuel prices covered around 60% of fuel consumption levels for the year, curtailing cash flow volatility, while enabling the company to benefit from market prices to some extent.

Iberia consumes virtually two million metric tonnes of kerosene a year, a volume it expects to repeat in 2010. At 31 December 2009, Iberia had hedged approximately 65% of its fuel position. These hedges could give rise to gains or losses for the company depending on trends in fuel prices throughout 2010.

4. Environmental Responsibility

In 2009 Iberia continued to work on a number of initiatives aimed at improving the company's environmental track record on an ongoing basis, as a core component of its Corporate Responsibility Policy.

As regards flight operations, measures such as the renewal of less fuel-efficient aircraft, the adoption of new operational measures and matching the flight program to evolving demand enabled the company to cut gas emissions and noise once again last year, especially the greenhouse gas emissions associated with climate change.

In 2009, Iberia received AENOR certification for cutting CO2 emissions on the Puente Aéreo (Barcelona-Madrid shuttle). This certification, the first in its class in Spain, testifies that Iberia has cut CO2 emissions on the Madrid-Barcelona shuttle thanks to fleet renewal and new cabin interiors.

The company collaborates on various national and international taskforces that analyse, promote and disseminate best environmental practices in the airline sector. Here it is worth noting the airline's participation in the pan-European SESAR (Single European Sky ATM Research) R&D program, an initiative sponsored by the European Commission and Eurocontrol with a view to easing air traffic congestion and make flying more environmentally friendly. The new air traffic management system will reduce fuel consumption, thereby slashing carbon emissions by between 6% and 12%.

Also notable was Iberia's collaboration last year with the Public Business Entity Aena and INECO on research conducted at Barajas airport to verify the environmental benefits in the airport area of the use of continuous descent approach in takeoff and landing, particularly in relation to the reduction of noise levels and air pollution.

In terms of its activities on the ground, in 2009 Iberia continued to implement environmental protection measures via the certified environmental management systems in place in the handling and maintenance divisions.

In September 2009 Iberia was selected, for the fourth year running, for inclusion in the prestigious Dow Jones Sustainability Index, which tracks the performance of the companies with the world's best records on economic, social and environmental practice. This puts the airline in select company as only three airlines belong to this index. This year, in its DJSI assessment Iberia obtained the highest marks for its environmental dimension. Also, for the second year running, the company was included in the FTSE4Good index. Iberia's inclusion in these two stock market indices demonstrates that Iberia is objectively rated as a yardstick in terms of sustainable business best practices.

More detailed information on the company's sustainability management is included in the Corporate Responsibility Report.

5. ANNUAL CORPORATE GOVERNANCE REPORT

In accordance with the amendments made to article 49 of the Spanish Code of Commerce and article 202 of the amended Companies Act by virtue of Law 16/2007 on reforming and adapting the accounting aspects of commercial law for the purposes of international harmonisation based on European Union regulations, companies whose securities have been admitted to trading on a regulated European Union exchange are obliged to include their corporate governance reports in a separate section to their management reports.

It is hereby noted that the 2009 Corporate Governance Report of Iberia, Líneas Aéreas de España, S.A. is included in section 6 of the company's 2009 Group Management Report.