



Dear Shareholder,

In 2001 we concluded a project launched five years earlier with the aim of preparing and implementing the privatisation of Iberia. We fulfilled that mandate on April 3rd, when Iberia shares were listed on the stock exchange, and I believe the results to date have been very positive. The investors who placed their trust in us have obtained one of the highest market yields of all listed companies.

Our results in 2001 were not easy to attain, since developments in the year challenged the strategies of all the world's airlines, as well as their capacity to react to changes in the business cycle and the sharp declines in demand.

But our market listing was the crowning moment of a business strategy carried out over the past year during which Iberia endowed itself with the mechanisms necessary to become the great airline it is today. The 2001 business year served to demonstrate the soundness of our strategies, which, together with our swift reaction to the year's developments, enabled us to remain profitable.

Again, Iberia's achievements in 2001 were not the fruit of mere coincidence. In recent years, Iberia has developed mechanisms that endow us with sufficient flexibility to respond to periods of crisis. We were obliged to take decisions which some times even caused conflicts, such as the decision to suspend aircraft wet-leasing arrangements, but proved to be a highly effective way of addressing the fall in demand. In these years we have introduced new forms and concepts in Iberia and its day-to-day operations which were designed to adapt our business to the traditional cyclical variations, and these were not confined to leasing arrangements, but also involved our policy with regard to aircraft purchase options allowing us to fine-tune our fleet expansion, and even to provide for a reorganisation of the work force which was identified as a necessity some years ago.

At the same time, we have focused our efforts on those markets in which our strong leadership position shelters us from the inevitable ups and downs of the airline business.

The shadows cast by the crisis in 2001 could not dim Iberia's attainments in what will be remembered as a historic year for the Company, when it not only celebrated its 75th anniversary, and was listed on the stock exchange for the first time, but also was gratified by the enthusiastic response of its employees, who showed their confidence in the Company's future by requesting four times more stock than had been initially assigned. The subsequent share price performance has served to ratify that confidence, and Iberia's privatisation was one of the most profitable in recent years.

The year 2001 also witnessed the successful negotiation of four major collective bargaining agreements, affecting both flight and ground personnel. Negotiations with ground staff, flight engineers, and cabin crews led to a new two-year contract for ground staff and four-year contracts with flight engineers and cabin staff. The impossibility of reaching agreement with the SEPLA pilots union led to mandatory government-sponsored arbitration, whereby the conflict was settled and a new Conflict Resolution Committee was established which should contribute to smoother relations with our pilots through 2004.

During the year we have completed the replacement of the short- and medium-range fleet, adding 15 new aircraft and retiring the last of our DC-9s and Boeing 727s, making Iberia's fleet one of the most modern of any European airline. The fleet renewal programme, which also involved reducing the number of aircraft models used, contributed significantly to last year's 11.8% increase in the aircraft utilisation rate -about one additional hour per day per airplane- which is crucial to the attainment of our productivity objectives. Meanwhile, the productivity of cockpit crews, measured in block-hours per pilot, climbed by 4.4% in the year.

Overall, the productivity of Iberia's work force rose by 8% in the year, measured in terms of seats per kilometre, which is the standard productivity yardstick for airlines. Meanwhile, our unit revenues (yield) grew by 1.9%, while our operating costs declined by half a percentage point. Another strategic objective -to lower the distribution costs—was also accomplished, as this item diminished from 11% to 10% of total revenues. Accordingly, operating results before rentals and depreciation (EBITDAR) represented 13.8% of total revenues, one of the highest among European Airlines.

In 2001 we consolidated our leadership in the European and Spain to Latin America markets. In the Europe to Latin American market we achieved a 15.8 overall market share, and a 15.6 share in the business class segment. Another strategic objective achieved in 2001 was to ensure that long-haul flights, which in 1996 accounted for 45% of our total production, would rise to represent more than half this total.

We also launched an Investment and Cost Optimisation and Reduction Plan (PROICO), designed to produce savings of some 104 million euros in the next two years, in keeping with our commitment to making service quality improvements compatible with lower costs.

It is noteworthy that while these achievements were being made, Iberia managed to increase its provisions to a total of 1.298 billion euros, nearly double the 1996 total of 742 million. This shows that we have not only earned profits in the past few years, but that we have done so without detriment to Iberia's financial soundness, enabling us to meet future challenges and risks.

I should not neglect to mention the great success of the Iberia web site, www.iberia.com. Internet ticket sales doubled in the year, again making our site, Spain's most successful electronic commerce venue. Meanwhile, the sales of paperless "electronic tickets" tripled in the year. The Internet and the new digital technologies are crucial management tools which are helping us to meet the principal challenge of the future: to continue to earn a profit and to create value for the hundreds of thousands of investors who have placed their trust in our Company.

In this regard, I would like to express my gratitude to all Iberia employees for their contributions to Iberia's success, and for helping us to improve our services to customers in a very difficult year. Let me assure you that the skills and commitment of our more than 25,000 employees is an asset of unlimited value in ensuring Iberia's future as a profitable enterprise and profitability will only be achieved, if we are able to satisfy our customers. That is our objective.



Xabier de Irala
CHAIRMAN OF IBERIA

ANNUAL REPORT 2001



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LEGAL INFORMATION

IBERIA 
IBERIA, LINEAS AEREAS DE ESPAÑA, S.A.

Translation of a report and financial statements originally issued in Spanish and prepared
in accordance with generally accepted accounting principles in Spain (see Note 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 as of December 31, 2001, and the related statement of income and notes to 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 documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

For comparison purposes the directors present, in addition to the 2001 figures for each item in the balance sheet and statements of income and of changes in financial position, the figures for 2000. Our opinion refers only to the 2001 financial statements. Our auditors' report dated March 12, 2001, on the 2000 financial statements contained an unqualified opinion.

Since the Company is the head of a group and meets certain requirements, it is obliged under current corporate legislation to prepare separate consolidated financial statements, on which we issued our auditors' report on April 18, 2002, containing an unqualified opinion. The effect of consolidation is indicated in Note 4-e to the financial statements referred to above.

In our opinion, the 2001 financial statements referred to above present, in all material respects, a true and fair view of the net worth and financial position of Iberia, Líneas Aéreas de España, S.A. as of December 31, 2001, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

The accompanying management report for 2001 contains the explanations which the 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 management report is consistent with that contained in the financial statements for 2001. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

ARTHUR ANDERSEN

Luis de la Mora

April 18, 2002

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2001 FINANCIAL STATEMENTS AND MANAGEMENT REPORT

BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2000
STATEMENTS OF INCOME FOR 2001 AND 2000

TRANSLATION OF A REPORT AND FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH
AND PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN SPAIN (SEE NOTE 20).

IN THE EVENT OF A DISCREPANCY, THE SPANISH-LANGUAGE VERSION PREVAILS.

IBERIA 
IBERIA, LINEAS AEREAS DE ESPAÑA, S.A.

ASSETS	THOUSANDS OF EUROS	
	2001	2000
FIXED AND OTHER NONCURRENT ASSETS:		
START-UP EXPENSES (NOTE 4-a)	-	632
INTANGIBLE ASSETS (NOTE 5)	379,471	408,107
PROPERTY, PLANT AND EQUIPMENT (NOTE 6)	1,594,115	1,739,720
AIRCRAFT:		
COST	2,345,900	2,549,589
ACCUMULATED DEPRECIATION AND PROVISIONS	(1,151,520)	(1,200,774)
	1,194,380	1,348,815
OTHER TANGIBLE FIXED ASSETS:		
COST	1,004,798	967,829
ACCUMULATED DEPRECIATION AND PROVISIONS	(605,063)	(576,924)
	399,735	390,905
LONG-TERM FINANCIAL INVESTMENTS	372,891	723,824
HOLDINGS IN GROUP AND ASSOCIATED COMPANIES (NOTE 7)	145,529	267,270
LOANS TO GROUP AND ASSOCIATED COMPANIES (NOTE 7)	25,623	25,623
LONG-TERM RECEIVABLES FROM GROUP COMPANIES	-	357,749
INVESTMENT SECURITIES AND OTHER RECEIVABLES (NOTE 7)	374,815	357,776
PROVISIONS (NOTE 7)	(173,076)	(284,594)
LONG-TERM RECEIVABLES (NOTE 16)	377,145	-
TOTAL FIXED AND OTHER NONCURRENT ASSETS	2,723,622	2,872,283
DEFERRED CHARGES (NOTE 5)	92,829	112,400
CURRENT ASSETS:		
TREASURY STOCK (NOTE 8)	15,070	-
INVENTORIES	89,981	94,837
RECEIVABLE FROM GROUP COMPANIES (NOTE 15)	26,221	41,640
ACCOUNTS RECEIVABLE (NOTE 9)	486,123	450,473
SHORT-TERM FINANCIAL INVESTMENTS (NOTE 10)	913,281	686,248
CASH	16,272	5,507
ACCRUAL ACCOUNTS	40,164	30,523
TOTAL CURRENT ASSETS	1,587,112	1,309,228
TOTAL ASSETS	4,403,563	4,293,911

SHAREHOLDERS' EQUITY AND LIABILITIES

THOUSANDS OF EUROS

2001 2000

SHAREHOLDERS' EQUITY (NOTE 11):

CAPITAL STOCK	712,110	712,110
ADDITIONAL PAID-IN CAPITAL	96,454	96,454
REVALUATION RESERVE	38	38
LEGAL RESERVE	58,415	40,474
VOLUNTARY RESERVES	110,645	8,875
RESERVE FOR TREASURY STOCK	15,070	-
MERGER RESERVE	165	165
DIFFERENCES DUE TO THE ADJUSTMENT OF CAPITAL STOCK TO EUROS	1,201	1,201
INCOME FOR THE YEAR	29,371	179,406
TOTAL SHAREHOLDERS' EQUITY	1,023,469	1,038,723

DEFERRED REVENUES	69,332	38,000
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PROVISIONS FOR CONTINGENCIES AND EXPENSES:

PROVISIONS FOR PENSIONS (NOTE 4-K)	47,186	90,612
PROVISIONS FOR OBLIGATIONS TO EMPLOYEES (NOTE 4-M)	452,106	415,308
PROVISION FOR MAJOR REPAIRS	113,166	117,107
PROVISION FOR THIRD-PARTY LIABILITY (NOTE 12)	667,145	608,434
TOTAL PROVISIONS FOR CONTINGENCIES AND EXPENSES	1,279,603	1,231,461

LONG-TERM DEBT:

PAYABLE TO CREDIT ENTITIES (NOTE 13)	405,336	547,396
PAYABLE TO GROUP AND ASSOCIATED COMPANIES	-	168,664
UNCALLED CAPITAL PAYMENTS PAYABLE	-	21
OTHER ACCOUNTS PAYABLE (NOTE 16)	2,365	272
TOTAL LONG-TERM DEBT	407,701	716,353

CURRENT LIABILITIES:

PAYABLE TO CREDIT ENTITIES (NOTE 13)	295,708	114,068
PAYABLE TO GROUP AND ASSOCIATED COMPANIES (NOTE 15)	14,412	48,597
TRADE ACCOUNTS PAYABLE	1,035,235	858,381
CUSTOMER ADVANCES	396,737	298,355
PAYABLES FOR PURCHASES AND SERVICES	638,498	560,026
COMPENSATION PAYABLE	107,840	109,590
OTHER NONTRADE PAYABLES (NOTE 16)	168,789	138,042
ACCRUAL ACCOUNTS	1,474	696

TOTAL CURRENT LIABILITIES	1,623,458	1,269,374
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TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,403,563	4,293,911
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Translation of a report and financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 20). In the event of a discrepancy, the Spanish-language version prevails.

The accompanying Notes 1 to 20 are an integral part of the balance sheet as of December 31, 2001.

DEBIT	THOUSANDS OF EUROS	
	2001	2000
EXPENSES:		
PURCHASES (NOTE 17)	818,040	745,852
PERSONNEL EXPENSES (NOTE 17)	1,294,283	1,270,635
PERIOD DEPRECIATION AND AMORTIZATION	163,486	158,890
VARIATION IN OPERATING PROVISIONS	8,310	4,561
OTHER OPERATING EXPENSES (NOTE 17)	2,322,545	2,100,961
	4,606,664	4,280,899
OPERATING INCOME	-	36,396
FINANCIAL AND SIMILAR EXPENSES	49,661	66,732
VARIATION IN FINANCIAL INVESTMENT PROVISIONS (NOTE 7)	-	7,200
EXCHANGE LOSSES	73,702	80,687
	123,363	154,619
FINANCIAL INCOME	31,836	-
INCOME FROM ORDINARY ACTIVITIES	7,005	15,523
VARIATION IN FIXED ASSET PROVISIONS (NOTE 7)	2,896	(19,594)
LOSSES ON FIXED ASSETS (NOTES 6 AND 7)	13,779	15,726
EXTRAORDINARY EXPENSES (NOTES 6, 7, 8, 12 AND 17)	167,981	304,445
PRIOR YEARS' EXPENSES AND LOSSES	3,234	1,558
	187,890	302,135
EXTRAORDINARY INCOME	-	169,516
INCOME BEFORE TAXES	-	185,039
CORPORATE INCOME TAX (NOTE 16)	(148,858)	5,631
INCOME FOR THE YEAR	29,371	179,408

CREDIT	THOUSANDS OF EUROS	
	2001	2000
REVENUES:		
NET SALES (NOTE 17)	4,333,399	4,101,080
OTHER OPERATING REVENUES (NOTE 17)	248,434	216,215
	4,581,833	4,317,295
OPERATING LOSS	24,831	-
REVENUES FROM SHAREHOLDINGS (NOTE 7)	20,614	7,394
REVENUES FROM OTHER MARKETABLE SECURITIES (NOTE 7)	15,860	14
OTHER INTEREST AND SIMILAR REVENUES	51,364	37,518
EXCHANGE GAINS	67,361	88,820
	155,199	133,746
FINANCIAL LOSS	-	20,873
GAINS ON FIXED ASSET DISPOSALS (NOTES 6 AND 7)	12,699	398,971
EXTRAORDINARY REVENUES (NOTE 17)	40,811	41,476
PRIOR YEARS' REVENUES AND INCOME	7,888	31,204
	61,398	471,651
EXTRAORDINARY LOSS	126,492	-
LOSS BEFORE TAXES	119,487	-

Translation of a report and financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 20).
In the event of a discrepancy, the Spanish-language version prevails.

The accompanying Notes 1 to 20 are an integral part of the 2001 statement of income.

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NOTES TO 2001 FINANCIAL STATEMENTS

TRANSLATION OF A REPORT AND FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH
AND PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN SPAIN (SEE NOTE 20).
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IBERIA 

1. COMPANY DESCRIPTION

Iberia, Líneas Aéreas de España, S.A. engages in the air transport of passengers and cargo and also carries on other activities related to its core business.

As a carrier of passengers and cargo, the Company operates through a large network serving three major markets: Spain, Europe and the Americas. As regards international traffic, in countries with which bilateral agreements have been entered into designating a single company as the operator, Iberia, Líneas Aéreas de España, S.A. is the operator designated by the Spanish party.

As part of the activities related to the core business, mention should be made of the Company's activities as a handling agent, its maintenance activity and the special positioning of Iberia, Líneas Aéreas de España, S.A. in distribution systems.

As regards the handling activity, it should be noted that in 1992, after a public call for tenders, Ente Público de Aeropuertos Españoles y Navegación Aérea (AENA) -the Spanish public airports and aviation agency- awarded Iberia, Líneas Aéreas de España, S.A. a contract for the provision of handling services as the first operator in Spain from April 1, 1993, to April 1, 2001. In April 2001 AENA extended this contract through March 26, 2003.

Iberia, Líneas Aéreas de España, S.A. performs a significant portion of its own maintenance work and provides technical assistance to various companies, mainly through its maintenance center in Barajas, Madrid.

As regards the distribution system, Iberia, Líneas Aéreas de España, S.A. is a partner of the Amadeus Group, which owns the Amadeus central booking system. This investment enables Iberia, Líneas Aéreas de España, S.A. to be present in an industry with enormous economic and growth potential, characterized by its significant technological content.

Iberia, Líneas Aéreas de España, S.A. is a fully-fledged member of the **oneworld** megacARRIER, one of the two largest air transport groups in the world, which facilitates the globalization of its air transport business.

In the first few months of 2000 Group management designed the 2000-2003 Master Plan containing the definition and scope of the actions to be taken during that period in order to successfully achieve the strategic objectives:

- To strengthen the Group's leadership in its main markets.
- To improve quality and relations with customers, especially the most frequent fliers.
- To lead the development of new technologies in the industry.
- To forge and develop alliances.
- To give each business line autonomy in order to improve competitiveness.
- To use the available assets efficiently.
- To reduce unit costs and increase productivity.
- To reduce the cost of capital by controlling operating and financial risks.
- To strengthen the competitiveness of the Group's employees.
- To adapt planning and monitoring processes to value management.

This Plan, whose strategic objectives remain unchanged, has been affected by the crisis in the air transport industry triggered by the events of September 11 and the measures adopted by the Company in the last few months of 2001.

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In April 2001 Sociedad Estatal de Participación Industriales (SEPI), the Company's majority shareholder as of December 31, 2000, launched a public offering of all the Company's shares that it owned as of that date, i.e. 492,125,262 shares representing 53.90% of the capital stock, for € 1.19 per share.

As required by Article 107 of Corporate Income Tax Law 43/1995, it is hereby stated that the information on the Company's merger with Aviación y Comercio, S.A. was disclosed in Note 19 to the financial statements for 2000.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

A) TRUE AND FAIR VIEW

The 2001 financial statements, which were prepared from the Company's accounting records adjusted for the effects of the revaluation made pursuant to Royal Decree-Law 7/1996, are presented in accordance with the Spanish National Chart of Accounts and, accordingly, give a true and fair view of the Company's net worth, financial position, results of operations and funds obtained and applied in 2001. These financial statements, which were prepared by the Company's directors, will be submitted for approval by the Shareholders' Meeting, and it is considered that they will be approved without any changes.

B) COMPARATIVE INFORMATION

2001 is the first year for which the Company presents its financial statements in thousands of euros. The 2000 financial statements were expressed in millions of pesetas. Pursuant to Article 2 of Royal Decree 2814/1998 approving the regulations on the accounting aspects of the introduction of the euro, the figures in these financial statements were translated to euros at the irrevocable conversion rate of € 1/Ptas. 166.386, applying the stipulated rounding off.

3. DISTRIBUTION OF INCOME

The Company's directors propose the following distribution of 2001 income:

DISTRIBUTION OF INCOME	THOUSANDS OF EUROS
TO LEGAL RESERVE	2,937
TO VOLUNTARY RESERVES	17,304
DIVIDENDS	9,130
INCOME FOR THE YEAR	29,371

4. VALUATION STANDARDS

The main valuation methods applied by the Company in preparing its financial statements for 2001, in accordance with the Spanish National Chart of Accounts, were as follows:

A) START-UP EXPENSES

These expenses consist basically of public deed execution and registration expenses relating to capital increases, and are amortized at an annual rate of 20%.

€ 632 thousand of amortization of start-up expenses were charged to the 2001 statement of income.

B) INTANGIBLE ASSETS

Leased assets are recorded as intangible assets at the cost of the related item, excluding the related interest expenses, and are amortized by the same methods as those used to depreciate similar items of property, plant and equipment. The total debt for lease payments plus the amount of the purchase option is recorded as a liability. The difference between the two amounts, which represents the interest expenses on the transaction, is recorded under the "Deferred Charges" caption in the balance sheet and is allocated to income each year by the interest method.

In prior years the Company modified the net book value of certain of its leased aircraft pursuant to a Ministry of Economy and Finance Order (see Note 4-n).

Since no aircraft were leased in currencies other than the peseta or the euro in 2001 or in any of the four preceding years, no modification pursuant to this Order was made to the net book value of any aircraft in 2001.

Computer software is recorded at cost and is amortized on a straight-line basis over an estimated useful life of five years.

Intellectual property is carried at cost and is amortized on a straight-line basis over an estimated useful life of ten years.

C) PROPERTY, PLANT AND EQUIPMENT

The valuation methods applied by the Company are as follows:

1. AIRCRAFT

Aircraft are carried at cost revalued pursuant to the applicable enabling legislation, including Royal Decree-Law 7/1996, except for certain aircraft, the cost of which was not revalued because it was modified pursuant to the provisions of a Ministry of Economy and Finance Order (see Note 4-h).

2. OTHER TANGIBLE FIXED ASSETS

The tangible fixed assets recorded under the "Other Tangible Fixed Assets" caption in the balance sheets are carried at cost revalued pursuant to the applicable enabling legislation, including Royal Decree-Law 7/1996.

3. REPAIRS, UPKEEP AND MAINTENANCE

The Company records a provision for the periodic major repairs of the fuselages of its B-747, B-757, A-300, A-319, A-320, A-321 and A-340 aircraft based on the estimated total cost to be incurred, and allocates this cost to income on a straight-line basis during the period elapsing between two successive major repairs. The balance of this provision is reflected under the "Provision for Major Repairs" caption in the balance sheet.

The costs of repairs of engines and of minor repairs to the aforementioned types of aircraft and of all repairs to the MD-87 and MD-88 aircraft are expensed currently, since the annual expenses tend to be uniform.

The Company does not record provisions for major repairs to the DC-10 aircraft because these aircraft are grounded and ready for sale.

Upkeep and maintenance expenses are expensed currently.

D) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

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

The methods applied to calculate the depreciation of the main items of property, plant and equipment are as follows:

1. AIRCRAFT

The depreciable cost of the aircraft is equal to their book value less the estimated residual value at the end of their useful lives. The residual value ranges from 10% to 20%, depending on the aircraft.

2. AIRCRAFT SPARE PARTS

Spare parts for aircraft maintenance are depreciated, depending on the type of part, as follows:

a. Rotatable parts

These parts are depreciated over 18 years from the date of purchase, assuming a residual value of between 10% and 20%, depending on the type of aircraft.

b. Repairable parts

These are depreciated over a period ranging from eight to ten years, depending on the aircraft, from the date of purchase, assuming a residual value of 10% in all cases.

The Company also records provisions for diminution in value of spare parts due to obsolescence.

3. YEARS OF ESTIMATED USEFUL LIFE:

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

YEARS OF ESTIMATED USEFUL LIFE

	YEARS
AIRCRAFT	16 - 18
BUILDINGS AND OTHER STRUCTURES	20 - 50
MACHINERY, INSTALLATIONS AND TOOLS	10 - 15
TRANSPORT EQUIPMENT	7 - 10
FURNITURE AND FIXTURES	10
COMPUTER HARDWARE	5 - 7
SPARE PARTS	8 - 18
FLIGHT SIMULATORS	10 - 14

The estimated useful lives of the aircraft and properties acquired from Aviación y Comercio, S.A. in 1999 and those received in the merger in 2000 are shorter than those shown in the foregoing table.

The buildings and installations on land owned by the Spanish State, mostly at Spanish airports, with an aggregate net book value of € 27,862 thousand as of December 31, 2001, are depreciated over the respective concession periods.

Depreciation is taken on the net amount of property, plant and equipment revaluations from the date they are recorded, using the same useful life periods as for the cost values.

E) SHAREHOLDINGS AND OTHER FINANCIAL INVESTMENTS

Holdings in Group and associated companies and other shareholdings

The Company carries its investments in other companies at cost, net, where appropriate, of the required provisions for diminution in value if cost exceeds fair value at year-end, which in the case of the Amadeus Group and Touroperador Viva Tours, S.A. was based on their provisional financial statements as of December 31, 2001.

The effect of applying consolidation criteria to the Company's 2001 financial statements was to increase assets by € 228,626 thousand, income for the year by € 20,818 thousand and reserves by € 125,379 thousand.

Time deposits

The Company records its investments in time deposits at the amount delivered. The interest on these transactions is credited to income when earned and is charged through maturity to the "Short-Term Financial Investments" caption.

F) TREASURY STOCK

Treasury stock is carried at cost.

G) TRANSLATION OF FOREIGN CURRENCY BALANCES

The balances of accounts denominated in foreign currencies are translated to pesetas at the exchange rates ruling as of December 31 of each year. However, following customary airline practice, the balance of the liability for unused traffic documents is reflected in the balance sheet at the exchange rates ruling in the month of the sale, as set by the International Air Transport Association (IATA). The IATA exchange rates for each month are the average exchange rates for the last five days of the preceding month.

Translation differences arising from translation at official year-end exchange rates and from the difference between exchange rates as of December 31 of the preceding year and those prevailing at the date of effective collection or payment are recorded under the "Exchange Gains/Losses" captions in the statement of income, except for the net gains or losses relating to the financing obtained for the acquisition of certain aircraft.

However, unrealized exchange gains arising on currencies for which exchange losses have not been allocated to income in prior years or in the current year are recorded under the "Deferred Revenues" caption in the balance sheet.

H) EXCHANGE DIFFERENCES ARISING FROM AIRCRAFT FINANCING

Pursuant to Valuation Rule 14 in Section 5 of the Spanish National Chart of Accounts, on March 23, 1994, the Ministry of Economy and Finance issued, at the proposal of the Spanish Accounting and Audit Institute (ICAC), a Ministerial Order on the accounting treatment of certain foreign currency exchange differences.

This Ministerial Order was repealed by a Ministerial Order dated December 18, 2001, to regulate using the same criteria the exchange differences with respect to the euro and to extend it to all airlines.

Under this accounting regulation, from January 1, 1993, the net amount of foreign currency exchange differences arising in each year on financing for the acquisition by airlines of aircraft added to their fleet in the current year and in the four immediately preceding years has to be recorded as an increase or decrease in the value of such aircraft.

In accordance with this regulation, in 2001 the Company recorded a net increase in the value of its aircraft of approximately € 524 thousand, of which € 547 thousand related to cost and € 23 thousand to accumulated depreciation.

I) INVENTORIES

Inventories, basically aeronautical supplies and fuel, are valued at average acquisition cost, and the related provisions for diminution in value are recorded.

J) RECOGNITION OF REVENUES AND EXPENSES

Revenues and expenses are recognized 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. The balance of this balance-sheet caption reflects the liability for tickets and traffic documents sold prior to December 31, 2001, but not yet used as of that date. The revenues relating to these items are recognized when the transport or service is performed.

The Company has introduced the "Iberia Plus" card as an ongoing promotional tool whereby the holder of the card accumulates points for taking certain flights, using certain hotels, renting cars or making credit card purchases with credit cards covered by the program. The points can be exchanged for free tickets or other services offered by the companies included in the program. The accompanying balance sheet as of December 31, 2001, includes a provision of € 42,897 thousand in this connection, based on estimates of the value of the points accumulated as of that date.

K) PROVISIONS FOR PENSIONS

Under the collective labor agreements currently in force, the Company is required to pay full compensation through their regulatory retirement age to flight personnel who take early retirement (special leave) and to supplement the social security benefits of ground personnel taking early retirement, in accordance with the conditions specified for each case.

The "Provisions for Contingencies and Expenses – Provisions for Pensions" caption in the accompanying balance sheet includes the liabilities that are not subject to externalization incurred in this connection as of December 31, 2001. The provisions recorded to cover the discounted value of the liabilities incurred as of December 31, 2001, and the interest allocable to the recorded allowance amount to € 4,879 thousand and € 3,171 thousand, respectively, and these amounts are included under the "Personnel Expenses" and "Financial and Similar Expenses" captions, respectively, in the accompanying 2001 statement of income.

The liability incurred as of December 31, 2001, was determined on the basis of actuarial studies conducted by independent actuaries using the unit credit method, and the main assumptions were an annual interest rate of 3.5%, an expected annual CPI variation of 2% and annual provisions payable in arrears. Also, the Spanish generational life-expectancy tables used were the PERM/F-2000 P tables.

Pursuant to current legislation, in September 2001 the Company externalized the estimated liability in this connection, through an insurance policy taken out with Winterthur Vida Sociedad Anónima de Seguros Sobre la Vida, and paid the related single premium of € 37,606 thousand.

L) MONTEPIO 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 the Company) and other welfare benefits in certain circumstances (death and permanent disability).

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

The Company's contribution of € 22,367 thousand in 2001 was recorded under the "Personnel Expenses" caption in the accompanying 2001 statement of income.

M) OBLIGATIONS TO FLIGHT PERSONNEL PLACED ON THE RESERVE

Under the collective labor agreements in force, the Company is required to pay full compensation through their regulatory retirement age to flight personnel placed on the reserve.

The "Provisions for Obligations to Employees" account in the accompanying balance sheet includes the liabilities incurred in this connection as of December 31, 2001. The provisions recorded to cover the estimated liability incurred in 2001 and the interest allocable to the recorded allowance amount to € 37,471 thousand and € 14,536 thousand, respectively, and these amounts are included under the "Personnel Expenses" and "Financial and Similar Expenses" captions, respectively, in the accompanying 2001 statement of income.

The liability incurred as of December 31, 2001, was determined on the basis of actuarial studies conducted by independent actuaries using the unit credit method, and the main assumptions were an annual interest rate of 3.5%, an expected annual CPI variation of 2% and annual provisions payable in arrears. Also, the Spanish generational life-expectancy tables used were the PERM/F-2000 P tables.

N) PROVISION FOR THIRD PARTY LIABILITY

The company records under the "Provision for Third-Party Liability" caption in the balance sheet includes the estimated amount required for probable or certain third-party liability arising from legal proceedings and litigation in progress or from outstanding indemnity payments or obligations of undetermined amount, and collateral and other similar guarantees provided by the Company. As described in Note 12, this caption includes the provisions for the costs of the layoff plan initiated in 1999 and implemented in 2000 and 2001 and for the estimated costs of the Labor Force Reduction Plan authorized by the Ministry of Employment and Social Affairs on December 26, 2001.

O) CORPORATE INCOME TAX

The corporate income tax of each year is calculated on the basis of the book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, net of tax relief and tax credits, excluding tax withholdings and prepayments.

P) FUTURES AND OTHER SIMILAR INSTRUMENTS

The Company uses these instruments in transactions to hedge its asset and liability positions and its future flows of collections and payments (see Note 14). It only carries out "nongenuine" hedging transactions (i.e. those arranged between two parties, establishing in each case the contractual terms of the transactions agreed upon between them).

If cash deposits are required as security for the obligations inherent to the aforementioned transactions, they are recorded under the "Short-Term Financial Investments - Short-Term Deposits and Guarantees" caption on the asset side of the balance sheet.

The expenses relating to transactions involving futures and similar instruments are expensed currently.

The price differences arising during the term of futures and similar instruments are recorded as follows:

1. In the case of transactions arranged to hedge exchange rates relating to asset or liability positions, the related balances are discounted to present value based on the gains or losses that arise.

2. For the other exchange and interest rate transactions, the price differences are recorded in the statement of income when the transactions involving futures or similar instruments are cancelled or finally settled.

5. INTANGIBLE ASSETS

The variations in 2001 in intangible asset accounts and in the related accumulated amortization were as follows:

2001	THOUSANDS OF EUROS			
	01-01-01	ADDITIONS AND PROVISIONS	(NOTE 6) TRANSFERS	12-31-01
RIGHTS ON LEASED ASSETS	484,726	34,957	(108,173)	411,510
COMPUTER SOFTWARE	26,571	21,691	(161)	48,101
INTELLECTUAL PROPERTY	-	551	-	551
LEASEHOLD ASSIGNMENT AND OTHER RIGHTS	510	-	-	510
RESEARCH AND DEVELOPMENT EXPENSES	115	350	-	465
AMORTIZATION	(103,815)	(28,402)	50,551	(81,666)
NET VALUE	408,107			379,471

As of December 31, 2001, the cost of the Company's fully amortized intangible assets amounted to € 6,413 thousand.

COMPUTER SOFTWARE

The period additions relate basically to investments in projects that are being used by the Company.

INTELLECTUAL PROPERTY

On September 21, 2001, the Company acquired from Binter Mediterráneo, S.A. the Spanish brand name, business sign and the Internet domains of Binter Mediterráneo, S.A. for € 301 thousand.

Also, on January 15, 2001, the Company acquired from VIVA, Vuelos Internacionales de Vacaciones, S.A. certain Spanish, international and foreign brand names of VIVA, Vuelos Internacionales de Vacaciones, S.A. for € 250 thousand.

RIGHTS ON LEASED ASSETS

In 2001 the Company leased one A-320 aircraft under a financial lease contract. The price of the aircraft amounted to € 43,294 thousand, although it was leased for € 30,313 thousand. The difference relates to advances of € 11,175 thousand and a cash amount payable of € 1,806 thousand.

The main features of the financial lease contract are as follows:

1. Expiration date: March 30, 2008.
2. Lease payments: half-yearly.
3. Interest rate: 6.185%.

4. Purchase option: may be exercised at any time from the contract date to September 30, 2002, and from five years from the contract date to the expiration date of the contract. The price of the option varies depending on when it is exercised.

Also, in 2001 the purchase options were exercised on three A-320 and two MD-87 aircraft and on certain computer hardware and, accordingly, the cost and related accumulated depreciation of these assets were reclassified to property, plant and equipment (see Note 6).

The general features of the lease contracts (relating mainly to aircraft) in force as of December 31, 2001, some of which provide for floating interest and lease payments denominated in foreign currencies, are as follows:

DECEMBER 31, 2001	THOUSANDS OF EUROS
CASH PRICE OF THE FIXED ASSETS ACQUIRED, ACCORDING TO CONTRACTS	411,217
AMOUNT OF LEASE PAYMENTS PAID - IN PRIOR YEARS	246,126
- IN 2001	102,704
AMOUNT OF LEASE PAYMENTS OUTSTANDING AT DECEMBER 31 (NOTE 13)	206,149 (a)
AMOUNT OF PURCHASE OPTIONS (NOTE 13)	218,287 (a)

(a) As of December 31, 2001, these amounts included € 78,373 thousand of unaccrued interest at that date, the balancing entry for which is included under the "Deferred Charges" caption in the accompanying balance sheet as of December 31, 2001.

The due dates for the lease payments outstanding as of December 31, 2001, including the amount of the purchase options, are as follows:

DECEMBER 31, 2001	
LEASE PAYMENTS DUE IN:	THOUSANDS OF EUROS
2002	70,355
2003	59,037
2004	33,555
2005	31,347
2006 - 2010	230,142

6. PROPERTY, PLANT AND EQUIPMENT

The variations in 2001 in property, plant and equipment accounts and in the related accumulated depreciation and provisions were as follows:

COST	THOUSANDS OF EUROS				
	01-01-01	ADDITIONS	RETIREMENTS	(NOTE 5) TRANSFERS	12-31-01
AIRCRAFT	2,293,880	122,888	(481,906)	147,850	2,082,712
ADVANCES ON AIRCRAFT	255,709	134,335	(90,748)	(36,108)	263,188
	2,549,589	257,223	(572,654)	111,742	2,345,900
OTHER TANGIBLE FIXED ASSETS:					
LAND	3,181	-	(2)	-	3,179
BUILDINGS AND OTHER STRUCTURES	168,314	-	(7,752)	-	160,562
MACHINERY, INSTALLATIONS AND TOOLS	386,814	19,623	(6,405)	1,669	401,701
TRANSPORT EQUIPMENT	21,619	2,120	(564)	34	23,209
FURNITURE AND FIXTURES	20,437	1,376	(1,875)	2	19,940
COMPUTER HARDWARE	61,480	10,313	(13,504)	1,989	60,278
SPARE PARTS	242,310	113,738	(92,135)	(2,986)	260,927
FLIGHT SIMULATORS	44,697	1,945	(1,052)	10,989	56,579
CONSTRUCTION IN PROGRESS	18,977	30,599	(16,048)	(15,105)	18,423
	967,829	179,714	(139,337)	(3,408)	1,004,798

ACCUMULATED DEPRECIATION AND PROVISIONS					THOUSANDS OF EUROS
	01-01-01	PROVISIONS	RETIREMENTS	(NOTE 5) TRANSFERS	12-31-01
AIRCRAFT	1,200,774	94,354	(194,708)	51,100	1,151,520
OTHER TANGIBLE FIXED ASSETS:					
BUILDINGS AND OTHER STRUCTURES	96,501	4,927	(380)	-	101,048
MACHINERY, INSTALLATIONS AND TOOLS	257,454	21,433	(5,167)	101	273,821
TRANSPORT EQUIPMENT	9,752	2,423	(505)	24	11,694
FURNITURE AND FIXTURES	14,747	1,049	(1,842)	(125)	13,829
COMPUTER HARDWARE	40,462	8,500	(13,455)	365	35,872
SPARE PARTS	119,979	17,154	(7,523)	(914)	128,696
FLIGHT SIMULATORS	38,029	3,125	(1,051)	-	40,103
	576,924	58,611	(29,923)	(549)	605,063

The transfers relate mainly to the exercise of the purchase option on three A-320 and two MD-87 aircraft (see Note 5). Two of these A-320 aircraft were sold and subsequently leased back under an operating lease arrangement.

ADVANCES ON AIRCRAFT

The advances on aircraft relate to advances paid as a result of purchase commitments to manufacturers in accordance with the established schedules.

The additions in 2001 relate to advances paid in connection with eleven A-320, four A-321 and three A-340 aircraft to be received under the Company's fleet renewal plan.

Also, € 68,400 thousand and € 22,348 thousand relating to the advances paid for the three A-340 and two A-320 aircraft, respectively, that came into service in 2001 were recovered. € 24,933 thousand were transferred to the "Aircraft" caption and € 11,175 thousand were transferred to the "Intangible Assets" caption, relating to the advances paid for two A-321 aircraft acquired and one A-320 aircraft leased by the Company in 2001.

As of December 31, 2001, the deadline for exercising the purchase options arranged with The Boeing Company (Boeing) on 14 B-757 aircraft expired, and an agreement was reached to use the advances paid by the Company (€ 3,495 thousand) to purchase aeronautical supplies.

Also, as of December 31, 2001, the Company had firm purchase commitments to Airbus Industrie, G.I.E. (Airbus) for three A-340 aircraft, for a basic price of approximately US\$ 414 million (€ 470 million as of December 31, 2001). The parties agreed that the aircraft would be delivered in 2002, although the Company negotiated the postponement of the delivery of one of the aircraft from June to December 2002, which will give rise to an additional disbursement, for the difference in price, deferred-payment interest and storage costs. In addition, the Company is entitled to exercise through 2004 purchase options on another five A-340 aircraft. The advances paid by the Company as of December 31, 2001, for the three aircraft for which there were firm purchase commitments and for the aforementioned purchase options amounted to € 70,412 thousand and € 1,702 thousand, respectively.

In 2001 the Company renegotiated with Airbus the schedule for the delivery of the A-320-type aircraft subject to the framework agreement entered into in 1998 and subsequent amendments. The delivery dates were put back as follows:

AIRCRAFT SUBJECT TO FIRM PURCHASE COMMITMENT

TYPE OF AIRCRAFT	2002	2003	2004	2005	2006	TOTAL
A-319	-	-	-	-	-	-
A-320	6(a)	2	6	2	2	18
A-321	3(a)	-	5	4	-	12
	9	2	11	6	2	30

(a) These aircraft will be delivered by the manufacturer in 2002 to a finance entity, although the Company will start to operate them 12 months afterwards and will have to pay the interest on the related financing.

AIRCRAFT SUBJECT TO PURCHASE OPTION

TYPE OF AIRCRAFT (a)	2002	2003	2004	2005	2006	TOTAL
A-319	-	-	-	4	5	9
A-320	-	-	3	2	2	7
A-321	-	-	5	-	6	11
	-	-	8	6	13	27

(a) As part of the agreement reached, 13 of the existing purchase options were exchanged for purchase rights, thereby making the aircraft delivery date flexible and the aircraft subject to the seller's commercial and production restrictions. The purchase rights have to be converted into firm orders in writing before December 31, 2004, and the aircraft must be delivered before December 31, 2007.

The basic price of the A-320-type aircraft on which there is a firm purchase commitment in this transaction is approximately € 1,729 million. The Company had paid advances of € 187,388 thousand on account of these aircraft and options as of December 31, 2001.

The Company will receive one A-320 aircraft in 2004 to replace the aircraft damaged in Bilbao. The Company is currently negotiating with insurance companies the compensation for the losses incurred.



AIRCRAFT, PERIOD ADDITIONS

In 2001 the Company acquired two A-321 aircraft for a total price of € 96,461 thousand (€ 71,528 thousand in cash and € 24,933 thousand of advances paid previously).

Also, the Company made certain changes to certain aircraft that have increased their revenue-generating capacity. These changes, consisting mainly of modifications to cabins and the incorporation of materials, pursuant to the manufacturers' bulletins (which must be complied with), were made to the B-747, MD-87, MD-88, A-300, A-320 and A-340 aircraft, for a total amount of € 42,368 thousand.

Lastly, A-340 aircraft engines were acquired for € 8,445 thousand.

AIRCRAFT, PERIOD RETIREMENTS

In four transactions in 2001 the Company sold 18 B-727 aircraft and 45 B-727 engines and 9 DC-9 engines to various companies for a total amount of € 7,357 thousand. These items had been recorded at a cost of € 91,936 thousand, the related accumulated depreciation amounting to € 73,003 thousand and the provision for diminution in value to € 9,912 thousand. The sale of these items gave rise to a net loss of € 1,664 thousand, and this amount was recorded as a gain of € 2,566 thousand under the "Gains on Fixed Asset Disposals" and as a loss of € 4,230 thousand under the "Losses on Fixed Assets" caption in the accompanying 2001 statement of income.

As of December 31, 2001, the Company had entered into agreements with three companies for the sale of 10 B-727 aircraft and 18 B-727 engines and 12 DC-9 engines for a total amount of € 5,464 thousand. As of December 31, 2001, these aircraft and engines, which will be delivered in the first quarter of 2002, were recorded at a cost of € 80,272 thousand, the related accumulated depreciation amounting to € 9,788 thousand.

Also, in February 2001 the Company sold one B-747 aircraft and four B-747 engines, which had been recorded at a cost of € 70,348 thousand, the related accumulated depreciation amounting to € 44,991 thousand. Also, a provision for major repairs of € 2,032 thousand had been recorded for this aircraft. Since the sale price was € 25,082 thousand, this transaction gave rise to a gain, taking into account certain adjustments, of € 671 thousand, and this amount is recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying 2001 statement of income.

Lastly, in 2001 the Company sold 9 A-320 aircraft and 18 A-320 engines for a total amount of € 277,077 thousand. Since the recorded cost and accumulated depreciation of these items were € 317,848 thousand and € 65,393 thousand, respectively, their sale gave rise to a gain of € 24,622 thousand, and this amount was recorded under the "Deferred Revenues" caption in the accompanying balance sheet as of December 31, 2001, because, subsequent to these sales, the Company entered into operating lease contracts for the same planes. The gain will be credited to income over the term of the lease contracts.

OTHER

In 2001 the Company sold for € 11,201 thousand substantially the whole of a building and a portion of the related installations which had been recorded at a cost of € 7,657 thousand, the related accumulated depreciation amounting to € 315 thousand. The sale gave rise to a gain of € 3,859 thousand, which is recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying 2001 statement of income.



REVALUATION RESERVE ROYAL DECREE-LAW 7/1996

On December 31, 1996, the Company revalued its property, plant and equipment pursuant to Royal Decree-Law 7/1996, and paid the single 3% tax. The Company had previously availed itself of other revaluation legislation. The revaluation surplus and the effect thereof as of December 31, 2001, are as follows:

REVALUATION	THOUSANDS OF EUROS			
	SURPLUS AT 01-01-01	2001 PROVISION	RETIREMENTS	BALANCE AT 12-31-01
AIRCRAFT	12,579	(155)	(3,474)	8,950
LAND	883	-	-	883
BUILDINGS AND OTHER STRUCTURES	8,691	(914)	(25)	7,752
MACHINERY, INSTALLATIONS AND TOOLS	902	(401)	(3)	498
TRANSPORT EQUIPMENT	6	(5)	-	1
FLIGHT SIMULATORS	649	(374)	-	275
	23,710	(1,849)	(3,502)	18,359

As of December 31, 2001, the accumulated depreciation taken on the surplus arising from the revaluation made by Iberia, Líneas Aéreas de España, S.A. amounted to approximately € 71,845 thousand.

The revaluation increased the 2001 depreciation charge by approximately € 1,849 thousand, and will increase the 2002 depreciation charge by approximately € 957 thousand.

The revaluation surplus, net of the single 3% tax, was credited to the "Revaluation Reserve" caption, with a charge to the appropriate revalued asset accounts, without altering the recorded accumulated depreciation amount.

ACCUMULATED DEPRECIATION AND PROVISIONS

As of December 31, 2001, the cost of the Company's fully depreciated property, plant and equipment amounted to € 279,281 thousand.

In 2001 the Company recorded provisions for the diminution in value of aircraft that were grounded (DC-9 and DC-10) or that will be grounded in 2002 (A-300) to reduce them to their estimated realizable value. The provisions amounted to € 6,100 thousand for the DC-10 aircraft, € 950 thousand for the DC-9 aircraft and € 9,688 thousand for the A-300 aircraft, and these amounts were recorded under the "Extraordinary Expenses" caption in the accompanying 2001 statement of income (see Note 17-g).

TRANSACTIONS INVOLVING THE AIRCRAFT

The detail of the aircraft that the Company had in service as of December 31, 2001, is as follows:

AIRCRAFT IN SERVICE

TYPE OF AIRCRAFT	OWNED BY THE COMPANY	UNDER FINANCIAL LEASE	UNDER OPERATING LEASE	TOTAL
B-727	- (a)	-	-	-
B-747	5	-	4	9
B-757	-	1	17	18
A-300	5 (b)	-	-	5
A-319	-	-	4	4
A-320	9 (c)	9	34	52
A-321	2	2	-	4
A-340	-	-	15	15
DC-9	- (d)	-	-	-
DC-10	- (e)	-	-	-
MD-87	19	-	5	24
MD-88	13	-	-	13
	53	12	79	144

(a) Excluding eleven aircraft, ten of which are ready for delivery to their new owners and the other one is damaged, pending an agreement with the related insurance company.

(b) Excluding one aircraft which was grounded as of December 31, 2001, pending sale to Airbus.

(c) Excluding one damaged and grounded aircraft in Bilbao which will be replaced by Airbus.

(d) Excluding twenty-five inactive aircraft that are ready for sale. In February 2002 the Company entered into agreements for the sale of these aircraft.

(e) Excluding six inactive aircraft that are ready for sale.

One B-757 aircraft leased by the Company under a financial lease contract, with a net book value of € 19,064 thousand as of December 31, 2001, has been mortgaged. Also, the A-320 and A-321 aircraft, on which financial and operating lease contracts, respectively, were entered into in 2000 and 2001, respectively, have been mortgaged by the respective lessors under the legislation in force in each of the countries concerned.

As of December 31, 2001, 44 aircraft (11 B-727, 25 DC-9, 6 DC-10, 1 A-300 and 1 A-320 aircraft), with a net book value of € 86,414 thousand as of that date, were grounded. These aircraft, except for the A-320 aircraft, are ready for sale, and the Company's directors do not expect any material losses to arise in this connection. Agreements have been reached to sell 10 of the B-727 aircraft and the 25 DC-9 aircraft, although the aircraft will not be delivered until 2002.

On September 26, 2000, a bond issue of € 496,473 thousand was launched in the European market secured by 18 aircraft which, in turn, the Company guarantees to operate under an operating lease or a financial lease. As of December 31, 2001, eight A-320 aircraft (seven under operating lease and one under financial lease), two A-321 aircraft (under financial lease) and eight B-757 aircraft (under operating lease) relating to this issue were in operation.

In 2001 the Company entered into an agreement for the lease of the holds of two DC-8 aircraft in 2002.

OWNED AIRCRAFT

A-300

The Company owns six A-300 aircraft, one of which had been grounded as of December 31, 2001. The agreements entered into in 2001 with Airbus provide for the purchase by Airbus of these six aircraft for € 17,019 thousand. This sale will be made as the three A-340 aircraft are delivered in 2002.

DC-9

In February 2002 the Company entered into agreements for the sale of its 25 DC-9 aircraft and 52 DC-9 engines for a total amount of € 11,913 thousand. As of December 31, 2001, these items has been recorded at a cost of € 68,765 thousand, and provisions for diminution in value amounting to € 41,493 thousand and € 9,364 thousand, respectively.

AIRCRAFT OPERATED UNDER OPERATING LEASE CONTRACTS

BOEING AIRCRAFT

B-757

As of December 31, 2001, the Company was leasing 17 B-757 aircraft from various companies (a different company for each plane). The lease contracts expire in 2004 and 2005, at which time the aircraft will be returned to the lessors. However, for eight of these aircraft, at the end of the related lease term the lessor of the aircraft has a residual value guarantee from International Lease Finance Corporation.

In 2001 the Company terminated the wet lease contracts (operating lease of aircraft with crew) with Air Europa, S.A. on six B-757 aircraft. Three of these aircraft that had previously been operated by the Company under an operating lease agreement were sublet in 2000 to Air Europa, S.A.

B-747

As of December 31, 2001, the Company was operating four B-747 aircraft under operating lease contracts with The Boeing Company (one aircraft) and Air Atlanta, S.A. (three aircraft) expiring in the period from 2002 to 2005. Under the contract with Boeing, the purchase option may be exercised at any time during the contract term, and the contracts with Air Atlanta are renewable for a further year. The Company may terminate these three contracts early on certain dates.

In connection with the contracts with Air Atlanta, S.A., as of December 31, 2001, the Company had deposited a completion bond amounting to € 2,042 thousand, and this amount is recorded under the "Investment Securities and Other Receivables" caption in the accompanying balance sheet as of December 31, 2001 (see Note 7).



AIRBUS AIRCRAFT

A-340

As of December 31, 2001, the Company was operating 15 A-340 aircraft under operating lease contracts, 11 of which were leased from the "Iberbus" companies (see Note 7), in which the Company has ownership interests. When these contracts expire (between 2003 and 2007), the Company will have the following three options: to exercise the purchase option and pay a predetermined price for the aircraft; to extend the lease for periods of three and eight years and mandatorily exercise the purchase option; or to return the planes to the lessor.

If the Company opts to return the planes and if the lessor of the aircraft does not find a buyer for the aircraft, the Company is obliged to extend the operating lease contract for a further one-year period for contracts expiring in 2003 (four aircraft) and for a further two-year period for the other contracts. The expiration dates initially agreed on for the lease contracts on three of these aircraft were extended from 2003 to 2005, provided that these aircraft are not sold during this period.

The lease contracts for the other four A-340 aircraft have a term of nine years and expire in 2009 and 2010, upon which the Company may opt to purchase the aircraft for a predetermined price or to return them to the lessor.

A-319, A-320 and A-321

As of December 31, 2001, the Company was operating 34 A-320 aircraft and four A-319 aircraft under operating lease contracts, the main features of which are as follows:

- 12 A-320 aircraft and four A-319 aircraft are leased under a contract with International Lease Finance Corporation, expiring in 2004 (two aircraft), 2005 (seven aircraft) and 2006 (seven aircraft). When the lease contract expires, the Company may extend the contract twice for one- or five-year periods, provided that the two extensions do not total more than six additional years.

As a result of having entered into this contract, as of December 31, 2001, the Company had deposited a completion bond of € 11,913 thousand, and this amount is recorded under the "Investment Securities and Other Receivables" caption in the accompanying balance sheet as of December 31, 2001 (see Note 7).

- Two A-320 aircraft are leased under two contracts expiring in 2004, when the Company may renew the contracts for an additional seven years.

- Nine A-320 are leased under nine contracts expiring between 2012 and 2014, when the Company will return the aircraft to the lessor. However, the Company may choose to exercise the purchase option on the aircraft for a predetermined price provided for in the contracts on certain dates: September 30, 2007 (one aircraft), March 30, 2008 (two aircraft), September 30, 2009 (four aircraft) and September 15, 2011 (two aircraft).

- Five A-320 aircraft are being leased under five lease contracts expiring in 2006 (three aircraft) and 2007 (two aircraft). When the contracts expire, the Company may extend them for a further five years, provided that it notifies the lessor of its decision 12 months prior to the expiration of the original lease term.

- Six A-320 aircraft are leased under six lease contracts expiring between 2001 and 2003. When the contracts expire, the Company may return the aircraft or extend the term of the contracts for a further five years. In 2001 the two aircraft lease contracts that expired in that year were renewed.

MD-87

As of December 31, 2001, the Company was operating five MD-87 aircraft under operating lease contracts. The term of the lease contracts is 96 months, at the end of which the Company may exercise the purchase option provided for in the contract or return the planes.

WET LEASE

In recent years the Company entered into several wet lease contracts (lease of aircraft with crew).

Following the events with worldwide repercussions that occurred in September 2001, the Company decided to terminate all its wet lease contracts.

The contract for two B-747 entered into with Air Atlanta, S.A. in November 2001 was terminated. Following negotiations in December 2001, an agreement was reached by the parties whereby the Company undertook to pay a termination penalty of US\$ 2,603,133 (€ 2,950 thousand), and this amount was recorded under the "Extraordinary Expenses" caption in the accompanying 2001 statement of income.

As regards the contracts with Air Europa, S.A. for the wet lease of eleven aircraft (six B-757, three B-737 and two B-767 aircraft):

- The wet lease of the three B-737 aircraft was terminated in October 2001 at no cost.

- The contracts for the two B-767 aircraft, which had been operated since December 1999 under a dry lease arrangement, were terminated in November 2001. An agreement was reached by the parties in December 2001 whereby the Company undertook to pay a penalty of US\$ 5,918 thousand (€ 6,707 thousand), and this amount was recorded under the "Extraordinary Expenses" caption in the accompanying 2001 statement of income.

- The six B-757 aircraft ceased to be operational at the end of October 2001. Three of the aircraft were being operated under an operating lease by the Company which in turn sublet the aircraft to Air Europa, S.A. which in turn leased them under a wet lease arrangement to the Company. Also, there is an agreement relating to two of these aircraft whereby, once the wet lease contract expired, the aircraft would once again be operated under the original operating lease arrangement through expiration of related contract. At the date of preparation of these financial statements, no termination agreement had been reached by the parties. The Company recorded a provision for the penalty costs that the directors consider will ultimately be paid under the "Extraordinary Expenses" caption in the accompanying 2001 statement of income and under the "Provision for Third-Party Liability" caption in the accompanying balance sheet as of December 31, 2001.

In connection with the wet lease contracts with Air Europa, S.A., as of December 31, 2001, the Company had made deposits amounting to € 8,443 thousand, and these amounts are recorded under the "Investment Securities and Other Receivables" caption in the accompanying balance sheet as of December 31, 2001 (see Note 7).



LEASE EXPENSES

The lease payments accrued in 2001 for the operating lease of the aforementioned B-747, B-757, B-767, A-319, A-320, A-340 and MD-87 aircraft amounted to € 372,423 thousand, and this amount is included under the "Other Operating Expenses" caption in the accompanying 2001 statement of income (see Note 17). The detail as of December 31, 2001, of the approximate total operating lease payments payable for these aircraft (denominated in U.S. dollars) and of the related due dates is as follows:

LEASE EXPENSES	
YEAR	MILLIONS OF EUROS
2002	360
2003	346
2004	315
2005 TO 2014	650
	1,671

INSURANCE COVERAGE

The Company has arranged insurance policies for its property, plant and equipment and intangible assets which sufficiently covered their net book value as of December 31, 2001. It has also taken out insurance policies for the aircraft leased from third parties in accordance with the conditions stipulated in the related lease contracts. Most of these policies are with Musini, Sociedad Anónima de Seguros y Reaseguros.

7. LONG-TERM FINANCIAL INVESTMENTS

HOLDINGS IN GROUP AND ASSOCIATED COMPANIES

The variations in 2001 in the balance of the "Holdings in Group and Associated Companies" caption and in the related allowance were as follows:

	THOUSANDS OF EUROS	
	COST	ALLOWANCE
BALANCE AT 01-01-01	267,270	(213,719)
ADDITIONS OR PROVISIONS	-	(2,876)
RETIREMENTS OR REVERSALS	(121,741)	114,396
BALANCE AT 12-31-01	145,529	(102,199)

The retirements from cost and the related allowance relate to:

1. On October 18, 2001, the Company sold all of its holding in Campos Velázquez, S.A. to its subsidiary Compañía de Explotación de Aviones Cargueros Cargo Sur, S.A. for € 1,088 thousand. The holding in this company had been recorded at a cost of € 2,767 thousand, with an allowance of € 1,676 thousand. The loss of € 3 thousand arising from the sale was recorded under the "Losses on Fixed Assets" caption in the accompanying 2001 statement of income.

2. On December 20, 2001, the Company sold its 99.47% holding in VIVA Vuelos Internacionales de Vacaciones, S.A. and Campos Velázquez, S.A. to its subsidiary Compañía de Explotación de Aviones Cargueros Cargo Sur, S.A. for € 1,292 thousand. The holding in this company had been recorded at a cost of € 78,692 thousand, with an allowance of € 74,314 thousand. The loss of € 3,086 thousand arising from the sale was recorded under the "Losses on Fixed Assets" caption in the accompanying 2001 statement of income.

3. On October 2, 2001, the Company sold all of its holding in Binter Mediterráneo, S.A. to Air Nostrum, Líneas Aéreas del Mediterráneo, S.A. for € 4,430 thousand. The holding in this company had been recorded at a cost of € 39,789 thousand, with an allowance of € 38,406 thousand. The gain of € 3,047 thousand arising from the sale was recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying 2001 statement of income.

4. In 2001 the Shareholders' Meeting of Amadeus Global Travel Distribution, S.A. resolved to reduce capital by 55,384,709 series B shares through the reimbursement of contributions. The Company's holding was reduced by 3,883,667 shares and it received € 39 thousand. Since the cost of these shares amounted to € 493 thousand, the capital reduction gave rise to a loss of € 454 thousand, which is recorded under the "Losses on Fixed Assets" caption in the accompanying 2001 statement of income.

The information relating to the main Group and associated companies as of December 31, 2001, drawn from their respective audited financial statements or from provisional financial statements which have not yet been approved by the related Shareholders' meetings in the case of the Amadeus Group and Touroperador Viva Tours, S.A., is as follows:

DECEMBER 31, 2001

GROUP AND ASSOCIATED COMPANIES	ADDRESS
BINTER CANARIAS, S.A.	LAS PALMAS AIRPORT
COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A.	CENTRO DE CARGA AÉREA PARCELA 2 P.5 NAVE 6; MADRID
CARGOSUR, S.A. (d)	VELÁZQUEZ, 130; MADRID
IBER-SWISS CATERING, S.A.	CTRA. DE LA MUÑOZA, S/N; MADRID
AMADEUS GLOBAL TRAVEL DISTRIBUTION, S.A.	SALVADOR DE MADARIAGA, 1; MADRID
VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A. (VIASA)	OSCAR M. ZULOAGA, S/N; CARACAS
SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJES, S.A. (SAVIA)	VELÁZQUEZ, 130; MADRID
TOUOPERADOR VIVA TOURS, S.A.	TRESPADERNE, 29; MADRID
TOTAL	

(a) In 2001 there were no variations in the Company's percentages of ownership of the capital stock of the Group and associated companies.

(b) Including the following amounts relating to revaluation reserves resulting from asset revaluations made in 1996 pursuant to Royal Decree-Law 7/1996:

RESERVES	THOUSANDS OF EUROS
BINTER CANARIAS, S.A.	3,567
COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A.	6
CARGOSUR, S.A.	1,112
IBER-SWISS CATERING, S.A.	1,395

(c) Venezolana Internacional de Aviación, S.A.'s operations were discontinued in January 1997 and in March 1997 the company filed for "suspensión de pagos" (Chapter 11-type insolvency proceedings) and the process of liquidation commenced. At the date of preparation of these financial statements, it had not been possible to obtain any recent financial statements relating to this company. The risks relating to this holding were provisioned in full in the accompanying balance sheet as of December 31, 2001.

(d) The related financial information refers to this company's individual financial statements, since this company, which as of December 31, 2001, had holdings in Campos Velázquez, S.A. and VIVA, Vuelos Internacionales de Vacaciones, S.A., did not present consolidated financial statements because it was not required to do so because the three companies are consolidated in the Iberia Group.

(e) The dividend rights relating to the Amadeus Group and Sistemas Automatizados Agencias de Viaje, S.A. amount to 18.28% and 72.22%, respectively.



THOUSANDS OF EUROS						
PERCENTAGE OF DIRECT AND INDIRECT OWNERSHIP (a)	COST	ALLOWANCE	CAPITAL	(b) RESERVES	INCOME (LOSS)	
					ORDINARY	EXTRAOR- DINARY
100.00	30,816	(7,398)	8,326	6,699	7,934	530
75.00	670	-	192	1,571	707	(58)
100.00	8,685	(4,902)	6,058	1,030	47	(1,292)
70.00	3,569	-	3,005	6,098	2,329	(134)
27.92 (e)	9,902	-	27,898	641,523	92,346	-
45.00	88,446	(88,446)	(c)	(c)	(c)	(c)
75.49 (e)	198	-	300	10,608	7,371	360
49.04	1,355	(1,355)	2,759	1,252	(5,554)	(4)
	143,641	(102,101)				

BINTER CANARIAS, S.A., SISTEMAS AUTOMATIZADAS AGENCIA DE VIAJE, S.A. (SAVIA),
 COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A. AND IBER-SWISS CATERING, S.A.

The Shareholders' Meetings of the aforementioned companies, held on various dates in 2001, resolved to distribute dividends out of their respective 2000 income, of which € 8,575 thousand, € 1,018 thousand, € 409 thousand and € 920 thousand, respectively, corresponded to the Company. These dividends were recorded under the "Revenues from Shareholdings" caption in the accompanying 2001 statement of income.



AMADEUS GROUP

The Amadeus Group, whose corporate purpose consists of the management and operation of a computerized booking system, comprises Amadeus Global Travel Distribution, S.A. (the parent company) and its investees.

In 2001 the Shareholders' Meeting of Amadeus Global Travel Distribution, S.A. resolved to distribute dividends out of 2000 income, of which € 9,664 thousand corresponded to the Company. These dividends were recorded under the "Revenues from Shareholdings" caption in the accompanying 2001 statement of income.

Also, in 2001 Amadeus Global Travel Distribution, S.A. reduced capital. This capital reduction related to class B shares (which only carry voting rights) and was carried out through the reimbursement of contributions. The Company's holding was reduced by 3,883,667 shares and it received € 39 thousand.

LOANS TO GROUP AND ASSOCIATED COMPANIES

This caption in the accompanying balance sheet as of December 31, 2001, includes the loans granted in prior years to Venezolana Internacional de Aviación, S.A. (VIASA) which had been fully provisioned as of that date.

INVESTMENT SECURITIES AND OTHER RECEIVABLES

The detail of the investments recorded under this caption in the accompanying balance sheet as of December 31, 2001, is as follows:

INVESTMENT SECURITIES AND OTHER RECEIVABLES	THOUSANDS OF EUROS
IBERBOND PLC 1999	35,490
INTERINVEST, S.A.	30,244
IBERBUS COMPANIES	24,930
OPODO, LTD.	9,504
ADQUIRA ESPAÑA, S.A.	3,583
CORDIEM, LLC.	2,330
LOANS TO IBERBUS COMPANIES	224,725
LOAN TO AEROLÍNEAS ARGENTINAS, S.A.	3,914
DEPOSITS AND GUARANTEES FOR OPERATION OF AIRCRAFT UNDER DRY LEASE ARRANGEMENTS (NOTE 6)	2,042
DEPOSITS AND GUARANTEES FOR OPERATION OF AIRCRAFT UNDER WET LEASE ARRANGEMENTS (NOTE 6)	8,443
DEPOSITS AND GUARANTEES FOR OPERATION OF AIRCRAFT LEASED FROM ILFC (NOTE 6)	11,913
OTHER DEPOSITS AND GUARANTEES	2,939
OTHER	14,758
	374,815

IBERBOND PLC 1999

In September 1999 the Company subscribed to bonds issued by Iberbond PLC 1999 totaling € 39,000 thousand. These bonds form part of an issue relating to the acquisition of six A-320 aircraft that were subsequently leased to the Company under a financial lease contract.

The bonds subscribed by the Company earn annual interest of 5.90%, which is settled every six months. The principal is redeemed annually and the final maturity of the transaction is September 1, 2007. 3% of the principal is payable each year in the first five years and the remaining 85% is payable in 2007. Based on this maturity, as of December 31, 2001, the Company recorded the portion of the investment maturing at long term (€ 35,490 thousand) under the "Investment Securities and Other Receivables" caption and the portion maturing at short term (€ 1,170 thousand) under the "Short-Term Financial Investments" caption in the accompanying balance sheet as of December 31, 2001 (see Note 10).

The interest earned in 2001 amounted to € 2,186 thousand, and this amount was recorded under the "Other Interest and Similar Revenues" caption in the accompanying 2001 statement of income. The € 735 thousand receivable in this connection as of December 31, 2001, were recorded under the "Short-Term Financial Investments" caption in the accompanying balance sheet as of December 31, 2001.

AEROLÍNEAS ARGENTINAS GROUP AND INTERINVEST, S.A.

As of December 31, 2001, the Company's holding in Interinvest, S.A. (the majority shareholder of Aerolíneas Argentinas, S.A.) was 0.1438% and was recorded at a cost of € 30,244 thousand. A provision was recorded for the same amount as of December 31, 1999, due to the accumulated losses incurred by Aerolíneas Argentinas, S.A.

In the first half of 1999 the Company granted a loan of US\$ 5,000,000 to Aerolíneas Argentinas, S.A. As of December 31, 2001, the € 6,273 thousand receivable in this connection were classified on the basis of their maturity, i.e. € 3,914 thousand were recorded under the "Investment Securities and Other Receivables" caption (including € 376 thousand of interest earned in 2001) and € 2,359 thousand were recorded under the "Short-Term Financial Investments" caption in the accompanying balance sheet as of December 31, 2001 (see Note 12).

Also, as of December 31, 2001, the Company had trade accounts receivable from and payable to Aerolíneas Argentinas, S.A. totaling an estimated net amount receivable of € 20,538 thousand.

As of that same date the Company had provided U.S. dollar guarantees (some of which are secured by a mortgage on two B-747 aircraft owned by Aerolíneas Argentinas, S.A.) for Aerolíneas Argentinas, S.A. to several entities totaling € 58,207 thousand.

The Company has covered this risk through a provision of € 85,031 thousand recorded under the "Provision for Third-Party Liability" caption in the accompanying balance sheet as of December 31, 2001 (see Note 12). € 23,565 thousand of this provision were recorded under the "Extraordinary Expenses" caption in the accompanying 2001 statement of income.

IBERBUS COMPANIES

The information relating to the Iberbus companies, which own the A-340 aircraft operated by the Company (see Note 6), as of December 31, 2001, drawn from their respective provisional financial statements, is as follows:

IBERBUS COMPANIES		THOUSANDS OF EUROS					
GROUP AND ASSOCIATED COMPANIES	ADDRESS	PERCENTAGE OF DIRECT AND INDIRECT OWNERSHIP		COST	CAPITAL	RESERVES	ORDINARY INCOME
							(LOSS)
IBERBUS CONCHA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00		2,029	7,775	(1,187)	603
IBERBUS ROSALIA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00		2,056	7,716	(2,122)	747
IBERBUS CHACEL, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00		2,283	8,547	(5,630)	1,970
IBERBUS ARENAL, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00		2,362	8,743	(7,092)	1,107
IBERBUS TERESA, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00		2,504	7,905	(4,454)	2,368
IBERBUS EMILIA, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00		2,497	7,940	(4,756)	2,370
IBERBUS AGUSTINA, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00		2,587	7,944	(1,670)	1,576
IBERBUS BEATRIZ, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00		2,556	7,969	(1,220)	1,397
IBERBUS JUANA INÉS, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	45.45		1,896	4,753	(2,005)	(641)
IBERBUS MARIADE MOLINA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	45.45		1,983	4,998	(2,648)	(403)
IBERBUS MARIA PITA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	45.45		2,177	5,262	(1,789)	(596)
TOTAL				24,930			

As a result of the commitments assumed by the majority shareholder of these companies under the contracts entered into for the formation of the Iberbus companies which guarantee for the Company the recovery of the full amount of the amounts invested, the Company does not record provisions for the holdings in the aforementioned companies.

OTHER INVESTMENTS

As of December 31, 2001, the Company had, inter alia, the following holdings:

1. A 9.143% holding in Opodo, Ltd. (formerly Online Travel Portal), a company which was incorporated to make common sales via the Internet. As of December 31, 2000, the Company had made an investment of € 7,200 thousand which had been provisioned in full. In 2001 Opodo, Ltd. increased capital by € 25,200 thousand, of which the Company subscribed to € 2,304 thousand (2,304,000 shares of € 1 par value each) relating to its ownership interest of 9.143%. As of December 31, 2001, the € 7,200 thousand provision was maintained.

2. In 2001 the Company acquired a 10% holding in Iniciativa de Mercados Interactivos, S.A., which in the future will be called Adquira, for € 3,583 thousand. This company engages in grouping together Internet purchase orders in order to obtain better prices. This holding was acquired through three loans granted by Telefónica, S.A. (€ 896 thousand), Telefónica Publicidad e Información, S.A. (€ 896 thousand) and BBVA E-Commerce (€ 1,791 thousand), which mature on August 15, 2002. To secure fulfillment of these obligations, the related securities are pledged to the lenders.

3. In 2001 the Company subscribed to 1.86% of the capital of Cordiem LLC and to 2.07% of the capital stock of Cordiem Inc. for € 2,330 thousand. This Group engages in the creation of an Internet portal for the purchase and sale of assets common to airlines.

4. Also, in 2001 the Company subscribed to 40% of the capital stock of Sociedad Preparatoria de Medios de Pago, S.A. for € 361 thousand. This company, which was inactive in 2001, is the company which constitutes an initial step towards setting up a credit finance entity in 2002 for the issuance of payment instruments.

In 2001 the Company sold its holding in France Telecom that it obtained as a result of the exchange of shares of EQUANT, NV. The related capital gain of € 15,860 thousand was recorded under the "Revenues from Other Marketable Securities" caption in the accompanying 2001 statement of income.



LOANS GRANTED

The main data on the principal loans granted by the Company as of December 31, 2001, are as follows:

LOANS GRANTED			
LOANS	THOUSANDS OF EUROS	DUE DATE	INTEREST RATE
AEROLÍNEAS ARGENTINAS, S.A.	3,914 (a)	2006	5.25%
IBERBUS CONCHA, LTD.	22,301	02-29-2003	5.00%
IBERBUS ROSALIA, LTD.	22,133	05-10-2003	5.00%
IBERBUS CHACEL, LTD.	24,515	09-06-2003	6.00%
IBERBUS ARENAL, LTD.	25,078	10-18-2003	6.00%
IBERBUS TERESA, LTD.	22,676	10-21-2004	6.00%
IBERBUS EMILIA, LTD.	22,775	11-10-2004	6.00%
IBERBUS AGUSTINA, LTD.	22,786	05-15-2005	6.00%
IBERBUS BEATRIZ, LTD.	22,858	06-15-2005	6.00%
IBERBUS JUANA INÉS, LTD.	12,537	12-01-2006	6.00%
IBERBUS MARIA DE MOLINA, LTD.	13,185	03-15-2007	6.00%
IBERBUS MARIA PITA, LTD.	13,881	06-15-2007	6.00%
TOTAL	228,639		

(a) A provision for this amount is recorded under the "Provision for Third-Party Liability" caption in the accompanying balance sheet as of December 31, 2001.

The Iberbus companies are the lessor companies of the A-340 aircraft (see Note 6). Both the principal and the related interest mature on the dates shown above.

8. TREASURY STOCK

The variations in 2001 in the "Treasury Stock" caption in the accompanying balance sheet as of December 31, 2001, were as follows:

TREASURY STOCK	THOUSANDS OF EUROS
BALANCE AT JANUARY 1, 2001	-
ADDITIONS	25,410
REDUCTIONS	(10,340)
BALANCE AT DECEMBER 31, 2001	15,070



In any evaluation of the Company's net worth as of December 31, 2001, the value of the treasury stock should be deducted from the equity figure included in the accompanying balance sheet.

The 14,563,218 shares of treasury stock held by the Company as of December 31, 2001, represent 1.59% of its capital stock, with an overall par value of € 11,359 thousand and an average acquisition cost of € 1.035 per share. The balance of € 15,070 thousand of the "Reserve for Treasury Stock" account as of December 31, 2001, covers in full the net book value of the aforementioned shares.

The period additions relate to the acquisitions made by the Company in 2001.

The period reductions relate mainly to the delivery of shares to certain employees who, pursuant to the agreements entered into in 2000 as a result of the merger of Iberia, Líneas Aéreas de España, S.A. and Aviación y Comercio, S.A., opted to collect their merger extra payroll payment in the form of Company shares. As of December 31, 2000, the Company had recorded a provision of € 9,232 thousand to cover this obligation.

9. ACCOUNTS RECEIVABLE

The breakdown of the "Accounts Receivable" caption in the accompanying balance sheet as of December 31, 2001, is as follows:

ACCOUNTS RECEIVABLE	THOUSANDS OF EUROS
RECEIVABLE FROM PASSENGER AND CARGO AGENCIES	148,812
RECEIVABLE FROM PUBLIC AUTHORITIES	94,272
RECEIVABLE FROM AIRLINES	62,088
RECEIVABLE FROM CUSTOMERS AT SALES OFFICES	31,675
ACCOUNTS RECEIVABLE DUE TO MEMORANDUM COLLECTION RIGHTS	10,089
CREDIT CARD RECEIVABLES	14,490
OTHER CUSTOMER RECEIVABLES FOR SALES AND SERVICES	61,266
SUNDRY ACCOUNTS RECEIVABLE	29,122
DOUBTFUL RECEIVABLES	19,790
TAX RECEIVABLES (NOTE 16)	37,818
PROVISIONS	(23,299)
	486,123

The balance of the "Receivable from Public Authorities" caption relates basically to accounts receivable from the Spanish Directorate-General of Civil Aviation in connection with the subsidy for residents in the Autonomous Communities of the Canary Islands and the Balearic Islands and in Ceuta and Melilla; accounts receivable from several Spanish ministries for maintaining the aircraft of the Royal Family and the Armed Forces; accounts receivable from the Spanish Postal and Telegraph Service and other foreign postal agencies for the transport of mail; and accounts receivable from foreign tax authorities.

10. SHORT-TERM FINANCIAL INVESTMENTS

The detail of the balance of this caption in the accompanying balance sheet as of December 31, 2001, is as follows:

SHORT-TERM FINANCIAL INVESTMENTS	THOUSANDS OF EUROS
SHORT-TERM DEPOSITS	884,314
SHORT-TERM DEPOSITS AND GUARANTEES	8,869
UNMATURED INTEREST RECEIVABLE	7,198
LOANS TO AEROLÍNEAS ARGENTINAS, S.A. (NOTE 7)	2,359
IBERBOND BONDS (NOTE 7)	1,170
OTHER SHORT-TERM FINANCIAL INVESTMENTS	9,371
	913,281

The short-term deposits earned average annual interest of 4.472% in 2001.

11. SHAREHOLDERS' EQUITY

The only variations in equity accounts in 2001 related to the distribution of the income for 2000 and to the recording of the reserve for treasury stock with a charge to voluntary reserves.

CAPITAL STOCK

As of December 31, 2001, the Company's capital stock consisted of 912,962,035 fully subscribed and paid registered shares of € 0.78 par value each.

As of December 31, 2001, the Company's shareholders were as follows:

COMPANY' SHAREHOLDERS	NUMBER OF SHARES	PERCENTAGE
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	91,290,716	10.00
BA & AA HOLDINGS LIMITED	91,296,204	10.00
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	66,642,223	7.30
COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA, S.A.	61,164,780	6.70
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES	49,212,526	5.39
OTHER SAVINGS BANKS	27,404,254	3.00
EL CORTE INGLÉS, S.A.	27,387,215	3.00
IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.	14,563,218	1.59
OTHER, INCLUDING EMPLOYEES	484,000,899	53.02
TOTAL	912,962,035	100.00

In April 2001 Sociedad Estatal de Participaciones Industriales, the Company's former majority shareholder, launched a public offering of shares on the stock exchange. 442,912,736 shares were ultimately offered and the issue price was € 1.19 per share. The offering was divided into a Spanish tranche and an international tranche.

The Spanish tranche had a retail tranche, divided into a general subtranche and an employee subtranche, and an institutional tranche.

The international tranche was targeted at institutional investors and was not registered in any jurisdiction other than Spanish jurisdiction.

Pursuant to the agreements entered into with the employees in 1999, the Company offered its employees from May 2001 a stock option plan for Company shares. Under this plan, the employees had to accept the options prior to May 16, 2001, and deposit € 0.3 (Ptas. 50) per share before August 31, 2001. The Company undertook to refund the deposit within one year from acceptance of the plan by the employee concerned if the employee decided to abandon the plan. The option exercise price is the price at which the public offering of the Company's shares was launched in April 2001.

As of December 31, 2001, approximately 30,187,000 options had been accepted and not returned by the employees. The related advance payments of approximately € 9,056 thousand is recorded under the "Other Nontrade Payables" caption in the accompanying balance sheet as of December 31, 2001.

In order to cater for the commitments to the Company's employees, the Shareholders' Meeting empowered the Board of Directors to issue debentures convertible into Company shares, with exclusion of the current shareholders' preemptive subscription right, for an amount of up to € 343 million or, alternatively, to deliver shares of treasury stock.

ADDITIONAL PAID-IN CAPITAL

The revised Corporations Law expressly permits the use of the additional paid-in capital balance to increase capital and establishes no specific restrictions as to its use.

LEGAL RESERVE

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock.

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

DIFFERENCES DUE TO THE ADJUSTMENT OF CAPITAL STOCK TO EUROS

As a result of the redenomination of the capital stock in euros, which was approved by the Board of Directors in 1999, the difference arising as a result of the rounding down made it necessary to reduce capital and to record a restricted reserve in accordance with current legislation.

REVALUATION RESERVE AND MERGER RESERVE

As a result of the merger by absorption of Aviación y Comercio, S.A. in 2000, a merger reserve was recorded.

Also, Aviación y Comercio, S.A., in its merger balance sheet as of January 31, 2000, had recorded a revaluation reserve as a result of the revaluation made pursuant to Royal Decree-Law 7/1996. Pursuant to current legislation, the Company recorded a revaluation reserve equal to the amount obtained by applying to the merger reserve the percentage represented by Aviación y Comercio, S.A.'s revaluation reserve on its total equity as of January 31, 2000.

12. PROVISION FOR THIRD-PARTY LIABILITY

The variations in 2001 in the balance of this caption in the accompanying balance sheet were as follows:

PROVISION FOR THIRD-PARTY LIABILITY	THOUSANDS OF EUROS
BALANCE AT JANUARY 1, 2001	608,434
PERIOD PROVISIONS (NOTE 17)	110,370
AMOUNTS USED IN THE YEAR	(51,659)
BALANCE AT DECEMBER 31, 2001	667,145

As of December 31, 1999, a provision of € 180,304 thousand had been recorded relating to the estimated present value of payments to be made to employees availing themselves of a layoff plan carried out in 2000 and 2001. 869 employees availed themselves of this plan, which was closed as of December 31, 2001, and entailed a cost of € 131,484 thousand. As of December 31, 2001, a provision of € 98,990 thousand had been recorded for the early retirements (monthly payments) relating to 806 persons.

To calculate this liability as of December 31, 2001, an actuarial study was conducted by independent actuaries using the unit credit method, the main technical parameters of which were an assumed interest rate of 3.5%, an estimated annual CPI increase of 2% and Spanish PERM/F-2000 P life-expectancy tables.

In 2001 the payments made in this connection out of the provision recorded as of December 31, 2000, amounted to € 22,612 thousand.

In 2000 the Company recorded a provision of € 180,304 thousand, with a charge to the "Extraordinary Expenses" caption, to cover the estimated cost of a labor force rejuvenation plan that was going to be implemented in 2001, 2002 and 2003. As a result of the events of September, 2001, which had worldwide repercussions, the Company prepared a Labor Force Reduction Plan, which was approved by the Ministry of Employment and Social Affairs on December 26, 2001. This Plan was approved for a total target of 2,515 employees, divided into different groups, and is voluntary for the two parties. The deadline for submitting applications for all the groups of employees ended on January 31, 2002, except for pilots, the deadline for whom ends on December 31, 2002.

As of January 31, 2002, the Company had received 2,623 applications, of which it had accepted 2,184 as of February 28, 2002.

As of December 31, 2001, the Company had recorded a provision of € 249,991 thousand which was covered through the transfer to the related caption of the provision recorded as of December 31, 2000, for the labor force rejuvenation plan that had been cancelled amounting to € 180,304 thousand, for the unvested portion of the liability incurred as of December 31, 1999, under the layoff plan amounting to € 63,677 thousand, and by a provision of € 6,010 thousand recorded in 2001 with a charge to the "Extraordinary Expenses" caption in the accompanying 2001 statement of income.

The other provisions in 2001, which were also recorded mainly with a charge to the "Extraordinary Expenses" caption in the accompanying statement of income, relate to the estimate made by the Company's directors of the amount required to cover probable sundry third-party liability, mainly contingencies relating to Aerolíneas Argentinas, S.A., risks relating to the termination of wet lease contracts and other contingencies.

The other amounts used relate mainly to the write-off of provisions for contingencies relating to subsidiaries sold (Binter Mediterráneo, S.A. and VIVA Vuelos Internacionales de Vacaciones, S.A.).

The remainder of the balance of the "Provision for Third-Party Liability" caption relates to the estimated amount required for probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount, and collateral and other similar guarantees provided by the Company.

13. PAYABLE TO CREDIT ENTITIES

The breakdown, by maturity, of the Company's payables to credit entities as of December 31, 2001 (which related to loans and financial lease transactions -see Note 5), is as follows:

PAYABLE TO CREDIT ENTITIES		THOUSANDS OF EUROS					
DEBT:	CURRENCY	DUE IN:					SUBSEQUENT YEARS
		2002	2003	2004	2005	2006	
IN EUROS: PRINCIPAL		74,859	37,896	25,877	24,769	19,446	206,102
INTEREST		16,304	14,968	13,505	12,403	11,464	14,306
IN FOREIGN CURRENCIES: YEN (P)		7,661	9,255	-	-	-	-
	YEN (I)	2,725	2,745	-	-	-	-
	U.S. DOLLAR (P)	193,972	2,583	10,017	-	-	-
	U.S. DOLLAR (I)	187	-	-	-	-	-
		295,708	67,447	49,399	37,172	30,910	220,408

The weighted annual average interest rates on the foregoing loans in 2001 were 5.6804% for euro loans and 4.3579% for foreign currency loans, and some of the rates were tied to MIBOR or LIBOR, respectively.

14. FUTURES TRANSACTIONS

The Company's policy is to actively manage the risks arising from fluctuations in exchange and interest rates and in fuel prices.

Hedging transactions are arranged to minimize the impact of these variables on the statement of income. Following is a detail of the transactions arranged by Iberia, Líneas Aéreas de España, S.A. as of December 31, 2001, based on the following criteria: notional values to hedge asset and liability positions, and for options, exchange rate hedging and fuel price hedging transactions, and present values for the income hedged for the other future flows.

FUTURES TRANSACTIONS	THOUSANDS OF EUROS
HEDGING OF ASSET AND LIABILITY POSITIONS:	
EXCHANGE RISK HEDGING TRANSACTIONS	
CROSS-CURRENCY SWAPS	597,632
INTEREST RATE RISK HEDGING TRANSACTIONS	
INTEREST RATE SWAPS (IRS's)	88,363
HEDGING OF FUTURE FLOWS:	
EXCHANGE AND INTEREST RATE RISK HEDGING TRANSACTIONS	
CROSS-CURRENCY INTEREST RATE SWAPS (SWAPS AND CURRENCY SWAPS)	85,984
EXCHANGE RISK HEDGING TRANSACTIONS	
CROSS-CURRENCY SWAPS	210,598
CALL OPTIONS BOUGHT	183,853
CALL OPTIONS SOLD	230,132
PUT OPTIONS BOUGHT	34,891
PUT OPTIONS SOLD	225,823
EXCHANGE RATE INSURANCE	29,302
INTEREST RATE RISK HEDGING TRANSACTIONS	
INTEREST RATE SWAPS (IRS's)	24,668
OTHER HEDGING TRANSACTIONS	
FUEL PRICE HEDGING TRANSACTIONS	332,907

15. BALANCES AND TRANSACTIONS WITH GROUP AND ASSOCIATED COMPANIES

The detail of the receivables from and payables to Iberia Group and associated companies as of December 31, 2001, is as follows:

DECEMBER 31, 2001		THOUSANDS OF EUROS	
COMPANY	RECEIVABLES	PAYABLES	
	SHORT-TERM	SHORT-TERM	
VUELOS INTERNACIONALES DE VACACIONES, S.A.	-	144	
CAMPOS VELÁZQUEZ, S.A.	-	340	
COMPAÑÍA AUXILIAR AL CARGO EXPRÉS, S.A.	2,780	604	
IBER-SWISS CATERING, S.A.	166	166	
IBERIA TECNOLOGÍA, S.A. (b)	-	1,137	
SAVIA	3,458	-	
CARGOSUR, S.A.	-	2,406	
AMADEUS GROUP	1,747	-	
BINTER FINANCE B.V.	15,234	-	
BINTER CANARIAS, S.A.	-	6,552	
TOUOPERADOR VIVA TOURS, S.A.	2,836	245	
VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A. (a)	-	2,473	
IBERIA MÉXICO	-	293	
OTHER	-	52	
	26,221	14,412	

(a) The Company has recorded a short-term account receivable of € 29,302 thousand from Venezolana Internacional de Aviación, S.A. for which a provision has been recorded in full.

(b) Including a capital call of € 1,082 thousand payable by the Company.

The Company's main transactions with Group and associated companies in 2001 were as follows:

2001		THOUSANDS OF EUROS			
COMPANY	SERVICES RENDERED	FINANCIAL REVENUES AND DIVIDENDS	SERVICES RECEIVED	FINANCIAL EXPENSES	
VUELOS INTERNACIONALES DE VACACIONES, S.A.	142	-	1,770	-	
CAMPOS VELÁZQUEZ, S.A.	-	-	-	-	
COMPAÑÍA AUXILIAR AL CARGO EXPRÉS, S.A.	14,402	409	3,117	-	
IBER-SWISS CATERING, S.A.	813	920	61,813	-	
SAVIA	13,938	1,018	229	-	
AMADEUS GROUP	31,223	9,664	106,774	-	
BINTER FINANCE, B.V.	328	1,909	101	230	
BINTER CANARIAS, S.A.	23,815	8,575	-	-	
IBERIA TECNOLOGÍA, S.A.	-	-	323	-	

The services rendered to Binter Canarias, S.A. consist basically of passenger service, handling services for aircraft on stopovers and commissions on ticket sales.

The services rendered to the Company by Iber-Swiss Catering, S.A. relate to catering services and materials. The Amadeus Group bills the Company for tickets booked through its system and the Company receives a commission for each ticket issued through that system.

The services rendered by the Company to SAVIA relate mainly to the charge for the license to use the trademark, booking services and rent.

Also, as of December 31, 2001, the Company had provided guarantees to third parties for its subsidiary Binter Canarias, S.A. totaling € 12,376 thousand.

16. TAX MATTERS

The "Accounts Receivable" and "Other Nontrade Payables" captions in the accompanying balance sheet as of December 31, 2001, include the accounts receivable from and payable to, respectively, public authorities, the detail being as follows:

TAX MATTERS	THOUSANDS OF EUROS
RECEIVABLE:	
DEFERRED TAX ASSET	31,661
RECEIVABLE FROM FOREIGN TAX AUTHORITIES	4,279
OTHER TAX RECEIVABLES	1,878
	37,818
PAYABLE:	
VAT	484
CORPORATE INCOME TAX	
PERSONAL INCOME TAX WITHHOLDINGS	32,876
AIRPORT TAKEOFF AND SAFETY LEVIES	5,387
PAYABLE TO FOREIGN TAX AUTHORITIES	35,503
ACCRUED SOCIAL SECURITY TAXES PAYABLE	39,075
OTHER PAYABLES TO PUBLIC AUTHORITIES	9,484
	122,809

Corporate income tax is calculated on the basis of the income per books, which does not necessarily coincide with the taxable income for corporate income tax purposes.

The reconciliation of the income per books for 2001 to the taxable income for corporate income tax purposes is as follows:

2001	THOUSANDS OF EUROS		
	INCREASE	DECREASE	AMOUNT
INCOME FOR THE YEAR PER BOOKS (BEFORE TAXES)	-	-	(119,487)
PERMANENT DIFFERENCES	1,177	(111,898) (c)	(110,721)
TIMING DIFFERENCES:			
ARISING IN THE YEAR	158,431 (a)	(1,832)	156,599
ARISING IN PRIOR YEARS	61,297 (b)	(158,577) (d)	(97,280)
TAXABLE INCOME			(170,889)

(a) Relating basically to the provisions for pensions and other commitments to employees, provisions for contingencies related to investees and deferred income arising from memorandum loans and aircraft sales.

(b) Relating basically to the inclusion of the gains deferred due to reinvestment in 1996 through 2000, since the Company availed itself of the new reinvestment tax credit system.

(c) Relating to the deduction of provisions for subsidiaries sold.

(d) Relating basically to releases of provisions recorded in prior years for pensions and other obligations to employees, for risks relating to subsidiaries sold and for the layoff plan.

The detail of the balance of the "Corporate Income Tax" caption in the accompanying 2001 statement of income is as follows:

2001	THOUSANDS OF EUROS
	Loss / (INCOME)
APPLICATION OF THE 35% TAX RATE TO INCOME PER BOOKS ADJUSTED BY PERMANENT DIFFERENCES	(80,573)
ADD / (LESS):	
PROVISION FOR NEGATIVE PERMANENT DIFFERENCES	39,122
OTHER	7,233
ADJUSTMENT OF 2000 CORPORATE INCOME TAX	(114,640)
CORPORATE INCOME TAX	(148,858)

Through December 31, 2000, the Company filed consolidated corporate income tax returns with the controlling entity SEPI, the former majority shareholder.

As of December 31, 2000, the Company estimated the deferral of the taxation of the gain that it obtained in 2000 on the sale of shares of Amadeus Global Travel Distribution, S.A. However, when the corporate income tax return for 2000 was filed, the tax benefits were not taken, but rather the gain was included in full in taxable income and was offset by the prior years' tax losses contributed to the SEPI tax group, and the Company paid to the latter the amount agreed on for these tax losses. The net worth improvement arising from this adjustment is the difference between the deferral recorded at 2000 year-end and the cost of recovering the tax losses.

The tax assets and liabilities were recorded, on the basis of the recovery date, under the "Accounts Receivable", "Long-Term Receivables" and "Other Accounts Payable" captions in the accompanying balance sheet as of December 31, 2001, the detail being as follows:

DECEMBER 31, 2001							THOUSANDS OF EUROS
	RECEIVABLE			PAYABLE			
	SHORT TERM	LONG TERM	TOTAL	SHORT TERM	LONG TERM	TOTAL	
TAX ASSET ARISING FROM TAX LOSSES	-	20,689	20,689	-	-	-	
TIMING DIFFERENCES ARISING IN THE YEAR	-	48,218	48,218	-	641	641	
UNALLOCATED TIMING DIFFERENCES ARISING IN PRIOR YEARS	31,661	308,238	339,899	-	822	822	
TOTAL	31,661	377,145	408,806	-	1,463	1,463	

The estimated years for use of the long-term tax assets as of December 31, 2001, are as follows:

YEAR OF RECOVERY	THOUSANDS OF EUROS
2003	42,144
2004	42,145
2005 AND SUBSEQUENT YEARS	292,856
	377,145

The Company's directors consider that all these assets will be recovered in not more than ten years.

Current corporate income tax regulations provide certain tax incentives to encourage vocational training, exports and investments. The Company availed itself of the tax benefits envisaged in this legislation and earned tax credits of € 20,345 thousand in 2001 in this connection, which have not yet been used.

In 2001 the Company availed itself of the tax regime for the reinvestment of extraordinary income and deducted € 1,224 thousand of tax.

In 2001 the Company reinvested the price of the sales that gave rise to the gains in fixed assets amounting to € 11,336 thousand.

As of December 31, 2001, the Company had included in its taxable income all the income for which it had availed itself of the former reinvestment deferral system in prior years:

DECEMBER 31, 2001

YEAR OF ORIGIN	THOUSANDS OF EUROS
1996	4,450
1997	5,502
1998	41,404
1999	2,928
2000	7,014
	61,298

In January 1997 the tax authorities commenced an audit of 1993 to 1995 for all the taxes applicable to the Company. As a result of the aforementioned tax audit, tax assessments were issued and contested. The Company's directors do not expect any liabilities additional to those recorded as of December 31, 2001, to arise as a result of these tax assessments.

In 1999 the tax authorities commenced an audit of 1996 and 1997 for all the taxes applicable to the Company. As a result of the aforementioned tax audit, tax assessments were issued and contested. The Company's directors do not expect any liabilities additional to those recorded as of December 31, 2001, to arise as a result of these tax assessments.

In 2001 the tax authorities issued tax assessments for customs tax relating to the second half of 1998, 1999 and the first five months of 2000. These tax assessments were contested. The Company's directors do not expect any liabilities additional to those recorded as of December 31, 2001, to arise as a result of these tax assessments.

As of December 31, 2001, the Company had 1998, 1999, 2000 and 2001 open for review by the tax inspection authorities for all the taxes applicable it. The Company's directors do not expect any liabilities additional to those for which a provision had been recorded as of December 31, 2001, to arise as a result of inspection of the open years.

As of December 31, 2001, no decision had yet been handed down in relation to a tax assessment issued by the tax authorities in 1992 in connection with Aviación y Comercio, S.A. relating to the taxes applicable to the company in 1989 and 1990. Additionally, in 1996 the tax authorities issued two assessments relating to the treatment of the tax prepayments on compensation in kind as a result of the personal income tax audits for 1993 and 1994. The related tax assessments were contested. Lastly, in 2000 the tax authorities audited all the taxes applicable to Aviación y Comercio, S.A. in 1996, 1997 and 1998. The tax assessments issued as a result of this audit were contested, and the directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those recorded in the balance sheet as of December 31, 2001, to arise as a result of these tax assessments.

17. REVENUES AND EXPENSES

A) NET SALES

The breakdown of the Company's net sales in 2001 and 2000, by type of activity, is as follows:

BY TYPE OF ACTIVITY	THOUSANDS OF EUROS	
	2001	2000
PASSENGER TICKET REVENUES (a)	3,690,269	3,446,954
CARGO REVENUES	249,923	233,350
HANDLING (AIRCRAFT DISPATCHING AND AIRPORT SERVICES)	230,712	242,917
TECHNICAL ASSISTANCE TO AIRLINES	94,543	117,460
OTHER REVENUES	67,952	60,399
	4,333,399	4,101,080

(a) Including other revenues derived from commercial agreements amounting to € 166,129 thousand in 2001 and € 101,954 thousand in 2000.

The breakdown of passenger ticket revenues in 2001 and 2000, by network, is as follows:

NETWORK	THOUSANDS OF EUROS	
	2001	2000
SPAIN AND EUROPE	2,426,695	2,268,412
ATLANTIC	1,181,074	1,085,788
AFRICA AND ASIA	82,500	92,754
	3,690,269	3,446,954

B) OTHER OPERATING REVENUES

The detail of the balances of this caption in the accompanying 2001 and 2000 statements of income is as follows:

OTHER OPERATING REVENUES	THOUSANDS OF EUROS	
	2001	2000
COMMISSIONS	116,613	104,816
ROYALTIES	9,917	11,900
RENT	20,130	13,245
DEFERRED REVENUES CREDITED TO INCOME	8,541	3,774
OTHER SUNDRY REVENUES	93,233	82,480
	248,434	216,215

The revenues from commissions relate basically to the commissions on the sale of tickets to other airlines, the commissions arising from the franchise agreement entered into with Air Nostrum and the commissions obtained as a result of the agreements entered into with Mundicolor and Touroperador VivaTours, S.A.

c) EXTRAORDINARY REVENUES

The detail of the balance of the "Extraordinary Revenues" caption in the accompanying 2001 statement of income is as follows:

EXTRAORDINARY REVENUES	THOUSANDS OF EUROS
RECOVERY OF PROVISIONS FOR THIRD-PARTY LIABILITY	24,335
RECOVERY OF CONTINGENCY-RELATED OPERATING PROVISIONS	12,249
OTHER	4,227
	40,811

d) PURCHASES

The detail of the "Purchases" caption in the accompanying 2001 and 2000 statements of income is as follows:

PURCHASES	THOUSANDS OF EUROS	
	2001	2000
AIRCRAFT FUEL	629,108	569,194
AIRCRAFT SPARE PARTS	138,274	123,540
CATERING MATERIALS	31,970	30,619
OTHER PURCHASES	18,688	22,499
	818,040	745,852

The aircraft fuel expense in 2001 totaled € 662,668 thousand. However, the related futures transactions reduced this expense by € 33,580 thousand.

The amounts for 2000 were reclassified in accordance with the methods applied in 2001.

e) HEADCOUNT AND PERSONNEL EXPENSES

The detail of the "Personnel Expenses" caption in the accompanying 2001 and 2000 statements of income is as follows:

HEADCOUNT AND PERSONNEL EXPENSES	THOUSANDS OF EUROS	
	2001	2000
WAGES, SALARIES, ETC.	982,775	961,487
EMPLOYEE WELFARE EXPENSES	311,508	309,148
	1,294,283	1,270,635

The average number of employees, by professional category, in 2001 and 2000 was as follows:

EMPLOYEES		
	2001	2000
GROUND PERSONNEL:		
SENIOR MANAGERS AND OTHER LINE PERSONNEL	1,345	1,353
CLERICAL STAFF	6,620	6,742
OTHER	10,717	11,027
	18,682	19,122
FLIGHT PERSONNEL:		
PILOTS	1,883	1,821
FLIGHT ENGINEERS	153	205
CABIN CREW	4,590	4,238
	6,626	6,264
	25,308	25,386

F) OTHER OPERATING EXPENSES

The detail of the balances of this caption in the accompanying 2001 and 2000 statements of income is as follows:

OTHER OPERATING EXPENSES		THOUSANDS OF EUROS	
	2001	2000	
COMMERCIAL EXPENSES	514,049	508,902	
AIRCRAFT LEASE PAYMENTS (NOTE 6)			
WET LEASE (a)	105,508	146,671	
DRY LEASE (a)	350,311	192,086	
OTHER	10,437	13,713	
AIR TRAFFIC SERVICES	347,681	304,680	
STOPOVER EXPENSES	49,887	46,411	
INCIDENT EXPENSES	18,802	16,115	
NAVIGATION CHARGES	214,079	195,638	
AIRCRAFT MAINTENANCE (b)	124,969	150,983	
GENERAL MAINTENANCE	29,989	27,320	
BOOKING SYSTEM EXPENSES	133,349	119,468	
IN-FLIGHT SERVICES	111,821	110,840	
OTHER RENT (c)	70,134	63,329	
OTHER	241,529	204,805	
	2,322,545	2,100,961	

(a) Including the cost of the aircraft wet lease contracts, which amounted to € 114,027 thousand in 2001 and to € 120,754 thousand in 2000. The aircraft lease expense amounted to € 372,423 thousand and € 252,913 thousand in 2001 and 2000, respectively. However, the related futures transactions reduced these expenses by € 8,519 thousand in 2001 for wet leases and by € 22,112 thousand and € 60,827 thousand in 2001 and 2000, respectively, for lease expenses.

(b) Including maintenance expenses and the provision for major repairs.

(c) Including hold lease expenses amounting to € 5,229 thousand in 2001 and € 3,413 thousand in 2000.

The amounts for 2000 were reclassified in accordance with the methods applied in 2001.

g) EXTRAORDINARY EXPENSES

The detail of the balance of the "Extraordinary Expenses" caption in the accompanying 2001 statement of income is as follows:

EXTRAORDINARY EXPENSES	THOUSANDS OF EUROS
PROVISIONS FOR THIRD-PARTY LIABILITY (NOTE 12)	110,370
PROVISIONS FOR DC-9, DC-10 AND A-300 AIRCRAFT (NOTE 6)	16,738
PRIVATIZATION BONUS PAID TO EMPLOYEES	26,703
OTHER EXTRAORDINARY EXPENSES	14,170
	167,981

18. DIRECTORS' COMPENSATION AND OTHER BENEFITS

The compensation of all types earned by the Company's directors amounted to € 1,321 thousand in 2001.

In 2001 no advances or loans were granted to the directors and there are no pension commitments to them.

19. 2001 AND 2000 STATEMENTS OF CHANGES IN FINANCIAL POSITION

Following are the Company's statements of changes in financial position for 2001 and 2000:

APPLICATION OF FUNDS

THOUSANDS OF EUROS

	2001	2000
FIXED ASSET ADDITIONS:		
INTANGIBLE ASSET	57,549	12,207
PROPERTY, PLANT AND EQUIPMENT	341,966	506,653
LONG-TERM FINANCIAL INVESTMENTS IN GROUP AND ASSOCIATED COMPANIES	-	28,392
OTHER FINANCIAL INVESTMENTS	10,308	17,664
DEFERRED CHARGES	6,609	6,383
DEFERRED REVENUES	415	4,598
DIVIDENDS PAID	44,625	48,237
REPAYMENT OR TRANSFER TO SHORT-TERM OF LONG-TERM DEBT:		
LOANS	191,517	182,906
GROUP AND ASSOCIATED COMPANIES	10,259	132
OTHER DEBT	21	6
PROVISION FOR MAJOR REPAIRS	10,674	10,626
PROVISIONS FOR PENSIONS	51,476	15,194
PROVISIONS FOR OBLIGATIONS TO EMPLOYEES	15,209	12,130
PROVISION FOR THIRD-PARTY LIABILITY	27,322	5,734
TOTAL FUNDS APPLIED	767,950	850,862
FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED (INCREASE IN WORKING CAPITAL)	-	359,274

SOURCE OF FUNDS	THOUSANDS OF EUROS	
	2001	2000
FUNDS OBTAINED FROM OPERATIONS	178,585	160,410
LONG-TERM DEBT:		
OTHER COMPANIES	35,266	110,132
DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	431,880	266,645
DISPOSALS OF LONG-TERM FINANCIAL INVESTMENTS	28,339	392,227
DIVIDENDS RECEIVED	-	105,610
EARLY REDEMPTION OR TRANSFER TO SHORT TERM OF OTHER FINANCIAL INVESTMENTS:		
OTHER FINANCIAL INVESTMENTS	1,402	5,091
DEFERRED REVENUES	16,278	30,856
DEFERRED CHARGES	-	415
LONG-TERM DEFERRED TAX LIABILITY	-	138,750
TOTAL FUNDS OBTAINED	691,750	1,210,136
FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED (DECREASE IN WORKING CAPITAL)	76,200	-

VARIATION IN WORKING CAPITAL	THOUSANDS OF EUROS			
	2001		2000	
	INCREASE	DECREASE	INCREASE	DECREASE
TREASURY STOCK	15,070	-	-	-
INVENTORIES	-	4,856	28,494	-
ACCOUNTS RECEIVABLE	20,231	-	-	21,618
CURRENT LIABILITIES	-	353,306	191,933	-
SHORT-TERM FINANCIAL INVESTMENTS	227,033	-	158,433	-
CASH	10,765	-	-	2,055
ACCRUAL ACCOUNTS	8,863	-	4,087	-
TOTAL	281,962	358,162	382,947	23,673
VARIATION IN WORKING CAPITAL	-	76,200	359,274	-



The reconciliation of the income per books to the funds obtained from operations is as follows:

RECONCILIATION	THOUSANDS OF EUROS	
	2001	2000
INCOME PER BOOKS	29,371	179,406
ADD / (LESS):		
PERIOD DEPRECIATION AND AMORTIZATION AND FIXED ASSET PROVISIONS	184,877	186,939
PERIOD PROVISIONS FOR CONTINGENCIES AND EXPENSES	216,115	378,259
DEFERRED INTEREST EXPENSES AND DEFERRED CHARGES	34,294	17,135
TAX ASSET RECOVERABLE AT LONG TERM	(19,396)	(108,988)
NET EXCHANGE DIFFERENCES ON LONG TERM ITEMS	(21,900)	(36,655)
NET EXCHANGE DIFFERENCES ON FIXED ASSET REVALUATIONS	(547)	(2,951)
DEFERRED INTEREST REVENUES	(9,153)	(3,299)
NET GAINS ON FIXED ASSET DISPOSALS	(14,842)	(383,241)
RECOVERY OF OVERSTATED PROVISIONS AND DEPRECIATION AND AMORTIZATION	(63,292)	(66,195)
RECOVERY OF DEFERRED TAXES	(156,942)	-
	178,585	160,410

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.

ANNUAL REPORT 2001



EC-FNH

MANAGEMENT REPORT

DUE TO ITS LENGTH, THIS PUBLICATION INCLUDES ONLY A SUMMARY OF THE MANAGEMENT REPORT. THE COMPLETE TEXT HAS BEEN DEPOSITED WITH THE MERCANTILE REGISTER.

TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH.

IN THE EVENT OF A DISCREPANCY, THE SPANISH-LANGUAGE VERSION PREVAILS.

IBERIA 

IBERIA, LINEAS AEREAS DE ESPAÑA, S.A.

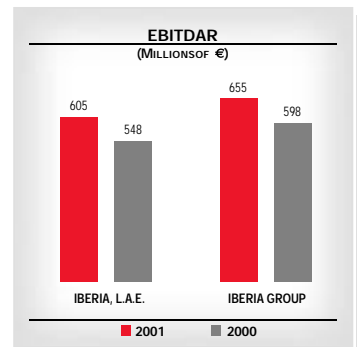
IBERIA 

MAIN AGGREGATES

IBERIA, L.A.E.

	2001	2000	% VARIATION
INCOME (MILLIONS OF €)			
OPERATING REVENUES	4,581.8	4,317.3	6.1
EBITDAR	604.9	547.8	10.4
OPERATING INCOME	(24.8)	36.4	N/A
INCOME (LOSS) BEFORE TAXES	(119.5)	185.0	N/A
NET INCOME FOR THE YEAR	29.4	179.4	(83.6)
NET EARNING PER SHARE (€ CENTS) (1)	3.22	19.65	(83.6)
DIVIDEND PER SHARE (€ CENTS) (1)	-	4.91	-
PASSENGER TRAFFIC: PRODUCTION AND REVENUES			
MILLIONS OF ASKS	58,467	54,290	7.7
MILLIONS OF RPKS	41,390	40,049	3.3
PASSENGER LOAD FACTOR (%)	70.8	73.8	(3.0 P.)
PASSENGER TICKET REVENUES (MILLIONS OF €)	3,524.1	3,345.0	5.4
AVERAGE YIELD (€ CENTS)	8.51	8.35	1.9
FINANCIAL AGGREGATES AND RATIOS			
SHAREHOLDERS' EQUITY (MILLIONS OF €)	1,023.5	1,038.7	(1.5)
NET DEBT (MILLIONS OF €) (2)	(228.5)	(30.3)	N/A
EBITDAR MARGIN (%)	13.2	12.7	0.5 P.
OPERATING INCOME MARGIN (%)	(0.5)	0.8	(1.3 P.)
OPERATING REVENUES PER ASK (€ CENTS)	7.84	7.95	(1.4)
OPERATING COST PER ASK (€ CENTS)	7.88	7.89	(0.1)
RESOURCES			
EQUIVALENT AVERAGE NO. OF FULL-TIME EMPLOYEES	25,308	25,386	(0.3)
PRODUCTIVITY (MILLIONS OF ASKS PER EMPLOYEE)	2.31	2.14	7.9
OPERATING AIRCRAFT AT DECEMBER 31	144	159	(9.4)
USAGE OF COMPANY AIRCRAFT (B.H. PER AIRCRAFT PER DAY)	8.5	7.4	14.9

Translation of a report originally issued in Spanish.
In the event of a discrepancy, the Spanish-language version prevails.



IBERIA GROUP

	2001	2000	% VARIATION
INCOME (MILLIONS OF €)			
OPERATING REVENUES	4,738.3	4,487.4	5.6
EBITDAR	655.3	598.4	9.5
OPERATING INCOME	4.9	65.8	(92.6)
INCOME BEFORE TAXES	(85.2)	221.4	N/A
NET INCOME ATTRIBUTED TO THE COMPANY	50.2	201.2	(75.0)
FINANCIAL AGGREGATES AND RATIOS			
SHAREHOLDERS' EQUITY (MILLIONS OF €)	1,169.7	1,164.1	0.5
NET DEBT (MILLIONS OF €) (2)	(243.0)	(17.7)	N/A
EBITDAR MARGIN (%)	13.8	13.3	0.5 P.
OPERATING INCOME MARGIN (%)	0.1	1.5	(1.4 P.)

(1) Number of shares as of December 31, 2001 and 2000: 912,962,035.

(2) Negative figure means cash and cash equivalents exceed interest-bearing debt.

1. 2001 HIGHLIGHTS



In 2001 the Iberia Group proved capable of overcoming very difficult circumstances. Despite the weakness of the markets, it achieved an EBITDAR margin of 13.8% and positive consolidated earnings: operating income of € 4.9 million and income after taxes and minority interests of € 50.2 million.

In 2001 IBERIA **was admitted to listing**, a landmark in the Company's history which, in addition, constituted the last stage of its privatization. In April 2001, Sociedad Estatal de Participaciones Industriales (SEPI), through a public offering, sold 442,912,736 shares representing 48.51% of the Company's capital stock. One year earlier SEPI had sold 40% of IBERIA's capital stock to various institutional investors.

The aforementioned public offering consisted of a Spanish institutional tranche, an international institutional tranche and a retail tranche with two subtranches, one general and one aimed at employees. The sale process ended on April 2 with the placement of the securities at a price of € 1.19 per share. On April 3, 2001, IBERIA shares were admitted to listing on the Spanish Stock Exchanges.

Following the public offering, the Company's shareholder structure was as follows: Free-Float, 54.6%; British Airways and American Airlines, 10%; Caja Madrid, 10%; BBVA, 7.3%; Logista, 6.7%; El Corte Inglés, 3%; Ahorro Corporación, 3%; and, lastly, SEPI retained a holding of 5.4% as a nonstrategic financial investment.

On March 30, 2001, the Spanish Council of Ministers approved a Royal Decree for the application of the Prior Administrative Authorization Regime (golden share) to IBERIA. This golden share, which the Spanish government will retain in the Company for five years, will enable it to make certain acts that might affect IBERIA subject to State protection. The corporate resolutions subject to this regime are as follows: change of corporate purpose; voluntary dissolution, the spin-off or merger of IBERIA; the sale or charging with liens or encumbrances of the tangible fixed assets or intangible assets or of indeterminate portions or shares thereof owned by IBERIA; and the direct or indirect acquisition of Company shares or other equity interests that might carry the entitlement to subscribe or acquire, directly or indirectly, a holding of at least 10% in the Company's capital stock.

In 2001 the **air transport industry** was badly hit by the progressive cooling of the world economy and, above all, by the consequences of the terrorist attacks of September 11 in the U.S., which led to a sharp drop in demand in the last quarter and to spectacular increases in aircraft insurance and security costs.

As a result of the slowdown of the world economy, the air traffic volume growth rate, following several years of significant increases, dropped in early 2001. Per the Association of European Airlines (AEA), scheduled passenger traffic rose by only 0.7% in the first eight months of the year.

Following the terrorist attacks, the demand for plane tickets dropped by more than 15% between September and December 2001, leading to significant losses in the industry, as a result of which airlines reduced their supply.

According to AEA figures, in 2001 as a whole, scheduled passenger traffic fell by 4.7% and the capacity supplied was reduced by 1.7%. The decrease in air transport demand in 2001 led to an across-the-board drop in airline load factors, which was particularly significant in business class passengers.

In addition to these world-level problems, regard should be had to the specific effects at IBERIA of the labor unrest and conflicts concerning the pilots (between february 26 and March 7), and of the labor union SEPLA staged ten one-day strikes in June, July and August, the Company's busiest period in terms of traffic.

As a result of all of this, the Iberia Group's scheduled passenger traffic, in terms of revenue passenger-kilometres (RPKs), grew by 3.3% over the year with respect to 2000. This sound performance can be explained, in part, by IBERIA's relatively minor presence in the markets which have been worst hit by the crisis (North Atlantic and the Middle East).

IBERIA's available seat-kilometres (ASKs) increased notably once again in 2001, particularly in Europe. IBERIA management, pursuant to the strategic **medium- and long-haul network company** structure, had projected an average increase of 10% as a whole and of 15% on European flights. However, the lackluster growth in global traffic in the first part of the year, together with the damage caused to the Company by the SEPLA (pilots' labor union) strikes, led management to prepare a Contingency Plan in which these growth forecasts were reduced. The sharp drop in demand following the September 11 terrorist attacks triggered the immediate application of a more aggressive anti-crisis Plan.

As a result, the annual growth was somewhat lower than initially expected. The Group's ASKs increased by 7.6% in its network as a whole; by 13.5% in the medium-haul segment (in which IBERIA had increased its capacity by 13.4% in 2000); by 7.9% on long-haul routes; and by 1.8% on domestic flights.

In the international medium-haul network, IBERIA operated new direct flights from Madrid to Stuttgart, Dublin and Hamburg, and it increased the frequency of flights on certain of its by now habitual scheduled routes such as Amsterdam, Brussels, Rome and Milan from Madrid and Barcelona; and Dusseldorf, Paris and Malabo from Madrid. Also, when the summer season started, the Iberia Group included a new route in its scheduling, namely Madrid - Strasbourg, through its franchised airline Air Nostrum.

As regards long-haul routes, IBERIA's scheduling included additional direct flights to Mexico, Buenos Aires, Lima, Caracas, Bogotá, Santiago de Chile, São Paulo, Quito and Guayaquil. Accordingly, the Airline offered one or more direct flights per day between Spain and 13 Latin American capitals. The number of flights each week to Johannesburg was also increased from July onwards.

In addition, in March and April 2001 the Company replaced the four MD-87 stationed at the Miami hub with four A-319 aircraft, which have more seats, thereby increasing by 6.5% the number of seats on the flights between Miami and Central America (Cancun, Panama, Guatemala, San Salvador, San Pedro Sula, Managua and San José de Costa Rica). The A-319 aircraft are also equipped with more advanced technology, are more comfortable and offer additional services to passengers.



This growth in the long- and medium-haul networks was accompanied by the expansion of the short-haul network, mainly through the franchised airline Air Nostrum. In the domestic market, Air Nostrum took over certain low-frequency routes (such as those between Madrid and Almería, Santander and Melilla). This enabled IBERIA to optimize its resources and improve profitability, while maintaining customer service and service quality and, at the same time, contributing passengers to the Group's network. Air Nostrum, the leading regional airline in Spain, also increased the frequency of its flights on certain routes that it already operated (such as Barcelona - Valladolid) and started to fly to new destinations (such as Badajoz) in 2001. As in prior years, the Iberia Group scheduled additional flights between the mainland and the Balearic and Canary Islands at Easter and Christmas (111 and 184 flights, respectively) to cater for the increase in demand during these vacation periods.

Under the Contingency Plan, the implementation of which was expedited to respond more efficiently to the drop in demand, flight scheduling was restructured from the beginning of the winter season (October 28, 2001). IBERIA reduced its capacity by approximately 11% with respect to the forecasts in the 2000/2003 Master Plan, and discontinued routes or reduced supply on a selective basis. The frequency of flights to Tel Aviv and Cairo was reduced and the direct flights between New York and Barcelona and the routes with Tunisia were discontinued. Also, in line with its strategic objectives, IBERIA reduced the number of domestic flights, which affected certain mainland routes and flights between the Spanish mainland and the Canary Islands.

Although the Iberia Group's load factor fell by 3.0 percentage points in 2001, its market share in strategic sectors improved, as follows: Spain-Europe, 35.3% (up 0.3%); and Europe-Latin America, 15.8% (up 0.7%). These improvements were even more significant in business class traffic (another strategic area of the 2000/2003 Master Plan), where IBERIA's market share increased by 1.1% in the Spain-Europe market to 38.5%, and by 1.7% in the Europe-Latin America market to 15.6%.

In 2001 IBERIA entered into several **agreements with airlines** (with both members of the **oneworld** alliance and other airlines), including most notably an extension of the code-sharing agreements between IBERIA and its partner British Airways, which were first entered into in 1999. Accordingly, from January 31, 2001, British Airways introduced its code in another four routes operated by Iberia Regional Air Nostrum (between Madrid and Almería, Murcia, Pamplona and Zaragoza), and from May 1, IBERIA and British Airways extended their agreements to two long-haul routes, specifically to Bangkok, for flights operated by British Airways, and to Lima, for flights operated by IBERIA. At the end of 2001, the code-sharing agreements between the **oneworld** alliance partners encompassed 35 destinations, most of which were located in Spain and the U.K.

In May 2001 IBERIA and British Airways entered into a more far-reaching agreement with the signing of a Memorandum of Understanding for joint operations in Latin American markets. This would mainly entail the extension of code-sharing operations, including the parallel services between Europe and Latin America; the joint planning of flight timetables on South Atlantic routes and the joint setting of price levels for these routes; and the coordination of sales activities, including joint price offers.

In 2001 the Iberia Group obtained passenger revenues of € 3,643 million, up € 185 million (5.3%) on 2000. International traffic revenues increased by the slightly higher rate of 6.3%.

By sales volume, IBERIA continues to be the leader in e-commerce in Spain. In 2001 the sales made through **iberia.com**, the Company's Internet website, amounted to € 75 million, more than double the billings achieved in 2000. During the year iberia.com was improved by simplifying its browsing processes and amplifying its content. The website can now be accessed from more countries (Spain, the U.K., Ireland, Germany, Austria, France, Italy and the U.S.), and customers are now offered additional products, such as an electronic ticket service, a virtual store and a tourism package (Fly&Drive).

As a result of the growth in direct sales through the iberia.com and Serviberia sales channels and of the development of new commercial management models in Spain and Europe, IBERIA was able to reduce the relative weight of its commercial costs (net of third-party revenues) by 0.9 percentage points with respect to 2000 to 10.1% of traffic revenues in 2001 and, therefore, to meet another of the objectives of the Master Plan.

With the same objective of making the offer of new services and the reduction of costs compatible, IBERIA continued to foster the use of the **electronic ticket** in Spain. In 2001 232,014 "cybertickets" were sold (by both travel agencies and the Company's own sales channels), representing an increase of 172% with respect to 2000. In 2002 these electronic tickets will foreseeably be introduced in Germany, Belgium, France, the Netherlands, Italy, Portugal and the U.K.

At 2001 year-end, **Iberia Plus**, the Company's frequent-flier loyalty-card program, which celebrated its tenth anniversary in September 2001, had more than one million registered cardholders and included more than 30 international cooperating companies. The tour operator Viva Tours and the NH Hoteles hotel chain joined the program in June 2001 and January 2002, respectively. Moreover, the Iberia Plus cardholders benefit from the program's membership of the **oneworld** alliance, as a result of which the card is recognized by all eight of the members of the alliance (IBERIA, Aer Lingus, American Airlines, British Airways, Cathay Pacific, Finnair, Lan Chile and Qantas) and their respective subsidiaries.

As regards its **customer service policy**, in 2001 IBERIA and the other leading European airlines signed the "Voluntary Commitment to the Customer". This is a code of conduct which establishes the service levels offered to customers before, during and after their flight. This commitment covers 14 different points encompassing aspects including, inter alia: improving information when making bookings and in all stages of the journey; meeting customer needs in the event of prolonged flight delays; reducing the number of passengers affected by overbooking, promoting the voluntary surrender of seats; expediting baggage check-in and collection; and reducing claim response times.



IBERIA received ISO 9001 certification from AENOR for its Flight Operations Department and ISO 9002 certification for its handling and cargo services and for its Systems Management data processing center.

As regards the **cargo business**, 2001 was a good year for IBERIA but a bad year for the industry as a whole, since the economic cooldown led to a general drop in traffic. In these circumstances, the Company's strategy was to focus on passenger traffic and base its cargo operations on the use of available space in the passenger aircraft holds, which proved to be a wise decision. Despite the market conditions, in 2001 Iberia Carga increased its revenues by 7.4% with respect to 2000, as a result of an increase in the load factor (almost 2 percentage points) and in the average yield (5.9%).

IBERIA, fulfilling its **fleet renewal plan**, added 15 Airbus aircraft to its fleet in 2001, consisting of ten A-320 planes, two A-321 planes and three A-340 planes. The A-320 and A-321 aircraft form part of IBERIA's new short-/medium-haul fleet structure, whereas the A-340 aircraft enabled supply to be increased in the long-haul market. These 15 new aircraft were added to the 48 (31 Airbus and 17 Boeing planes) received in 1999 and 2000.

Also, in 2001 the last remaining DC-9 and B-727 aircraft in service, which were used for domestic and medium-haul international flights, were retired from Iberia, L.A.E.'s operating fleet. These aircraft, which had been used for 34 and 28 years, respectively, were replaced by new A-320-type aircraft.

The fleet renewal plan constitutes a fundamental stepping stone towards creating shareholder value. In addition to being more comfortable and offering new services to passengers, these new aircraft provide greater uniformity, thereby increasing the use of the aircraft and crew productivity (key strategic objectives of the 2000/2003 Master Plan) and reducing maintenance and fuel costs. The average usage of the aircraft owned by the Iberia Group was 8.2 block hours per plane per day in 2001, up 11% on 2000, with the biggest increase being achieved by Iberia, L.A.E. (almost 15%).

The productivity of Iberia, L.A.E.'s labor force improved by 8% with respect to 2000 in terms of ASKs per employee and by 4.5% in terms of block hours per technical crew member.

In 2001 IBERIA negotiated and signed new **collective labor agreements** (the ground personnel, the pilots, cabin crew and flight engineers) to regulate the Company's labor relations, thereby guaranteeing that there will be no labor unrest in the coming years.

These collective labor agreements will remain in force for four years (through December 31, 2004) for flight personnel. The collective labor agreement for ground personnel has a term of two years (through December 31, 2002), and an extension of a further two years is currently being negotiated. The main economic provisions of the agreements are similar for the four groups of employees, namely a pay rise equal to the increase in the CPI (2.7%) plus 0.5 percentage points in 2001, and equal to the increase in the CPI for the other years. The agreements also provided for several measures to increase productivity and for certain mechanisms for achieving additional pay rises tied to improved results and to the Company's earnings.

Negotiations between Company management and the pilots' representatives was set up on February 7, and continued in the second quarter of the year, but no agreement was reached. Finally, the industrial dispute led the Spanish government to impose mandatory arbitration.

The arbitral award, issued July 19, laid the foundations for the 7th Collective Labor Agreement. As regards wages, it provided for pay conditions similar to those offered by the Company, with compensation being tied to improved results, and it established that these conditions would be in force for four years. A highly significant feature of the award was the creation of a committee for resolving disputes between IBERIA and SEPLA-IBERIA to iron out any possible discrepancies between the Company and its pilots. This committee will constitute a fundamental means of avoiding conflicts arising from differing interpretations of the Collective Labor Agreement.

As regards the Iberia, L.A.E. labor force **Rejuvenation Plan** included in the 2000/2003 Master Plan and implemented from September 2000 onwards, in the period from January to September 2001 413 employee retirements were approved, bringing the total number of retirements since the Plan was introduced to 869.

In June 2001 the Board of Directors of Iberia, L.A.E. approved a new organizational structure for the Company's passenger transport area. This measure forms part of the unfinished process of creating subsidiaries and profit centers that will assume the management of the Company's various businesses, such as cargo transport, aircraft maintenance, passenger services at airports, systems and training. The plan for creating the "Iberia Holding Company" was put on hold due to the need to focus maximum attention and efforts on responding to the crisis arising from the events of September 11.

Work continued as scheduled on the **Euro Project**, which commenced in 1998, to adapt the procedures and systems affected. Since January 1, 2001, IBERIA has used the euro in issuing invoices to customers and in receiving invoices from suppliers. In addition, since July 1 the management systems have been euro-compliant, and since October 1 the euro has been used as the basic currency for the Company's accounting entries. By December 2001 IBERIA was issuing all its tickets in euros, and the Iberia Group did not encounter any problem in its transition to the euro in January 2002. In addition, IBERIA was an official sponsor of the European Central Bank's Euro Sponsorship Plan, which was managed in Spain jointly by the Bank of Spain and the Ministry of Economy.

On August 16, 2001, IBERIA and Air Nostrum entered into a contract for the **sale of Binter Mediterráneo** (executed in a public deed in October) for € 4.43 million. Accordingly, Air Nostrum took over the routes, aircraft and employees of Binter Mediterráneo in August 2001.

Also, in the third quarter of the year the subsidiary VIVA, which since 1999 had engaged solely in aircraft maintenance, discontinued operations due to its negative performance, to its accumulated losses and to the very black outlook for its market.

IBERIA continued to implement its nonoperating risk hedging strategy, and maintained its aircraft **fuel price hedging policy**. 2001 was characterized by an average crude oil price of over US\$ 26 per barrel in the first three quarters (with a maximum price of US\$ 30 per barrel) and by a drastic drop in crude oil prices (to approximately US\$ 19 per barrel) in the last quarter of the year.



IBERIA was able to hedge the price of 50% of the kerosene used in 2001 at US\$ 18.5 per equivalent barrel, and 40% in bands of between US\$ 23 and US\$ 32 per barrel. This enabled IBERIA to obtain a gain on its hedging positions of approximately € 34 million. Once again, IBERIA had one of the lowest unit fuel costs of the European airlines (0.96 dollar cents per ASK).

In 2001 approximately 18% of IBERIA's operating revenues were earned in U.S. dollars, while around 29% of its operating expenses were sensitive to fluctuations in the U.S. dollar. The hedging transactions arranged through various financial instruments corrected this mismatch, thereby reducing the sensitivity of the Group's earnings to fluctuations in the U.S. dollar/euro parity.

Iberia, L.A.E.'s operating revenue per ASK was 7.84 euro cents, down 1.4% from 2000, due mainly to the drop of 3 percentage points in the passenger load factor. However, the average cost per ASK remained practically the same as in 2000 at 7.88 euro cents, despite the increase caused by the exceptional increase in aircraft insurance costs and the cost of the security measures adopted after September 11. Disregarding these cost increases, the unit cost per ASK would have fallen by more than 1%.

The Iberia Group, shielded by its solid financial position, responded calmly to the crisis in the air transport industry, which affected Spain and Latin America to a lesser extent than other regions. Although December witnessed a general recovery in traffic, there is still an evident degree of uncertainty regarding the future of the markets. To cater for this situation, management of IBERIA implemented a capacity and cost cutting plan:

a) IBERIA reduced capacity by 11% (with respect to the targets in the 2000/2003 Master Plan) from the beginning of the 2001/02 winter season, through selective scheduling cuts. It reduced the number of planes in service, above all by terminating early the wet lease contracts with Air Europa and Air Atlanta. It also negotiated the postponement of the delivery of 17 new Airbus aircraft, which had been scheduled for delivery in 2002.

b) At the end of December 2001, the Directorate-General of Employment partially approved the Labor Force Reduction Plan submitted by IBERIA, affecting 2,515 employees of all categories (207 pilots, 520 cabin crew members, 13 flight technicians and 1,775 ground employees). This Labor Force Reduction Plan, which was approved by most of the Company's labor unions, provides for voluntary redundancies, in line with the formulas envisaged in the Social and Budget Law Accompanying Plan: early retirements, voluntary redundancies, deferred rehiring (termination of the employment contract for a minimum period of one year and maximum of two years, with the guarantee that the employee can rejoin the labor force thereafter) and novation of contract to a stable employment contract (i.e. a temporary reduction of working hours). The related decision extended these conditions to the pilots, with whom it had been impossible to reach this agreement, and stipulated that all the redundancies had to be voluntary.

c) The Company implemented the Investment and Cost Rationalization and Optimization Plan (PRO.ICO) the aim of which is to save € 108.2 million (Ptas. 18,000 million) in 2003 by taking measures in relation to all the controllable expense and investment areas.

The profitability levels achieved, together with its decision-making efficiency and speed, permit the Iberia Group to face 2002 with confidence and optimism, albeit within the constraints of the prudence imposed by the uncertainties that still surround the future of the air transport market.

2. OPERATING PERFORMANCE OF THE MANAGEMENT AREAS

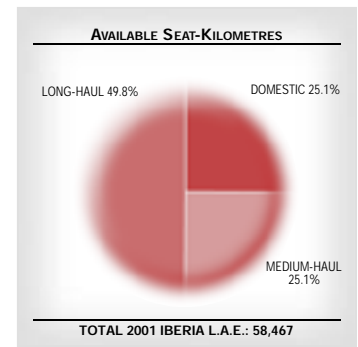
2.1. AIRLINE

Set forth below are statistics on capacity, traffic and passenger revenues, broken down by commercial sector. The sectors were defined by grouping legs together geographically, whereas the networks are defined by grouping together traffic routes (one or more legs linked by a flight code).

2.1.1. PRODUCTION AND TRAFFIC

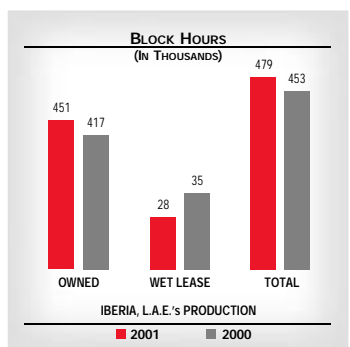
In terms of available seat-kilometres (ASKs), in 2001 Iberia, L.A.E.'s production was 7.7% higher than in 2000, with the most notable growth being on international medium-haul routes (13.5%), mainly in the EU, on which the Company continued to focus its efforts (as in 2000), in line with the strategy defined in the 2000/2003 Master Plan. Due to the higher growth in production on international routes, the average haul of Iberia, L.A.E. rose by 1.6% in 2001 to 1,658 km. The detail, by sector, of the ASKs is as follows:

SUPPLY	MILLIONS OF ASKs			
	2001	2000	VARIATION 01/00	% VARIATION
MAD-BCN SHUTTLE	1,374	1,354	20	1.5
MAINLAND-CANARIES	5,967	6,025	(58)	(1.0)
MADRID-MAINLAND (*)	3,057	2,964	93	3.1
OTHER DOMESTIC	4,283	4,048	235	5.8
DOMESTIC	14,681	14,391	290	2.0
AFRICA AND MIDDLE EAST	983	893	90	10.1
EU	12,819	11,157	1,662	14.9
OTHER EUROPEAN COUNTRIES	846	851	(5)	(0.6)
MEDIUM HAUL	14,648	12,901	1,747	13.5
NORTH AMERICA	7,729	7,969	(240)	(3.0)
CENTRAL AMERICA	12,256	10,897	1,359	12.5
SOUTH AMERICA	8,327	7,364	963	13.1
SOUTHERN AFRICA AND OTHER	826	768	58	7.6
LONG-HAUL	29,138	26,998	2,140	7.9
TOTAL IBERIA, L.A.E.	58,467	54,290	4,177	7.7



(*) All mainland connections except Barcelona.

IBERIA's production measured in block hours was 8.0% higher than in 2000. the number of aircraft operated under wet lease arrangements fell by more than 20% with respect to 2000, and all the aircraft had been returned before 2001 year-end as a result of the cutback in production from the end of October onwards.

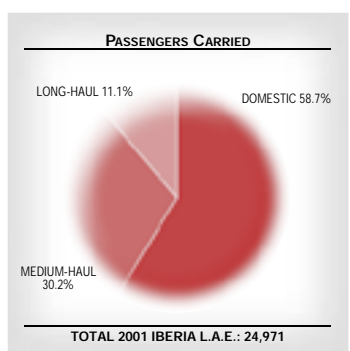


PRODUCTION	PASSENGER AIRCRAFT BLOCK HOURS			
	2001	2000	VARIATION 01/00	% VARIATION
IBERIA OWNED AIRCRAFT	450,567	417,372	33,195	8.0
WET LEASE	28,247	35,444	(7,197)	(20.3)
IBERIA, L.A.E.	478,814	452,816	25,998	5.7

Iberia, L.A.E. carried 1.7% more passengers in 2001 than in 2000. The increase was greatest in the number of the passengers traveling in Europe, as a result of the increased supply and the consolidation of certain services introduced in 2000.

The following table shows that the number of passengers actually fell in certain sectors. In North America, this was due to the economic slowdown and the drop in traffic following the terrorist attacks of September 11. Traffic in the Middle East was also badly hit by the consequences of those events, which prompted the Company to reduce frequencies and even to discontinue certain routes. 2001 also witnessed a slight drop in the number of passengers carried by Iberia, L.A.E. on domestic flights. The Spanish market was the worst affected by the pilots' strikes and, in addition, the Company's supply reductions from the beginning of the winter season onwards had a greater proportional effect on domestic flights.

The breakdown of the number of passengers carried is as follows:



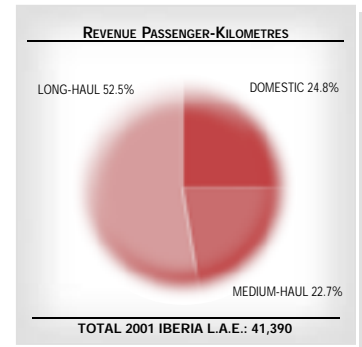
PASSENGERS CARRIED	THOUSANDS			
	2001	2000	VARIATION 01/00	% VARIATION
MAD-BCN SHUTTLE	1,865	2,043	(178)	(8.7)
MAINLAND-CANARIES	2,534	2,563	(29)	(1.1)
MADRID-MAINLAND (*)	4,971	4,924	47	1.0
OTHER DOMESTIC	5,294	5,180	114	2.2
DOMESTIC	14,664	14,710	(46)	(0.3)
AFRICA AND MIDDLE EAST	287	313	(26)	(8.3)
EU	6,796	6,379	417	6.5
OTHER EUROPEAN COUNTRIES	457	428	29	6.8
MEDIUM-HAUL	7,540	7,120	420	5.9
NORTH AMERICA	849	942	(93)	(9.9)
CENTRAL AMERICA	1,211	1,105	106	9.6
SOUTH AMERICA	626	598	28	4.7
SOUTHERN AFRICA AND OTHER	81	68	13	19.1
LONG-HAUL	2,767	2,713	54	2.0
TOTAL IBERIA, L.A.E.	24,971	24,543	428	1.7

(*) All mainland connections except Barcelona.

The trend in RPKs was positive on medium- and long-haul routes, with the aforementioned exceptions of North America, the Middle East and certain destinations in North Africa. Demand rose by 6.5% on medium-haul routes and by 3.8% on long-haul routes, giving an average increase of 4.6% for international flights taken as a whole.

The breakdown of the RPKs is as follows:

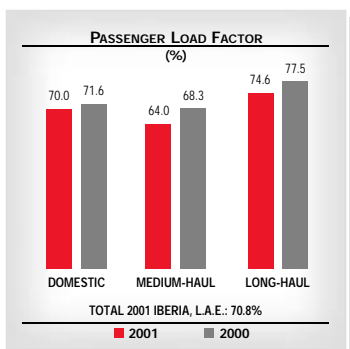
REVENUE PASSENGER-KILOMETRES		MILLIONS		
	2001	2000	VARIATION 01/00	% VARIATION
MAD-BCN SHUTTLE	899	985	(86)	(8.7)
MAINLAND-CANARIES	4,485	4,529	(44)	(1.0)
MADRID-MAINLAND (*)	1,991	1,967	24	1.2
OTHER DOMESTIC	2,907	2,828	79	2.8
DOMESTIC	10,282	10,309	(27)	(0.3)
AFRICA AND MIDDLE EAST	595	636	(41)	(6.4)
EU	8,228	7,646	582	7.6
OTHER EUROPEAN COUNTRIES	554	526	28	5.3
MEDIUM-HAUL	9,377	8,808	569	6.5
NORTH AMERICA	5,488	5,972	(484)	(8.1)
CENTRAL AMERICA	9,562	8,704	858	9.9
SOUTH AMERICA	6,025	5,699	326	5.7
SOUTHERN AFRICA AND OTHER	656	557	99	17.8
LONG-HAUL	21,731	20,932	799	3.8
TOTAL IBERIA, L.A.E.	41,390	40,049	1,341	3.3



(*) All mainland connections except Barcelona.

Iberia, L.A.E.'s passenger load factor of 70.8% in 2001 was three percentage points lower than in 2000 (when the load factor achieved was a record in the Company's recent history). The 7.7% rise in supply amply surpassed the 3.3% increase in demand, which was lower than initially forecast due to the aforementioned negative factors that successively hit the Company during the year, making it impossible to consolidate the signs of recovery that certain markets showed for a brief period.





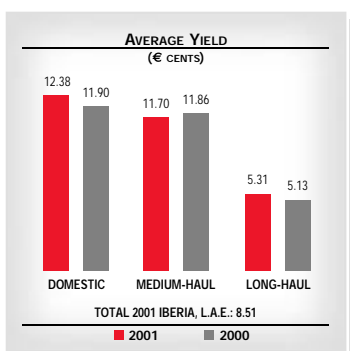
(*) All mainland connections except Barcelona.

PASSENGER LOAD FACTOR

	2001	2000	VIATION 01/00	%
MAD-BCN SHUTTLE	65.5	72.7	(7.2)	
MAINLAND-CANARIES	75.2	75.2	0.0	
MADRID-MAINLAND (*)	65.1	66.4	(1.3)	
OTHER DOMESTIC	67.9	69.9	(2.0)	
DOMESTIC	70.0	71.6	(1.6)	
AFRICA AND MIDDLE EAST	60.6	71.3	(10.7)	
EU	64.2	68.5	(4.3)	
OTHER EUROPEAN COUNTRIES	65.5	61.8	3.7	
MEDIUM-HAUL	64.0	68.3	(4.3)	
NORTH AMERICA	71.0	74.9	(3.9)	
CENTRAL AMERICA	78.0	79.9	(1.9)	
SOUTH AMERICA	72.3	77.4	(5.1)	
SOUTHERN AFRICA AND OTHER	79.4	72.5	6.9	
LONG-HAUL	74.6	77.5	(2.9)	
TOTAL IBERIA, L.A.E.	70.8	73.8	(3.0)	

2.1.2. TRAFFIC REVENUES

The detail, by commercial sector, of the average yield in 2001 and 2000 is as follows:



(*) All mainland connections except Barcelona.

AVERAGE YIELD PER RPK

	2001	2000	VIATION 01/00	% VIATION
MAD-BCN SHUTTLE	20.79	18.87	1.92	10.2
MAINLAND-CANARIES	6.88	6.58	0.30	4.6
MADRID-MAINLAND (*)	17.97	17.42	0.55	3.2
OTHER DOMESTIC	14.42	14.14	0.28	2.0
DOMESTIC	12.38	11.90	0.48	4.0
AFRICA AND MIDDLE EAST	8.76	8.92	(0.16)	(1.8)
EU	11.71	11.98	(0.27)	(2.3)
OTHER EUROPEAN COUNTRIES	14.62	13.65	0.97	7.1
MEDIUM-HAUL	11.70	11.86	(0.16)	(1.3)
NORTH AMERICA	5.40	5.43	(0.03)	(0.6)
CENTRAL AMERICA	5.37	5.15	0.22	4.3
SOUTH AMERICA	5.28	4.93	0.35	7.1
SOUTHERN AFRICA AND OTHER	4.06	3.71	0.35	9.4
LONG-HAUL	5.31	5.13	0.18	3.5
TOTAL IBERIA, L.A.E.	8.51	8.35	0.16	1.9

Iberia, L.A.E.'s average yield increased by 1.9% in 2001. The excess supply and the weakness of traffic in certain markets exerted downward pressure on prices (as forecast in the 2000/2003 Master Plan).

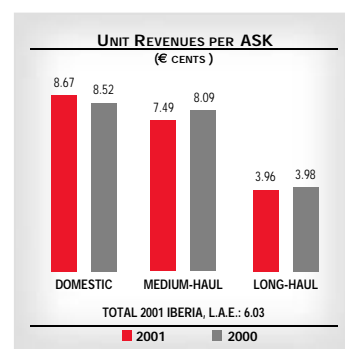
In 2001 IBERIA launched various promotional campaigns to encourage passengers to travel to certain destinations, between certain dates and under certain conditions, at reduced rates. In spring the Company launched special offers for flights to several European destinations (Amsterdam, Rome, Milan, Dusseldorf, Frankfurt, Hamburg and Stuttgart) from Barcelona or Madrid. In the summer, the Iberia Group offered special prices for domestic flights as part of the "Despegamos" (Let's Fly) Program.

Also, another consequence of the current crisis in the air transport industry, namely the general worsening of the passenger class-mix, had a particularly important impact. The more pronounced drop in business-class traffic than in economy classes hit all the large network airlines. However, Iberia, L.A.E. was less affected than some of its competitor airlines, since the relative importance of business-class traffic is higher in other European markets.

Since the rise in the average yield only partially offset the fall in the load factor, the average revenue per ASK dropped by 2.1% for the Company's network as a whole.

The detail of the unit revenues per ASK by sector is as follows:

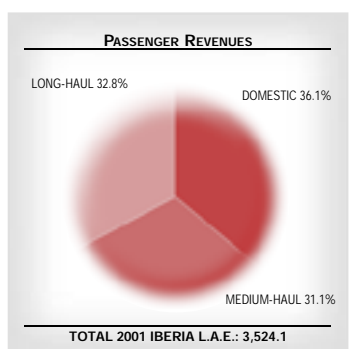
UNIT REVENUES PER ASK		€ CENTS		
	2001	2000	VARIATION 01/00	% VARIATION
MAD-BCN SHUTTLE	13.61	13.72	(0.11)	(0.8)
MAINLAND-CANARIES	5.17	4.95	0.22	4.4
MADRID-MAINLAND (*)	11.71	11.56	0.15	1.3
OTHER DOMESTIC	9.79	9.88	(0.09)	(0.9)
DOMESTIC	8.67	8.52	0.15	1.8
AFRICA AND MIDDLE EAST	5.31	6.36	(1.05)	(16.5)
EU	7.52	8.21	(0.69)	(8.4)
OTHER EUROPEAN COUNTRIES	9.57	8.43	1.14	13.5
MEDIUM-HAUL	7.49	8.09	(0.60)	(7.4)
NORTH AMERICA	3.83	4.07	(0.24)	(5.9)
CENTRAL AMERICA	4.19	4.12	0.07	1.7
SOUTH AMERICA	3.82	3.81	0.01	0.3
SOUTHERN AFRICA AND OTHER	3.22	2.69	0.53	19.7
LONG-HAUL	3.96	3.98	(0.02)	(0.5)
TOTAL IBERIA, L.A.E.	6.03	6.16	(0.13)	(2.1)



(*) All mainland connections except Barcelona.

Iberia, L.A.E.'s passenger revenues increased by 5.4% in 2001 to € 3,524 million, due to the increase in the RPKs and, to a lesser extent, to the strength of the U.S. dollar.

The detail, by sector, of the passenger revenues is as follows:


PASSENGER REVENUES

MILLIONS OF €

	2001	2000	VARIATION 01/00	% VARIATION
MAD-BCN SHUTTLE	186.9	185.8	1.1	0.6
MAINLAND-CANARIES	308.7	298.1	10.6	3.6
MADRID-MAINLAND (*)	357.9	342.6	15.3	4.5
OTHER DOMESTIC	419.3	399.9	19.4	4.9
DOMESTIC	1,272.8	1,226.4	46.4	3.8
AFRICA AND MIDDLE EAST	52.1	56.8	(4.7)	(8.3)
EU	963.7	915.8	47.9	5.2
OTHER EUROPEAN COUNTRIES	81.0	71.7	9.3	13.0
MEDIUM-HAUL	1,096.8	1,044.3	52.5	5.0
NORTH AMERICA	296.1	324.1	(28.0)	(8.6)
CENTRAL AMERICA	513.5	448.6	64.9	14.5
SOUTH AMERICA	318.3	280.9	37.4	13.3
SOUHERN AFRICA AND OTHER	26.6	20.7	5.9	28.5
LONG-HAUL	1,154.5	1,074.3	80.2	7.5
TOTAL IBERIA, L.A.E.	3,524.1	3,345.0	179.1	5.4

(*) All mainland connections except Barcelona.

The territorial organization's productivity improved in 2001, and it met its targets relating to international revenue growth with fewer human resources, thus consolidating its shift towards a new commercial management model, consisting mainly of making the Company's organization responsive to the need to add value to marketing activities.

2.2. IBERIA CARGO

2001 was essentially a bad year for the world air cargo transport industry. The progressive cooling of the world economy led to a turnaround in May in the trend in traffic, which dropped sharply, above all in the North Atlantic and Europe. Also, the terrorist attacks of September 11 in the U.S. triggered a further drop in cargo traffic, particularly in the North American, European, Middle East and Japanese markets.

Despite the adverse market circumstances, Iberia Cargo performed satisfactorily in 2001. Its revenues were 7.1% higher than in 2000, due to the increase in the load factor (1.9 percentage points), but mostly to the 5.9% rise in average yield per revenue tonne-kilometre. Although the supply in passenger aircraft holds increased by 9.8%, there was a sharp drop in the number of cargo plane hours contracted, in line with the Company's strategy to optimize its flight network. In 2001 the freight/mail revenue tonne-kilometres (RTKs) increased by 1%. More than 95% of those RTKs were carried in the available space in the holds of passenger aircraft.

The rise in revenues, combined with the drop in lease and fuel costs as a result of the sharp cutback in the operation of cargo flights, particularly on long-haul routes, led to a significant improvement in the profitability of this business area.

Noteworthy in the short- and medium-haul network was the sound performance of traffic to the Canary Islands, with an increase in revenues of over 11%, due mainly to the rise in the average yield per RTK.

In the long-haul network, there was a notable increase (of over 40% with respect to 2000) in traffic revenues in the South Atlantic. Traffic in this region was favored by the absence of Aerolíneas Argentinas (ARSA) traffic from June onwards and by the benefits arising from the pooling agreements with LAN Chile. However, the effects of the crisis in Argentina started to be felt in December, and the outlook for 2002 is bleak due to the danger of the crisis spreading to other markets in the area (Chile and Brazil).

In the Mid-Atlantic sector, greater use was made of Havana as a platform for connections with other destinations in the region (Mexico and Central America), whereas traffic in the North Atlantic area was less buoyant.

Other salient management features of Iberia Carga in 2001 were, on the one hand, the 4.3% increase in revenues at Spanish terminals, despite the fall in the volume handled due to the drop in activity of certain customers (ARSA, Swissair, Sabena and British Airways) and, on the other, the enhanced quality as demonstrated by various statistics: 17% fewer claims than in 2000; the renewal of the ISO 9002 certification in October (originally granted by AENOR in February); and the obtainment of the "Pinguino de Oro" award in Peru, in acknowledgment of the high quality of IBERIA's perishable cargo handling and transport activities.

The main parameters of this business line were as follows:

IBERIA CARGO				
	2001	2000	VARIATION 01/00	% VARIATION
MILLIONS OF ATKs	1,269	1,292	(23)	(1.8)
IN HOLDS	1,184	1,078	106	9.8
IN CARGO AIRCRAFT	85	214	(129)	(60.2)
MILLIONS OF RTKs	899	890	9	1.0
IN HOLDS	856	778	78	10.0
IN CARGO AIRCRAFT	43	112	(69)	(61.6)
LOAD FACTOR (%)	70.8	68.9	1.9	N/A
IN HOLDS	72.3	72.1	0.2	N/A
IN CARGO AIRCRAFT	50.7	52.4	(1.7)	N/A
AVERAGE YIELD (€ CENTS/RTK)	27.12	25.60	1.52	5.9
TOTAL CARGO REVENUES (MILLIONS OF €)	243.7	227.5	16.2	7.1
EQUIVALENT FULL-TIME EMPLOYEES	1,206	1,094	112	10.2

2.3. IBERIA HANDLING

In 2001 total handling activity, measured in terms of weighted planes handled, decreased by 0.6% with respect to 2000, due mainly to the drop of 4% in traffic in the last quarter of the year. The number of aircraft handled for third parties (both Spanish and foreign) fell by 7.7%, whereas services increased for Air Nostrum (8.7%) and for Iberia, L.A.E. (2.8%).

In order to tailor the resources to the trend of demand, the number of equivalent full-time employees was reduced by 204 in 2001, whereas the number of temporary employees remained at levels similar to those of 2000 (three fewer employees). As a result, productivity improved by 1.9%.

Continuing with its certification process, in 2001 Iberia, L.A.E. obtained certification from AENOR under the ISO 9002 standard for its passenger and ramp handling services at the Spanish airports which had not already received such certification (13 of the busiest Spanish airports received certification in 2000). Iberia Handling thus completed its certification process. With this certified quality assurance system, it will continue to implement its strategy of improving the service it offers to its customers.

The following table shows the main operating aggregates of Iberia Handling:

IBERIA HANDLING				
	2001	2000	VARIATION 01/00	% VARIATION
WEIGHTED PLANES HANDLED (WPH)	439,881	442,548	(2,667)	(0.6)
IBERIA	237,512	231,091	6,421	2.8
REST OF IBERIA GROUP	30,086	30,794	(708)	(2.3)
FRANCHISEES	36,548	33,631	2,917	8.7
THIRD PARTIES (SPANISH AND FOREIGN)	135,735	147,032	(11,297)	(7.7)
THIRD-PARTY REVENUES (MILLIONS OF €) (REST OF GROUP+AIR NOSTRUM+THIRD PARTIES)	229.5	235.6	(6.1)	(2.6)
OPERATING REVENUES (MILLIONS OF €)	481.4	477.1	4.3	0.9
OPERATING REVENUES/WPH (€)	1,094.4	1,078.2	16.2	1.5
PRODUCTIVITY (HOURS /WPH)	31.50	32.11	(0.61)	(1.9)
EQUIVALENT FULL-TIME EMPLOYEES	8,043	8,250	(207)	(2.5)

2.4. IBERIA MAINTENANCE

In 2001 the Maintenance Department significantly improved its aircraft and engine overhaul times, thereby increasing aircraft availability for the commercial area. Also, its productivity rose considerably in 2001, and its volume of work was similar to that of 2000, but with a lower production capacity (6.1% lower in terms of man-hours), as a result of the reduced headcount due to the application of the Rejuvenation Plan. The direct labor overtime hours also decreased substantially in 2001 (by 49% with respect to 2000), and the ratio of indirect labor costs to direct labor costs also fell.

Apart from the periodic overhauls and habitual services, IBERIA's employees carried out other activities in 2001, namely work relating to the retirement and sale of DC-9 and B-727 aircraft and to the addition of new aircraft; the refurbishment of cabins and adaptation of the equipment on A-320 aircraft; and work arising from the return of leased aircraft (B-747 and B-757 planes).

The volume of maintenance work outsourced fell by 32% in 2001, due to the retirement or grounding of aircraft on which the maintenance work was most outsourced (B-767 and B-737 aircraft) and to the improved use of in-house resources.

The foregoing factors combined to reduce IBERIA's unit maintenance cost in 2001.

Pursuant to the guidelines set by the 2000-2003 Master Plan, the Maintenance Department's drive in the area of marketing and sales of services to third parties focused on the promotion of the maintenance of specialized products relating to the A-340, A-320, B-747 and MD-80 aircraft, of CFM56-5A/-5B/-5C and JT8D-217/-219 engines and of all the parts of these aircraft and engines.

The commercial drive focused on building the loyalty of the various engine and parts manufacturers and on sounding out and landing new customers in the aforementioned areas. Also, contacts were once again maintained with several maintenance centers owned by airlines in the **oneworld** alliance and other airlines (including, inter alia, AAR, Alitalia, British Airways Engineering, IAI, Pratt&Whitney, GE Engine Services, Rolls Royce, TACA and Honeywell) with a view to entering into cooperation agreements to cater for new, and consolidate existing, markets.

Despite the foregoing, production for third parties fell as a result of the crisis in the industry, which worsened from September 2001 onwards, and of the loss of important customers (due to their financial situation), such as Aerolíneas Argentinas and Air Liberté. This drop in production was cushioned by the obtainment of new customers in the major aircraft overhaul area and, to a lesser extent, in the engine area, but not in the parts maintenance area, where the contract for the A-340 aircraft of Aerolíneas Argentinas was particularly lucrative. Overall, 18.3% fewer hours of work were billed to third parties than in 2000.

IBERIA performed engine and parts maintenance work for, inter alia, Avianca, China Southwest Airlines, China Xinjiang Airlines, GE Aircraft Engines Ltd., IAI, Onur Air, Polar Air, Royal Nepal Airlines and the Spanish Air Force. It also carried out aircraft overhauls for various customers (MD-80 aircraft for Spanair, B-747 aircraft for Air Atlanta Icelandic and Alitalia, A-320 planes for Iberworld, etc.), as well as other minor maintenance services and loans of equipment and tools.

The variations in the main operating aggregates were as follows:

IBERIA MAINTENANCE				
	2001	2000	VARIATION 01/00	% VARIATION
NUMBER OF OVERHAULS	230	251	(21)	(8.4)
THOUSANDS OF PRODUCTION HOURS OF IN-HOURS PERSONNEL	2,949	3,140	(191)	(6.1)
INDIRECT/DIRECT LABOR (%)	53.8	54.2	(0.4)	(0.7)
TECHNICAL ASSISTANCE REVENUES (MILL. OF €)	94.5	117.5	(23)	(19.6)
EXTERNAL OPERATING REVENUES (MILL. OF €)	98.9	123.1	(24.2)	(19.7)
EQUIVALENT FULL-TIME EMPLOYEES	4,116	4,316	(200)	(4.6)

2.5. IBERIA SYSTEMS

Work continued in 2001 on implementing the various projects defined in the 2000/2003 Master Plan, both within the Systems Department and for the other areas of the Company.

In the Systems area the project to make all the Company's systems euro-compliant was successfully completed. Also, 1,460 PCs were installed, together with various leading-edge servers that will process all the transactions and queries handled through iberia.com in 2002.

In the Commercial area, a fare definition, monitoring and control system was introduced in order to be able to work with Company fares and with those of competitors in real time. In addition, the new support system for the Iberia Plus card came into service.

In the Operations area, the airport and overflight tax management system was brought into service, and the Alhambra System for the administration and control of the activities of technical crew members on the ground was introduced.

In the Maintenance area work continued on the SAP technology-based IMAGINA project, the purpose of which is to implement an Integrated Maintenance System in the next two years.

In the Airports area, the WEVIL operating management system was implemented on all Spanish stopover destinations, except Madrid and Fuerteventura.

In the Cargo area, work commenced on the development of the Revenue Management System (which will be brought into service in 2002), and introduction of the Branch Office Cargo management product started.

Lastly, in the Financial area, the new ARIBA-routed B2B purchasing system was implemented, which makes it possible for the units receiving orders to purchase directly a wide range of products.

Also, IBERIA obtained AENOR certification under the ISO 9002 standard for its Systems Department data processing center, thereby guaranteeing quality in areas of paramount importance to the service that IBERIA provides to its customers, namely, bookings, ticket sales, billings, etc.

The average equivalent headcount of Iberia Sistemas was 541 in 2001, down 4.9% from 2000.

2.6. NEW PROJECTS

One of the strategic objectives established in the 2000/2003 Master Plan was to spearhead the use of new technologies in the industry. Iberia, L.A.E. is carrying out several projects aimed at fulfilling this objective, in which the Internet is undoubtedly playing a starring role, a tool which makes it possible to increase revenues and improve customer relations (B2C), while at the same time reducing costs and rationalizing relations with suppliers (B2B).

2.6.1. IBERIA.COM

In 2001 iberia.com recorded significant growth in its business volume. Through this new channel, IBERIA sold almost 437,000 tickets (46% more than in 2000) and billed € 75 million, double the billings achieved in 2000.

IBERIA's remodeled website went on-line in February and was officially presented at the First e-Commerce Forum held in March in Madrid sponsored by iberia.com. Together with a new design, the functions of the site were improved, processes were simplified in order to facilitate surfing by customers and the content and services on offer were completed.

iberia.com retained, in the "on-line bookings and purchases" section, the three products which already existed in 2000, namely "Elige y Vuela" - "Choose and Fly" (which offers all the Company's flights, seat classes and fares); "Entrando en pista" - "Ready for take-off" (last-minute offers, updated every Thursday); and "Despegue On Line" - "On-line Take Off" (which gives surfers access to the best prices for advance bookings). In addition, since February 2001 the website has included a rapid flight search engine, which offers the best fare available based on the customer's seat class and travel itinerary, and a new section called "iberia.com recomienda" - "iberia.com recommends", containing the best offers.

In 2001 the Company extended the possibility of booking and buying tickets for its flights through iberia.com to another three countries, the U.S., Italy and France (which joined the U.K., Ireland, Germany, Austria and Spain). Also, new products were introduced for customers: an electronic ticket service; a virtual store, which sells over 300 articles relating to travel, leisure, photography and business; and, in conjunction with Avis, a tourism package (Fly&Drive), which includes the flights and the rental of a vehicle at the other end.

IBERIA continues to be the leader in e-commerce in Spain, with 543,000 web page hits each day and almost 50,000 single accesses to its website each day. Its website was awarded the "iBest" prize for the second year running for the best website in the "Transport" category.

2.6.2. OPODO

In June 2001 nine European airlines (IBERIA, British Airways, Air France, Lufthansa, Finnair, Alitalia, Aer Lingus, Austrian Airlines and KLM) inaugurated the new Internet travel portal called Opodo, on the design of which they had been working for over a year. IBERIA has a 9.1% stake in this initiative.

Opodo, whose mission is to be Europe's favorite on-line travel agency, will give its customers access to the flights of around 480 airlines, in addition to hotel bookings, car rentals, travel insurance, interactive tourist guidebooks and all manner of information on customer's trips.

Opodo, which is managed on an independent basis, groups together a team of leading suppliers in the European market, including Sapiant, Amadeus, Broadvision and TRX. The latter company manages the 24-hour call center service that the travel portal offers its customers, as well as a booking service.

At the end of November 2001 Opodo started to operate in Germany. Customers in the U.K., France and Italy are expected to be able to access the travel portal in the first half of 2002, and it is planned to make the portal available in the Netherlands, Switzerland and Spain in the second half of the year. Opodo will be extended to other countries in 2003 and it is expected to start generating income from 2004 onwards.

2.6.3. CRM

In 2001 Iberia's Commercial Department introduced an ambitious project called CRM ("Customer Relationship Management"), linked with a new commercial management concept where the customer is the focal point of all the Company's business activity.

The aim of the CRM project is to implement a new commercial model which, based on the integral management of the Company's databases, makes it possible to ascertain, on a case-by-case-basis, the needs of IBERIA's customers, and to integrate the customers' experience in their various points of contact with the Company, in order to develop a more fruitful, profitable and lasting relationship.

The new management model encompasses all the Company's business processes in which the customer is involved, from access to flight information, bookings and ticket purchases, right through to the moment at which claims might be filed, and including all the services offered to the customer at the airports of departure and arrival and on the plane itself. Accordingly, this is a long-term project which will be implemented in phases and by business area, and which will require the full involvement of all the employees in all the areas where there is contact with the customer. In 2001 the model was designed and defined with the assistance of Roland Berger.

2.6.4. e-PROCUREMENT

January 2001 saw the introduction of the e-procurement project, the aim of which is to implement a new purchasing management model at the Iberia Group.

In order to progressively reduce current purchasing costs, the core objective of the project, support tools are being developed such as a new purchasing methodology, the use of new purchasing formulas, electronic negotiation and auctions, and a purchaser's portal (single access to all the necessary information sources).

At the end of 2001 the investment made and the expenses incurred in this project amounted to € 8 million, and a € 13.5 million saving had been achieved (a 21% reduction of the gross amount of the products and services purchased).

From April 2001 onwards various Internet auctions were held, involving, inter alia, the lease and maintenance of photocopiers, purchases of office supplies, purchases of aircraft tires and fuel supplies at certain airports. This e-procurement-based negotiating technique makes it possible to achieve competition among a large number of suppliers in real time.

By the end of 2002, when the project will have been completed, the way in which products and services are purchased by the various different areas of the Company (Purchasing Sub-Department, Fuels, Handling, Maintenance, etc.) will have changed completely, since e-commerce tools and virtual markets will be used, with which Internet B2B transactions will be made. All Iberia Group users will have direct access to catalogs of products and services selected by the Group's various purchasing areas and they will be able to place their orders directly with the related supplier.

2.6.5. OTHER B2B PROJECTS

In the first quarter of 2001 nine airlines and three aeronautical manufacturers joined forces to inaugurate **Cordiem LLC**, an aviation Business to Business (B2B) company. IBERIA invested € 2.3 in this vertical purchasing portal in 2001.

Cordiem, an independently run business headquartered in Washington, is the outcome of the prior initiatives involving Air Newco and MyAircraft. Air Newco is an on-line market created in April 2000 by IBERIA, Air France, British Airways, American Airlines, Continental Airlines, Delta Airlines, the SAir Group, United Airlines and United Parcel Service in order to simplify and reduce the cost of the industry's complex supply chain. MyAircraft, which was set up in February 2002, is a market led by original equipment manufacturers in the aerospace industry (United Technologies Corp., Honeywell International Inc. and BF Goodrich Co.).

Cordiem will offer a wide-reaching Internet purchasing supply and tool management chain, which will help the air transport industry to achieve considerable time and cost savings in five areas, namely maintenance and engineering, fuel and fuel services, catering and cabin services, airport services and general purchases. Cordiem has formed an association with i2 Technologies, Inc. and Ariba, Inc. with view to deploying its central Internet business channel and associated solutions. In addition, the company has chosen IBM as its hosting services provider.

In July 2001 IBERIA, Telefónica de España, TPI Páginas Amarillas, BBVA e-commerce and Repsol YPF definitively set up **Adquira**, a horizontal portal for the acquisition of indirect goods and services between companies on the Internet. IBERIA, which has a 10% ownership interest in Adquira España, S.A., invested € 3.6 million in this company in 2001.

Adquira offers integral B2B e-commerce solutions for procurement and the purchase and negotiation of indirect goods and services, including most notably those in the following areas: IT, communications, office supplies, furniture, travel, financial and insurance products, maintenance and repairs, cleaning services, etc. These expenses can account for an estimated 40% of a company's total volume of purchases. This solution can generate cost savings of over 15% for purchasers with respect to traditional purchasing processes, depending on the type of product involved.

The new company offers purchasing and bargaining solutions to companies of all types, from large corporations to SMEs. For large companies, Adquira offers a procurement tool which integrates all the purchasing processes (e-procurement), and companies of all sizes have access to an electronic market and the possibility of participating in complex auctions for all manner of goods and services. Adquira's target in Spain is to achieve more than 20,000 buyers in under two years.

2.6.6. ENVIRONMENTAL POLICY

In 2001 IBERIA continued to implement an efficient environmental policy (a project initiated in January 2000). All IBERIA's operating aircraft as of December 31, 2001, were fulfilling the strictest regulations in force regarding noise (the regulations included in Chapter 3 of Schedule 16 of the Chicago Convention). The entry into force of the new noise regulations (Chapter 4) in January 2006 will not affect IBERIA in any way, since the fleet renewal plan includes certain noise requirements for the new aircraft, which are equipped with state-of-the-art technology that enables them to amply comply with the new regulations.

In this regard, in 2001 the most salient environmental event in the aeronautical industry was the aforementioned resolution of the Environmental Committee of the International Civil Aviation Organization (ICAO), which established the new maximum noise levels (more stringent than those currently in force) that civil aircraft licensed from 2006 onwards must observe.

Another noteworthy environmental landmark at the Company in 2001 was the reduction of specific fuel consumption. The fleet renewal plan made it possible to retire from service the aircraft with the highest fuel consumption (DC-10, DC-9 and B-727 planes), which were replaced by A-320 and A-340-type aircraft, which are equipped with new technology that reduces fuel consumption by 20%.

In 2001 IBERIA prepared regulations for the in-house management of non-hazardous waste with a view to developing the Company's environmental policy in this area. Also, within the numerous areas of cooperation between the companies forming part of the **oneworld** alliance, IBERIA participated in the creation of an Environmental Group aimed at establishing common environmental objectives.

With a view to the future implementation of an Environmental Management System (ISO 14000), IBERIA is currently designing an Environmental Training Plan for various of its business areas.

3. RESOURCES

3.1. FLEET

The detail of the passenger aircraft operated by Iberia, L.A.E. as of December 31, 2001, is as follows:

FLEET			
AIRCRAFT TYPE	IBERIA	WET LEASE	TOTAL OPERATED
B-727	-	-	-
B-737	-	-	-
B-747	9	-	9
B-757	18	-	18
B-767	-	-	-
A-300	5	-	5
A-319	4	-	4
A-320	52	-	52
A-321	4	-	4
A-340	15	-	15
DC-9	-	-	-
MD-87	24	-	24
MD-88	13	-	13
TOTAL*	144	0	144

* Excluding grounded aircraft ready for sale.

As of December 31, 2000, there were 159 available passenger aircraft. The following list shows the additions and retirements in 2001, explaining this reduction of 15 aircraft in service:

ADDITIONS

- 2 A-321 aircraft owned outright
- 10 leased A-320 aircraft (9 under operating lease and 1 under financial lease)
- 3 A-340 aircraft under operating lease
- 2 B-747 aircraft under operating lease

RETIREMENTS

- 9 B-727 aircraft owned outright
- 3 B-737 aircraft under wet lease
- 2 B-747 aircraft under wet lease
- 1 B-747 aircraft owned outright
- 6 B-757 aircraft under wet lease
- 2 B-767 aircraft under operating lease
- 1 A-300 aircraft owned outright
- 1 A-320 aircraft owned outright
- 7 DC-9 aircraft owned outright

In the first ten months of 2001 IBERIA operated two B-737 aircraft (three until the commencement of the summer season), six Air Europa B-757 and two Air Atlanta B-747 aircraft under wet lease arrangements. However, in November operation of all these aircraft was discontinued as a result of the measures adopted by Iberia L.A.E. to respond to the crisis in the air transport industry.

The average usage of Iberia, L.A.E.'s aircraft, in terms of total block hours per aircraft per day, increased significantly in 2001, thereby meeting one of the key objectives of the 2000/2003 Master Plan:

USAGE AIRCRAFT		BLOCK HOURS/AIRCRAFT/DAY	
AIRCRAFT TYPE	2001	2000	
B-727	5.2	5.2	
B-747	13.2	12.8	
B-747M	10.7	10.4	
B-757	7.9	7.2	
B-767	11.5	11.9	
DC-9	3.7	4.1	
DC-10	-	8.9	
MD-87	7.4	7.2	
MD-88	7.6	7.5	
A-300	7.8	6.8	
A-319	6.8	6.1	
A-320	7.8	7.1	
A-321	8.5	8.2	
A-340	14.2	13.1	
AVERAGE SHORT-AND MEDIUM-HAUL AIRCRAFT USE	7.5	6.6	
AVERAGE LONG-HAUL AIRCRAFT USE	13.6	12.4	
TOTAL AVERAGE AIRCRAFT USE	8.5	7.4	

3.2. PERSONNEL

3.2.1. HEADCOUNT

The detail of IBERIA's average headcount in 2001 and 2000 is as follows:

	AVERAGE ANNUAL HEADCOUNT					
	GROUND		FLIGHT		TOTAL	
	2001	2000	2001	2000	2001	2000
AIRLINE	3,507	3,567	6,626	6,264	10,133	9,831
CARGO	1,206	1,094	-	-	1,206	1,094
HANDLING	8,043	8,250	-	-	8,043	8,250
MAINTENANCE	4,116	4,316	-	-	4,116	4,316
SYSTEMS	541	569	-	-	541	569
CENTRAL SERVICES	1,269	1,326	-	-	1,269	1,326
IBERIA, L.A.E.	18,682	19,122	6,626	6,264	25,308	25,386
VARIATION 2001/2000 (%)	(2.3) %		5.8 %		(0.3) %	

The detail of the year-end headcount of Iberia, L.A.E. in 2001 and 2000 is as follows:

YEAR-END HEADCOUNT

	GROUND		FLIGHT		TOTAL	
	2001	2000	2001	2000	2001	2000
AIRLINE	3,584	3,701	6,417	6,436	10,001	10,137
CARGO	1,245	1,131	-	-	1,245	1,131
HANDLING	9,092	9,420	-	-	9,092	9,420
MATERIAL	4,087	4,247	-	-	4,087	4,247
SYSTEMS	564	567	-	-	564	567
CENTRAL SERVICES	1,265	1,312	-	-	1,265	1,312
IBERIA, L.A.E.	19,837	20,378	6,417	6,436	26,254	26,814
VARIATION 2001/2000 (%)	(2.7) %		(0.3) %		(2.1) %	

In June 2001 a new organizational model was introduced in the Company's passenger air transport area, tied to the creation of the "Iberia Holding Company", and the "Airline" management unit was created (grouping together what in 2000 were two areas: Iberia Marketing, Network and Scheduling and Iberia Operator).

As regards the Rejuvenation Plan included in the 2000/2003 Master Plan, in the period from January to September 2001 413 employee retirements were approved, bringing the total number of layoffs since the Plan was introduced in September 2000 to 869 (mostly early retirements), which surpassed the target set for 2001 year-end.

The employees, who already held 6.1% of the Company's capital stock, were offered the chance to participate, on advantageous terms, in the public offering of Iberia, L.A.E. shares in April 2001. For this purpose, a employee subtranche was created, representing 5.6% of the total number of shares offered. This subtranche was acquired in full.

Also, in 2001 IBERIA and the workers' representatives reached an agreement to give the employees access to the Company's capital stock through a stock option plan. The employees expressed their intention to purchase more than 68 million options, the exercise of which in the coming years will entitle the employees to acquire an equal number of shares at the offering price of € 1.19 each.

3.2.2. PRODUCTIVITY

The productivity of Iberia, L.A.E.'s labor force improved by 8% with respect to 2000 to 2.31 million ASKs per employee. Productivity in terms of block hours (BH) per crew member increased by 4.5% in the case of the pilots and dropped by 1.8% in the case of cabin crew, due mainly to the increase in long-haul flights, which require additional resources.

PRODUCTIVITY

	2001	2000	% VARIATION
TOTAL LABOR FORCE (MILLIONS OF ASKS PER EMPLOYEE)	2.31	2.14	7.9
TECHNICAL CREW (BH PER CREW MEMBER)	239.5	229.2	4.5
CABIN CREW (BH PER CREW MEMBER)	102.7	104.6	(1.8)

4. FINANCIAL PERFORMANCE

4.1. OPERATING RESULTS

The detail of Iberia, L.A.E.'s operating income statement for management accounting purposes, which differs from the audited statement of income because the revenue and expense items are aggregated using management accounting criteria, is as follows:

OPERATING INCOME		MILLIONS OF EUROS		
	2001	2000	VARIATION 01/00	% VARIATION
OPERATING REVENUES				
PASSENGER REVENUES	3,673.3	3,437.3	236.0	6.9
CARGO REVENUES	249.6	235.2	14.4	6.1
HANDLING	230.7	242.9	(12.2)	(5.0)
MAINTENANCE	94.5	117.5	(23.0)	(19.6)
SALES REVENUES	116.6	104.8	11.8	11.3
CATERING SALES	16.2	15.8	0.4	2.5
OTHER OPERATING REVENUES	200.9	163.8	37.1	22.6
	4,581.8	4,317.3	264.5	6.1
OPERATING EXPENSES				
PERSONNEL EXPENSES	1,294.3	1,270.6	23.7	1.9
FUEL	629.1	569.2	59.9	10.5
COMMISSIONS	514.0	508.9	5.1	1.0
AIRCRAFT LEASE EXPENSES	471.5	355.9	115.6	32.5
TRAFFIC SERVICES	416.4	367.2	49.2	13.4
AIRCRAFT MAINTENANCE	263.2	274.5	(11.3)	(4.1)
NAVIGATION CHARGES	214.1	195.7	18.4	9.4
PERIOD DEPRECIATION AND AMORTIZATION	163.5	158.9	4.6	2.9
BOOKING SYSTEMS	133.3	119.5	13.8	11.5
IN-FLIGHT SERVICES	111.8	110.8	1.0	0.9
OTHER OPERATING EXPENSES	395.4	349.7	45.7	13.1
	4,606.6	4,280.9	325.7	7.6
OPERATING INCOME (LOSS)	(24.8)	36.4	(61.2)	N/A

The main comments on the operating account are as follows:

4.1.1. OPERATING REVENUES

Operating revenues increased by 6.1% in 2001, due mainly to the rise in traffic revenues, which increased as a result of the growth in the medium- and long-haul flight networks and of the positive trend in the passenger yield in the domestic market and of the increase in the average cargo yield. The main variations are discussed below.

PASSENGER REVENUES

The difference in the passenger revenues between the figure shown in "Main Aggregates" and that included in "Traffic Revenues" (section 2.1.2., accompanying the production statistics) is due to the fact that the latter relates directly to the actual production for each year and does not reflect accounting adjustments and revaluations of the revenues derived from the unused ticket recovery process, which are included in the operating income statement.

The passenger revenues increased by € 236 million in 2001, the detail being as follows:

PASSENGER REVENUES						MILLIONS OF EUROS
	VARIATION IN PASSENGER REVENUES 01/00	REASONS FOR VARIATION			OTHER	VARIATION IN REVENUES PER BOOKS 01/00
		PRICE	VOLUME	PARITY		
DOMESTIC	46.3	49.7	(5.1)	1.7	-	-
EU	47.8	(19.7)	67.5	0.0	-	-
NON-EU	4.7	5.3	(1.8)	1.2	-	-
LONG-HAUL	80.3	20.8	38.6	20.9	-	-
IBERIA, L.A.E.	179.1	56.1	99.2	23.8	56.9	236.0

The difference due to volume was due to the 3.3% increase in demand in terms of RPKs. The average yield increased by 1.9% as a result of the satisfactory growth in the yield in the domestic (4%) and intercontinental (3.5%) markets and, in the latter case, partly due to the strength of the U.S. dollar. The variation due to the parity effect relates mainly to the average annual appreciation of 3.5% of the U.S. dollar with respect to 2000.

CARGO REVENUES

The cargo revenues were € 14.4 million (6.1%) higher than in 2000, due mainly to the 5.9% increase in the average yield, aided by the recovery of demand in the Mid and South Atlantic markets and by the appreciation of the U.S. dollar.

HANDLING REVENUES

The 5% drop in handling revenues was due to the 7.7% fall in handling services provided to third parties, measured in terms of weighted planes handled, which was not offset by the increase in the volume of planes handled for the Iberia Group (2.8%) and for Air Nostrum (8.7%). In the latter case, a portion of the increase was due to the acquisition of Binter Mediterráneo in the summer.

MAINTENANCE

In 2001 maintenance revenues fell by € 23 million (19.6%) with respect to 2000, due mainly to the decrease in technical assistance rendered to third parties by Iberia Maintenance, particularly in relation to work on engines and parts, as a result of the difficulties experienced by certain of the main customers (Aerolíneas Argentinas and Air Liberté). Accordingly, in June the Company terminated the related contracts.

SALES COMMISSIONS

The increase in the volume of business led to an increase of € 11.8 million (over 11%) in these revenues, due largely to the greater activity of Air Nostrum and to the rise in billings relating to third-party ticket sales, in particular through the **oneworld** alliance.

OTHER OPERATING REVENUES AND CATERING SALES

Catering sales grew moderately in 2001, but the other revenue items increased significantly (22.6%), with the following items experiencing the highest growth: other traffic revenues (commercial agreements); revenues from the use of booking systems; and aircraft lease revenues (including the lease through October of two B-747 aircraft to Air Atlanta).

"Other Operating Revenues" include "Adjustment of Traffic Revenues Not Allocable to Passenger Routes" and "Other Traffic Revenues", which are included under "Passenger Revenues" in the notes to financial statements. The aggregate balances of these accounts were € 17 million in 2001 and € 9.7 million in 2000.

Also, the "Other Operating Revenues" caption includes the balances of the "Adjustment of Traffic Revenues Not Allocable to Passenger Routes" and "Other Traffic Revenues" accounts relating to the cargo division, which in the notes to financial statements are included under "Cargo Revenues" and which totaled € 0.3 million in 2001 and -€ 1.8 million in 2000.

4.1.2. OPERATING EXPENSES

Operating expenses increased by 7.6% (€ 326 million) in 2001, due mainly to the higher passenger aircraft lease expenses as a result of the fleet renewal plan. Safety expenses, expenses relating to interrupted journeys and missed connections and, above all, aircraft insurance costs increased spectacularly as a result of the events of September 11. Fuel costs and traffic services also grew significantly. In contrast, other significant items such as personnel expenses or commercial expenses increased only slightly (by 1.9% and 1%, respectively).

PERSONNEL EXPENSES

Personnel expenses (wages, salaries, etc. and employee welfare expenses) increased by only 1.9% with respect to 2000, as a result of the measures taken to contain this significant expense item. These measures included most notably the moderate salary rise agreed on in the new collective labor agreements (actual CPI increase of 2.7% plus 0.5% for all groups of employees) and the control of employee numbers, despite the increased activity, which gave rise to an increase in the productivity of both ground personnel and pilots. As a result of this increase in activity, flight personnel per diems rose by € 7.8 million.

The average equivalent headcount of the ground staff was reduced by 2.3% with respect to 2000, and there were cutbacks in various expense items (per diems and premiums, overtime, and bonuses). Noteworthy as regards the technical crew, with a very similar average headcount to 2000, was the reduction in the cost of premiums. The personnel expenses of both groups of employees increased only very moderately (by 0.2% and 0.6%, respectively). However, cabin crew personnel expenses rose by 8.4%, due largely to the increase in the average headcount (8.3% with respect to 2000).

FUEL

Fuel expenses in 2001 were 10.5% (€ 60 million) higher than in 2000 for the following reasons: (I) increased production; (II) the high price in U.S. dollars of crude oil in the first three quarters of the year; and (III) the appreciation of the U.S. dollar. A notable saving was achieved as a result of the lower consumption due to the replacement of aircraft (the saving due to lower consumption in 2001 was € 28 million, as compared to only € 6.4 million in 2000). Also noteworthy was the expense reduction achieved by IBERIA through the fuel price hedging policy implemented in recent years, which made it possible to save € 34 million in this connection in 2001. The analysis of the variations is as follows:

ANALYSIS OF THE VARIATION ON FUEL COST		MILLIONS OF EUROS
PRICE		32.7
VOLUME		34.0
PARITY		21.2
CONSUMPTION		(28.0)
TOTAL		59.9

COMMERCIAL EXPENSES (COMMISSIONS, OVERCOMMISSIONS AND ADVERTISING)

In 2001 commercial expenses amounted to € 514 million, up only 1.0% on 2000, despite the 6.8% increase in traffic revenues. Net commercial costs (commercial expenses net of commercial revenues) fell by 1.7% with respect to the preceding year. Net commercial costs as a percentage of traffic revenues (passenger and cargo revenues) fell from 11% in 2000 to 10.1% in 2001, thereby meeting the target for 2001 set in this connection in the 2000/2003 Master Plan.

Almost 92% of the commercial expenses related to sales commissions and promotion and development expenses, which, as a whole, grew by only € 0.4%, in contrast to the 6.8% increase in traffic revenues. These costs continued to fall with respect to revenues, as a result of various commercial measures: increased use of new direct selling systems (iberia.com and Serviberia); extension of the system of fares net of commissions; and application of new systems for remunerating Spanish (Plan Valor 98) and European (Millennium) travel agencies.

Advertising and promotion expenses increased by € 3.3 million with respect to 2000, although they dropped by 17.5% with respect to the Annual Operating Plan for the year, due to the expense containment measures adopted in the latter part of 2001.

AIRCRAFT LEASE EXPENSES

The aircraft lease expenses, which include aircraft operating and wet lease expenses and the expenses incurred in the lease of cargo holds, increased by € 115.6 million in 2001. The main cause was a higher operating lease cost due to the new aircraft additions under the fleet renewal program. However, the lease expenses were 3.3% lower than budgeted, thanks in part to the progressive drop in interest rates during the year.

TRAFFIC SERVICE COSTS

Traffic services costs rose by € 49.2 million (13.4%) with respect to 2000, for two main reasons, namely the significant impact on unit prices of the new landing charge regulations in Spain, and the increase in the Company's activity of 3.4% in terms of the number of planes taking off. The combination of these two factors led to a € 29.7 million increase in landing charges with respect to 2000.

The greater activity also led other items to increase, such as the charges for the use of passenger loading bridges, and apron parking and other airport services (€ 5.6 million), aircraft dispatching (€ 4.2 million), catering equipment cleaning and handling (€ 1.8 million), and flight personnel accommodation costs (€ 3.1 million).

Also, the work-to-rule strikes by SEPLA in the first quarter and, in particular, the delays caused by the increased security measures at airports following September 11 were partially responsible for the increase of € 3.2 million in "non-quality costs" (interrupted journeys, missed connections, luggage delivery expenses, etc.) in 2001.

AIRCRAFT MAINTENANCE

Aircraft maintenance expenses (including outsourced maintenance, spare parts used and the provisions for major repairs) fell by 4,1% in 2001, as a result of the decrease in the operating costs of the new aircraft, in maintenance work performed for third parties and in the expense incurred in outsourcing aeronautical services due to the grounding or retirement of the aircraft on which the maintenance work was most outsourced (B767 and B737 aircraft leased from Air Europa under wet lease arrangements).

The unit cost of the aforementioned aircraft maintenance work fell by 11.0% from the previous year to 0.45 euro cents per ASK.

NAVIGATION CHARGES

There was an increase in air traffic control expenses of 9.4% (€ 18.4 million) in 2001, due to the increase in activity and, in particular, to the increase in 2001 in the prices charged by Eurocontrol. The rates paid by the airlines depend on the unit prices set each year, on the weight of the aircraft and on the length of each flight. At the beginning of 2001 Eurocontrol increased its reference unit prices by more than 10% for the Madrid, Barcelona and Canary Islands flight information regions with respect to those in force in 2000, although the price rises were lower in other European regions.

BOOKING SYSTEM AND IN-FLIGHT SERVICE COSTS

Booking system expenses increased by € 13.8 million in 2001, due mainly to the higher proportion of bookings per passenger and to the 6.6% increase in the prices charged by Amadeus.

In-flight service costs, which also depend on the volume of passenger traffic, increased only very slightly (by 0.9%) in 2001, thanks mainly to the cost-cutting measures adopted in connection with various items. The cost increases due to the increase in supply on international routes were offset by the drop in business traffic during the period.

OTHER OPERATING EXPENSES

These expenses include items such as rent and repair and upkeep services (other than those relating to aircraft); catering materials and other consumables; the variation in operating provisions; insurance; utilities and other communication costs; auxiliary services; etc. The aggregate balance of these expenses increased by € 45.7 million (13.1%) in 2001. The main increases were in aircraft insurance costs (up by more than € 19 million on 2000, due substantially in full to the terrorist attacks in September), and in security expenses (up € 3.7 million on 2000).

4.2. FINANCIAL AND EXTRAORDINARY RESULTS

Iberia, L.A.E. reported income after taxes of € 29.4 million 2001, a year characterized by numerous difficulties.

FINANCIAL AND EXTRAORDINARY RESULTS		MILLIONS OF EUROS		
	2001	2000	VARIATION 01/00	% VARIATION
OPERATING INCOME (LOSS)	(24.8)	36.4	(61.2)	N/A
FINANCIAL REVENUES	87.8	44.9	42.9	95.5
FINANCIAL EXPENSES	(49.7)	(73.9)	24.2	(32.7)
EXCHANGE GAINS	67.4	88.8	(21.4)	(24.1)
EXCHANGE LOSSES	(73.7)	(80.7)	7.0	(8.7)
FINANCIAL INCOME (LOSS)	31.8	(20.9)	52.7	N/A
EXTRAORDINARY REVENUES	61.4	471.6	(410.2)	(87.0)
EXTRAORDINARY EXPENSES	(187.9)	(302.1)	114.2	(37.8)
EXTRAORDINARY INCOME (LOSS)	(126.5)	169.5	(296.0)	N/A
NET INCOME BEFORE TAXES	(119.5)	185.0	(304.5)	N/A
TAXES	148.9	(5.6)	154.5	N/A
CONSOLIDATED INCOME AFTER TAXES	29.4	179.4	(150.0)	(83.6)

Iberia, L.A.E.'s financial earnings improved significantly in 2001 (€ 52.7 million up on 2000). Financial revenues increased by € 42.9 million, due to: (I) the rise in short-term financial investments; (II) the increase in dividends received from Group companies (€ 20.6 million in 2001, as compared with € 7.4 million in 2000); and (III), in part, to the gain obtained on the sale of the shares of Equant (€ 16 million). Financial expenses, which included the provision relating to the interest on the pension funds (€ 17.7 million in 2001, as compared with € 18.5 in 2000), decreased by € 24.2 million, largely as a result of the lower average indebtedness and the gradual drop in interest rates. The net effect of exchange differences worsened by € 14.4 million with respect to 2000, due mainly to the appreciation of the U.S. dollar against the euro and the decrease in value of the pound with respect to the euro.

In 2001 there was a notable reduction (€ 296 million) in extraordinary earnings with respect to 2000. As regards the extraordinary revenues, which fell by more than € 410 million in 2001, it should be noted that in 2000 Iberia, L.A.E. obtained extraordinary revenues of € 391.5 million from the sale of a portion of its holding in Amadeus GTD. In 2001 the extraordinary expenses amounted to € 187.9 million, and included a single payment to the employees as a result of the Company's privatization (€ 26.7 million distributed among all the groups of employees), and the provisions for probable sundry third-party liabilities, relating to all the risks that the Company's directors considered should be covered.

The lower corporate income tax expense partially cushioned this drop in extraordinary earnings. In preparing the 2000 financial statements, it was decided to apply the legal option of deferring over several years the taxation of the gain obtained on the aforementioned sale of Amadeus GTD shares. Subsequently, IBERIA used a portion of the prior years' tax losses to offset the full amount of the gain in the definitive corporate income tax settlement, since this was a better option than the deferral of the taxation. The net worth improvement arising from the adjustment of the corporate income tax for 2000 led to an increase in after-tax income of € 97 million in 2001.

4.3. INVESTMENTS

Most of the investment made by IBERIA in property, plant and equipment and intangible assets in 2001 relates to the plan to renew and standardize the fleet, and includes the advances on aircraft ordered from Airbus (A-320, A-321 and A340 aircraft) and the resulting exchange differences, the addition to the proprietary fleet of three A-320, two A-321 and two MD-87 planes, the changes made to the long-haul aircraft and other transactions relating to the aircraft. Also noteworthy were the payments made for rotatable and repairable parts, flight simulators, computer hardware, vehicles and airport equipment, machinery and installations.

Also, the Company's sales of property, plant and equipment and intangible assets include most notably those arising from transactions relating to aircraft, including the recovery of advances on Airbus aircraft, the sale of 19 Boeing aircraft (18 B-727 planes and 1 B-747 M plane) and the sale of nine Airbus A-320 aircraft under sale and lease-back transactions.

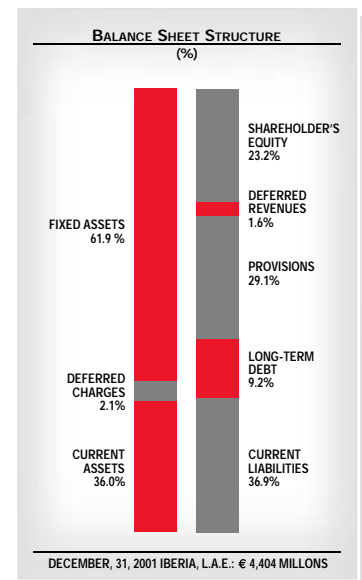
The financial investments related mainly to the loans to the "Iberbus" companies (which own the A-340 aircraft). Also noteworthy were the contributions made by Iberia, L.A.E. to the capital stock of the new e-commerce companies Cordiem (€ 2.3 million), Opodo (€ 2.3 million) and Adquira (€ 3.6 million).

The financial divestments included most notably the sale of the holdings in VIVA, Campos Velázquez and Binter Mediterráneo. This latter subsidiary was sold to Air Nostrum for € 4.43 million. The financial divestments also included the sale of the holding in Equant, the proceeds from which amounted to nearly € 16 million.

4.4. BALANCE SHEET

As of December 31, 2001, Iberia, L.A.E.'s equity amounted to € 1,023.5 million. Reserves increased by € 134.8 million with respect to 2000 year-end. In 2001 the Company paid a gross dividend of € 0.05 per share out of 2000 income, signifying that a total amount of € 44.83 million was allocated to shareholder remuneration.

The balance of the provisions for contingencies and expenses amounted to € 1,279.6 million at 2001 year-end. This figure includes: € 113.2 million of provisions for major aircraft repairs; € 499.3 million of provisions for pensions and other obligations to employees; and € 667.1 million of provisions for third-party liability. The balance increased by € 48 million in 2001, due to period provisions of € 216 million and the use of € 168 million.



The long-term debt decreased by almost € 309 million in 2001, due to the reduction of almost € 157 million in long-term deferred income taxes as a result of the aforementioned adjustment of the corporate income tax for 2000 and of the transfer to short term of long-term payables to credit entities. Current liabilities rose by € 354 million in 2001, due largely to the increase of nearly € 177 million in the balance of trade accounts payable, together with the aforementioned transfer of interest-bearing debt from long to short term.

Current assets (excluding treasury stock) also increased (by nearly € 263) with respect to 2000, due principally to the Company's higher volume of short-term financial investments.

The Company's net debt decreased significantly from -€ 30 million as of 2000 year-end to -€ 228 million as of December 31, 2001. In both years the short-term financial receivables exceeded the accounts payable to credit entities (including the interest on financial lease transactions).

4.5. OUTLOOK

The traffic statistics published each week by the Spanish Airline Association and the trend in bookings show a slight improvement in air traffic in recent weeks, following the slump after the events of September 11, although demand has not yet recovered to the levels of the preceding winter.

The main uncertainty surrounding the evolution of air traffic in the coming months appears to lie in the role that the economic cycle will play. The most probable scenario is that until the much-awaited upturn in the U.S. and European economies actually materializes, air traffic, above all in the business-class segment, will not return to the growth rates of prior years. The air transport industry still has several difficult months ahead.

However, IBERIA is one of the airlines best placed to face up to the present crisis in the air transport industry, because of both the market that it serves and its financial strength and the measures adopted.

IBERIA's strategic markets (Spain - Europe and Europe - Latin America) are expected to continue to perform better than most other regions. In addition, the effective and opportune measures adopted to respond to the new market situation (a cutback in production, the discontinuation of wet lease operations and the postponement of new aircraft additions, together with the reduction of other controllable costs through PRO.ICO and the Labor Force Reduction Plan) will contribute to a notable reduction in costs and increased profitability.

In short, the Iberia Group approaches 2002 with prudence as regards revenue generation and with stringent cost-cutting programs, in view of the uncertainties that still exist, but also with determination and optimism based on its production flexibility and financial strength.

5. IBERIA SHARES

5.1. SHARE PERFORMANCE

SHARE PERFORMANCE	IN EUROS
MARKET PRICE ON DECEMBER 28, 2001	1.10
AVERAGE ANNUAL MARKET PRICE	1.07
HIGH	1.21
LOW	0.76
AVERAGE DAILY TRADING VOLUME (Nº OF SHARES)	2,240,267



On April 3, 2001, the shares of Iberia, L.A.E. were admitted to listing on the Madrid Stock Exchange after SEPI sold 48.5% of the Company's capital stock through a public offering.

The market situation when the shares were placed was delicate. The offering was affected by the sharp drop in share market prices and by the negative trend in the air transport industry in the first quarter of 2001. Also, the work-to-rule strikes of IBERIA's pilots and the uncertainty surrounding the negotiation of the collective labor agreements stirred doubts in the minds of potential investors. Despite all this, the public offering was totally covered at a price of € 1.19 per share.

The performance of the Company's shares in the first few months of stock market trading was not positive, and until the end of June their performance was worse than that of those of other European airlines and the Spanish market. During this period, the share price reached its nadir in June, due to the strike staged by IBERIA's pilots, which ended in the obligatory arbitration imposed by the Council of Ministers (the related arbitral award was made on July 19).

The events of September 11 led to a worldwide collapse in share market prices, the effect of which on the air transport industry was particularly disastrous, although IBERIA was not as badly hit as its competitors, due mainly to its lower exposure to the worst-affected markets and its production flexibility. Accordingly, the share price ended the year at € 0.76, down 36% on the value at which the shares were floated.

The preparation of a consistent and credible plan to face up to the crisis and its rapid implementation were well-received by the markets and the share price started to climb. From November, the month in which the plan was unveiled, market analysts recommended that investors buy IBERIA shares. Consequently, in the last two months of the year IBERIA's shares performed better than those of its competitors, and even outperformed the IBEX 35 index in December.

5.2. TREASURY STOCK

On March 31, 2001, the Shareholders' Meeting authorized the Company's Board of Directors to acquire Company shares, in accordance with Article 75 of the Spanish Corporations Law.

Pursuant to this authorization, Iberia, L.A.E. acquired in 2001, and held as of December 31, 2001, 14,563,218 shares of treasury stock, representing 1.6% of its capital stock, the acquisition cost of which amounted more than € 15 million.

As of that date Iberia, L.A.E. had deposited 3,244 shares owned by the Company's employees, title to which had not yet been transferred. These shares are included in the figure in the preceding paragraph.

Iberia, L.A.E. recorded the mandatory reserve for treasury stock in its balance sheet as of December 31, 2001.



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GOVERNING BODIES

IBERIA
I B E R I A G R O U P

BOARD OF DIRECTORS OF IBERIA L.A.E.**CHAIRMAN AND CEO**

MR. XABIER DE IRALA ESTÉVEZ

VICE-CHAIRMAN

MR. MIGUEL BLESÁ DE LA PARRA

CHIEF OPERATING OFFICER

MR. ANGEL MULLOR PARRONDO

MEMBERS

MR. JOSÉ MARÍA ABRIL PÉREZ

MR. FERNANDO CONTE GARCÍA

LORD GAREL-JONES

MR. PABLO ISLA ALVAREZ DE TEJERA

MR. ANTONIO MASA GODOY

MR. ROGER PAUL MAYNARD

MR. JOSÉ PEDRO PÉREZ-LLORCA

MR. JORGE PONT SÁNCHEZ

MR. JOSÉ B. TERCEIRO LOMBA

SECRETARY

MS. LOURDES MÁIZ CARRO

MEMBERS OF COMMITTEES AS OF DECEMBER 31, 2001

EXECUTIVE COMMITTEE

MR. XABIER DE IRALA ESTEVEZ (PRESIDENT)

MR. MIGUEL BLESAS DE LA PARRA

MR. ROGER PAUL MAYNARD

MR. ANGEL MULLOR PARRONDO

MR. JOSÉ B. TERCEIRO LOMBA

MR. JOSÉ MARÍA ABRIL PÉREZ

APPOINTMENTS AND REMUNERATION COMMITTEE

MR. PABLO ISLA ALVAREZ DE TEJERA (PRESIDENT)

MR. FERNANDO CONTE GARCÍA

MR. JORGE PONT SÁNCHEZ

AUDIT AND FULLFILMENT COMMITTEE

MR. ANTONIO MASA GODOY (PRESIDENT)

LORD GAREL-JONES

MR. JOSÉ PEDRO PÉREZ-LLORCA

SAFETY COMMITTEE

MR. JOSÉ PEDRO PÉREZ-LLORCA (PRESIDENT)

MR. ROGER PAUL MAYNARD

MR. ANGEL MULLOR PARRONDO

MANAGEMENT BOARD

CHAIRMAN AND CEO

MR. XABIER DE IRALA ESTÉVEZ

MEMBERS

MR. ANGEL MULLOR PARRONDO
CHIEF OPERATING OFFICER

MR. ENRIQUE DONAIRE RODRÍGUEZ
GENERAL DIRECTOR OF THE AIRLINE

MR. VICENTE AGUILERA RIBOTA
IN-FLIGHT SERVICES MANAGER

MR. MARTÍN CUESTA VIVAR
ORGANISATION AND HUMAN RESOURCES MANAGER

MR. LUIS DÍAZ GÜELL
CORPORATE COMMUNICATIONS MANAGER

MR. ENRIQUE DUPUY DE LÔME CHAVARRI
FINANCIAL MANAGER

MR. JOSÉ MARÍA FARIZA BATANERO
CONTROL AND ADMINISTRATION MANAGER

MR. MANUEL LÓPEZ COLMENAREJO
COMMERCIAL MANAGER

MR. JUAN LOSA MONTAÑÉS
GENERAL MANAGER FOR IMPROVEMENT, INVESTMENT
AND COST REDUCTION PROJET

MR. SALVADOR MAGALLÓ MARTÍNEZ
BUSINESS MANAGER

MS. LOURDES MÁIZ CARRO
LEGAL AFFAIRS MANAGER AND BOARD SECRETARY

MR. ENRIQUE PÉREZ DE VILLAAMIL SIERRA
OPERATIONS MANAGER

MR. GUILLERMO SERRANO ENTRAMBASAGUAS
DEPUTY MANAGER

MR. SERGIO TURRIÓN BARBADO
INDUSTRIAL RELATIONS MANAGER

**AGENDA FOR ORDINARY AND EXTRAORDINARY GENERAL SHAREHOLDERS MEETING
OF IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A., TO BE HELD ON
5TH JUNE (FIRST SUMMONS) OR 6TH JUNE 6 , 2002 (SECOND SUMMONS)**

1

To examine and approve, if appropriate, the Annual Accounts and Management Report of IBERIA, L.A.E. and of its Consolidated Group of Companies, along with the proposal for the application of results, and the performance of the Board of directors, corresponding to fiscal year 2001.

2

Re-election of the Accounts Auditor of the Company and its Consolidated Group of Companies for fiscal year 2002.

3

Ratification and re-election of Board Members.

4

Modification of Company Bylaw no. 47 (retribution).

5

Approval of the maximum aggregate retribution of Board Members.

6

To approve, in accordance with Article 130 and the 4th Additional Provision of the Companies Law, as written in Law 55 of 29th December, 1999, the application of a medium-term retribution system for Executive Administrators and certain managers and other structural personnel of the IBERIA Group ("Options Plan"), consisting in the granting of Company stock options which will be implemented via the previous acquisition and immediate and automatic conversion of convertible debentures.

7

To approve the issue of debentures convertible into shares of IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A., excluding the preferential subscription rights held by current shareholders and holders of convertible debentures, the nominal value of such convertible debentures being the average closing price of Company shares in the sixty days previous to the summons of the Ordinary and Extraordinary General Shareholders Meeting, and the issue will be at par. Approval of a capital issue and the delegation of powers to the Board of Directors to execute in the amount needed to cover requests for conversion of debentures that are issued, the conversion rate being one share for each debenture.

8

To authorise the Board of Directors to derivatively acquire shares in IBERIA, L.A.E., directly or through controlled companies, within 18 months of the agreement of the Meeting, leaving null and void the authorisation agreed upon at the Ordinary and Extraordinary General Shareholders Meeting held on 31st March, 2001.

9

Delegation of powers to the Board of Directors whereby it may replace, formalise, correct, register, perfect and execute the resolutions adopted.

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Translation of a report and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22).
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 DEPENDENT COMPANIES comprising the consolidated balance sheet as of December 31, 2001, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Controlling Company'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, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made. In connection with the dependent and associated companies, in which Iberia, Líneas Aéreas de España, S.A. has the percentages of ownership disclosed in Notes 2 and 3 to the consolidated financial statements, our work included an examination of the financial statements of Vuelos Internacionales de Vacaciones, S.A. The financial statements of the other companies, whose assets, net income and equity represent approximately 3.04%, 79.24% and 5.38%, respectively, of the related consolidated figures for 2001, were examined by other auditors and our professional opinion is based, with respect to these companies, only on the reports of the other auditors.

For comparison purposes the Controlling Company's directors present, in addition to the 2001 figures for each item in the consolidated balance sheet and consolidated statement of income, the figures for 2000. Our opinion refers only to the 2001 consolidated financial statements. Our auditors' report dated March 12, 2001, on the 2000 consolidated financial statements contained an unqualified opinion.

In our opinion, based on our audit and on the reports of other auditors, the 2001 consolidated financial statements referred to above present, in all material respects, a true and fair view of the net worth and financial position of Iberia, Líneas Aéreas de España, S.A. and Dependent Companies as of December 31, 2001, and of the results of their operations in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

The accompanying consolidated management report for 2001 contains the explanations which the Controlling Company'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 management report is consistent with that contained in the consolidated financial statements for 2001. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the companies' accounting records.

ARTHUR ANDERSEN


Luis de la Mora

April 18, 2002

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IBERIA

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2000.
CONSOLIDATED STATEMENTS OF INCOME FOR 2001 AND 2000.

TRANSLATION OF A REPORT AND CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH
AND PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN SPAIN (SEE NOTE 22).

IN THE EVENT OF A DISCREPANCY, THE SPANISH-LANGUAGE VERSION PREVAILS.

IBERIA
I B E R I A G R O U P

ASSETS	THOUSANDS OF EUROS	
	2001	2000
FIXED AND OTHER NONCURRENT ASSETS:		
START-UP EXPENSES (NOTE 6-C)	583	1,497
INTANGIBLE ASSETS (NOTE 7)	397,561	427,181
PROPERTY, PLANT AND EQUIPMENT (NOTE 8)	1,548,342	1,701,561
AIRCRAFT:		
COST	2,517,225	2,755,436
ACCUMULATED DEPRECIATION AND PROVISIONS	(1,391,586)	(1,466,842)
	1,125,639	1,288,594
OTHER TANGIBLE FIXED ASSETS:		
COST	1,070,415	1,041,031
ACCUMULATED DEPRECIATION AND PROVISIONS	(647,712)	(628,064)
	422,703	412,967
LONG-TERM FINANCIAL INVESTMENTS	427,354	755,896
HOLDING IN COMPANIES CARRIED BY THE EQUITY METHOD (NOTE 9)	94,608	81,683
LOANS TO COMPANIES CARRIED BY THE EQUITY METHOD (NOTE 9)	25,623	25,623
LONG-TERM INVESTMENT SECURITIES (NOTE 9)	112,518	105,584
OTHER LONG-TERM RECEIVABLES (NOTE 9)	265,580	613,884
PROVISIONS (NOTE 9)	(70,975)	(70,878)
LONG-TERM RECEIVABLES (NOTE 18)	377,434	-
TOTAL FIXED AND OTHER NONCURRENT ASSETS	2,751,274	2,886,135
GOODWILL IN CONSOLIDATION (NOTE 11)	111,324	117,937
DEFERRED CHARGES (NOTE 7)	94,738	115,219
CURRENT ASSETS:		
SHARES OF THE CONTROLLING COMPANY (NOTE 10)	15,070	-
INVENTORIES	95,052	101,270
ACCOUNTS RECEIVABLE	562,480	535,309
SHORT-TERM FINANCIAL INVESTMENTS (NOTE 12)	938,953	710,871
CASH	20,584	8,812
ACCRUAL ACCOUNTS	42,714	35,528
TOTAL CURRENT ASSETS	1,674,853	1,391,790
TOTAL ASSETS	4,632,189	4,511,081

SHAREHOLDERS' EQUITY AND LIABILITIES

THOUSANDS OF EUROS

	2001	2000
SHAREHOLDERS' EQUITY (NOTE 13):		
CAPITAL STOCK	712,110	712,110
ADDITIONAL PAID-IN CAPITAL	96,454	96,454
DIFFERENCES DUE TO THE ADJUSTMENT OF CAPITAL STOCK TO EUROS	1,201	1,201
RESERVES OF THE CONTROLLING COMPANY	184,333	49,552
LEGAL RESERVE	58,415	40,474
MERGER RESERVE	165	165
REVALUATION RESERVE	38	38
RESERVE FOR TREASURY STOCK	15,070	-
VOLUNTARY RESERVES	110,645	8,875
RESERVES AT COMPANIES CONSOLIDATED BY THE LOGAL INTEGRATION METHOD	69,409	66,496
RESERVES AT COMPANIES CARRIED BY THE EQUITY METHOD	55,970	37,106
INCOME ATTRIBUTABLE TO THE CONTROLLING COMPANY (NOTE 20)	50,189	201,183
CONSOLIDATED INCOME FOR THE YEAR	53,138	203,833
INCOME ATTRIBUTED TO MINORITY INTEREST (NOTES 14 AND 20)	(2,949)	(2,650)
TOTAL SHAREHOLDERS' EQUITY	1,169,666	1,164,102
MINORITY INTERESTS (NOTE 14)	9,095	7,104
NEGATIVE GOODWILL IN CONSOLIDATION (NOTE 11)	-	595
DEFERRED REVENUES	69,259	39,275
PROVISIONS FOR CONTINGENCIES AND EXPENSES (NOTE 15)	1,298,072	1,247,524
LONG-TERM DEBT:		
PAYABLE TO CREDIT ENTITIES (NOTE 16)	415,616	573,699
OTHER ACCOUNTS PAYABLE (NOTE 18)	24,607	182,388
	440,223	756,087
CURRENT LIABILITIES:		
PAYABLE TO CREDIT ENTITIES (NOTE 16)	300,898	128,324
CUSTOMER ADVANCES	396,737	298,361
PAYABLES FOR PURCHASES AND SERVICES	653,308	582,957
OTHER NONTRADE PAYABLES (NOTE 18)	178,295	163,776
COMPENSATION PAYABLE	111,756	113,724
ACCRUAL ACCOUNTS	4,880	9,252
TOTAL CURRENT LIABILITIES	1,645,874	1,296,394
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,632,189	4,511,081

Translation of a report and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

The accompanying Notes 1 to 22 are an integral part of the consolidated balance sheet as of December 31, 2001.

DEBIT	THOUSANDS OF EUROS	
	2001	2000
EXPENSES:		
PURCHASES (NOTE 19)	847,296	778,810
PERSONNEL EXPENSES (NOTE 19)	1,361,188	1,337,348
PERIOD DEPRECIATION AND AMORTIZATION	173,365	171,733
VARIATION IN OPERATING PROVISIONS	8,885	4,447
OTHER OPERATING EXPENSES (NOTE 19)	2,342,634	2,129,266
	4,733,368	4,421,604
OPERATING INCOME	4,880	65,781
FINANCIAL AND SIMILAR EXPENSES	52,054	69,778
VARIATION IN FINANCIAL INVESTMENT PROVISIONS	-	7,200
EXCHANGE LOSSES	73,876	81,262
	125,930	158,240
FINANCIAL INCOME	10,382	-
SHARE IN LOSSES OF COMPANIES CARRIED BY THE EQUITY METHOD (NOTE 9)	2,708	1,010
AMORTIZATION OF GOODWILL IN CONSOLIDATION	6,613	6,613
INCOME FROM ORDINARY ACTIVITIES	31,464	63,057
LOSSES ON FIXED ASSETS (NOTES 8 AND 9)	10,981	15,686
VARIATION IN FIXED ASSET PROVISIONS	119	-
EXTRAORDINARY EXPENSES (NOTES 8, 9, 15 AND 19)	169,366	284,663
PRIOR YEARS' EXPENSES AND LOSSES	4,938	3,527
	185,404	303,876
EXTRAORDINARY INCOME	-	158,314
CONSOLIDATED INCOME BEFORE TAXES	-	221,371
CORPORATE INCOME TAX (NOTE 18)	(138,370)	17,538
CONSOLIDATED INCOME FOR THE YEAR	53,138	203,833
INCOME ATTRIBUTED TO MINORITY INTERESTS (NOTES 14 AND 20)	2,949	2,650
INCOME FOR THE YEAR ATTRIBUTED TO THE CONTROLLING COMPANY	50,189	201,183

CREDIT

THOUSANDS OF EUROS

	2001	2000
REVENUES:		
NET SALES (NOTE 19)	4,515,063	4,296,792
OTHER OPERATING REVENUES (NOTE 19)	223,185	190,593
	4,738,248	4,487,385
REVENUES FROM SHAREHOLDINGS	28	72
REVENUES FROM OTHER MARKETABLE SECURITIES (NOTE 9)	16,236	-
OTHER INTEREST AND SIMILAR REVENUES	52,221	38,092
EXCHANGE GAINS	67,827	90,987
	136,312	129,151
FINANCIAL LOSS	-	29,089
SHARE IN THE INCOME OF COMPANIES CARRIED BY THE EQUITY METHOD (NOTE 9)	24,928	32,978
REVERSAL OF NEGATIVE GOODWILL IN CONSOLIDATION (NOTE 6-a)	595	1,010
GAINS ON FIXED ASSET DISPOSALS (NOTES 2, 8 AND 9)	27,345	377,502
EXTRAORDINARY REVENUES (NOTE 19)	32,781	49,373
PRIOR YEARS' REVENUES AND INCOME	8,582	35,315
	68,708	462,190
EXTRAORDINARY LOSS	116,696	-
CONSOLIDATED LOSS BEFORE TAXES	85,232	-

Translation of a report and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

The accompanying Notes 1 to 22 are an integral part of the consolidated statement of income for 2001.

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NOTES TO 2001 CONSOLIDATED FINANCIAL STATEMENTS

TRANSLATION OF A REPORT AND CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH
AND PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN SPAIN (SEE NOTE 22).
IN THE EVENT OF A DISCREPANCY, THE SPANISH-LANGUAGE VERSION PREVAILS.

IBERIA
I B E R I A G R O U P

1. DESCRIPTION OF THE CONTROLLING COMPANY AND OF THE GROUP

Iberia, Líneas Aéreas de España, S.A. engages in the air transport of passengers and cargo and also carries on other activities related to its core business.

As a carrier of passengers and cargo, the Company operates through a large network serving three major markets: Spain, Europe and the Americas. As regards international traffic, in countries with which bilateral agreements have been entered into designating a single company as the operator, Iberia, Líneas Aéreas de España, S.A. is the operator designated by the Spanish party.

As part of the activities related to the core business, mention should be made of the Iberia, Líneas de Aéreas de España, S.A.'s activities as a handling agent, its maintenance activity and its special positioning in distribution systems.

As regards the handling activity, it should be noted that in 1992, after a public call for tenders, Ente Público de Aeropuertos Españoles y Navegación Aérea (AENA) -the Spanish public airports and aviation agency- awarded Iberia, Líneas Aéreas de España, S.A. a contract for the provision of handling services as the first operator in Spain from April 1, 1993, to April 1, 2000. In April 2001 AENA extended this contract through March 26, 2003.

Iberia, Líneas Aéreas de España, S.A. performs a significant portion of its own maintenance work and provides technical assistance to various companies, mainly through its maintenance center in Barajas, Madrid.

As regards the distribution system, Iberia, Líneas Aéreas de España, S.A. is a partner of the Amadeus Group, which owns the Amadeus central booking system. This investment enables Iberia, Líneas Aéreas de España, S.A. to be present in an industry with enormous economic and growth potential, characterized by its significant technological content.

Iberia, Líneas Aéreas de España, S.A. is a fully-fledged member of the oneworld alliance, one of the two largest air transport groups in the world, which facilitates the globalization of its air transport business.

In the first few months of 2000 Group management designed the 2000-2003 Master Plan containing the definition and scope of the actions to be taken during that period in order to successfully achieve the following strategic objectives:

- To strengthen the Group's leadership in its main markets.
- To improve quality and relations with customers, especially the most frequent fliers.
- To lead the development of new technologies in the industry.
- To forge and develop alliances.
- To give each business line autonomy in order to improve competitiveness.
- To use the available assets efficiently.
- To reduce unit costs and increase productivity.
- To reduce the cost of capital by controlling operating and financial risks.
- To strengthen the competitiveness of the Group's employees.
- To adapt planning and monitoring processes to value management.

This Plan, whose strategic objectives remain unchanged, has been affected by the crisis in the air transport industry triggered by the events of September 11 and the measures adopted by Iberia Group management in the last few months of 2001.

Translation of reports and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

In April 2001 Sociedad Estatal de Participaciones Industriales (SEPI), the majority shareholder of Iberia, Líneas Aéreas de España, S.A. as of December 31, 2000, launched a public offering of all the shares of Iberia, Líneas Aéreas de España, S.A. that it owned as of that date, i.e. 492,125,262 shares representing 53.90% of the capital stock, for € 1.19 per share.

As required by Article 107 of Corporate Income Tax Law 43/1995 dated December 27, it is hereby stated that the information on the merger of Iberia, Líneas Aéreas de España, S.A. with Aviación y Comercio, S.A. was disclosed in Note 22 to the consolidated financial statements for 2000.

2. DEPENDENT COMPANIES

The data on the dependent companies are as follows:

DEPENDENT COMPANIES PERCENTAGE OF DIRECT AND INDIRECT OWNERSHIP BY IBERIA, LINEAS AÉREAS DE ESPAÑA, S.A.			
COMPANY	ADDRESS	LINE OF BUSINESS	%
VIVA VUELOS INTERNAC. DE VACACIONES, S.A.	CAMINO DE LA ESCOLLERA, 5 PALMA DE MALLORCA	AIRCRAFT MAINTENANCE	99.47 (a)
CAMPOS VELÁZQUEZ, S.A.	VELÁZQUEZ, 134 - MADRID	ACQUISITION AND OWNERSHIP OF URBAN PROPERTIES (b)	100.00 (a)
BINTER CANARIAS, S.A.	LAS PALMAS AIRPORT	AIR TRANSPORT OF PASSENGERS AND CARGO IN THE CANARY ISLANDS	100.00
CARGOSUR, S.A.	VELÁZQUEZ, 130 - MADRID	AIR TRANSPORT OF CARGO (b)	100.00
IBER-SWISS CATERING, S.A.	CTRA. DE LA MUÑOZA, S/N MADRID	PREPARATION AND MARKETING OF FOOD AND OTHER SERVICES FOR AIRCRAFT	70.00
SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJE, S.A. (SAVIA)	VELÁZQUEZ, 130 MADRID	COMPUTER SERVICES APPLICABLE TO THE TRAVEL AND TOURISM INDUSTRIES	75.49 (c)
COMPANÍA AUXILIARAL CARGO EXPRES, S.A. (CACESA)	CENTRO DE CARGA AÉREA PARCELA 2 P5 NAVE 6 MADRID	TRANSPORT OF CARGO	75.00

(a) In 2001 Iberia, Líneas Aéreas de España, S.A. sold its holdings in VIVA Vuelos Internacionales de Vacaciones, S.A. and Campos Velázquez, S.A. to the dependent company Compañía de Explotación de Aviones Cargueros Cargo Sur, S.A., and, accordingly, Iberia, Líneas Aéreas de España, S.A. has an indirect holding in those companies.

(b) Inactive in 2001.

(c) The dividend rights conferred by this holding amount to 72.22%, which was the percentage used in consolidation, and which includes the 66% holding owned directly by Iberia, Líneas Aéreas de España, S.A. and the 6.22% holding owned indirectly through the Amadeus Group.

All the foregoing companies were consolidated by the global integration method in 2001 and their fiscal year ends on December 31.

BINTER MEDITERRÁNEO, S.A.

On October 2, 2001, Iberia, Líneas Aéreas de España, S.A. and Cargosur, S.A. sold their holdings (totaling 100% of the capital stock) in Binter Mediterráneo, S.A., a company which had formed part of the scope of consolidation of the Iberia Group as of December 31, 2000. The financial statements used as the basis for the sale were those as of December 31, 2000. The sale, which amounted to € 4,430 thousand, gave rise to a gain of € 3,047 thousand, and this amount is recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying consolidated statement of income for 2001.

3. ASSOCIATED COMPANIES

The fiscal years of the associated companies consolidated in the Iberia Group in 2001 end on December 31. The data on these companies, all of which are carried by the equity method, are as follows:

ASSOCIATED COMPANIES PERCENTAGE OF DIRECT AND INDIRECT OWNERSHIP BY IBERIA, LINEAS AEREAS DE ESPAÑA, S.A.			
COMPANY	ADDRESS	LINE OF BUSINESS	%
VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A. (VIASA)	OSCAR M. ZULOAGA, S/N CARACAS, VENEZUELA	AIR TRANSPORT OF PASSENGERS AND CARGO	45.00
AMADEUS GROUP	SALVADOR DE MADARIAGA, 1 MADRID	MANAGEMENT AND OPERATION OF A COMPUTERIZED BOOKING SYSTEM	27.92 (a)
TOUROPERADOR VIVA TOURS, S.A.	EDIFICIO BARAJAS 1 TRESPADERNE, 29 - MADRID	MANAGEMENT OF PACKAGE TOURS	49.04

(a) The dividend rights relating to this holding amount to 18.28%, which is the percentage used in consolidation.

The net worth data of the Amadeus Group and of Touroperador Viva Tours, S.A. were drawn from their respective unaudited provisional financial statements as of December 31, 2001.

VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A.

Venezolana Internacional de Aviación, S.A.'s operations were discontinued in January 1997 and in March 1997 the company filed for "suspensión de pagos" (Chapter 11-type insolvency proceedings) and the process of liquidation commenced. At the date of preparation of these consolidated financial statements, it had not been possible to obtain any recent financial statements relating to this company. The accompanying consolidated balance sheet as of December 31, 2001, includes an allowance for the risks relating to this holding.

AMADEUS GROUP

The Amadeus Group, whose corporate purpose consists of the management and operation of a computerized booking system, comprises Amadeus Global Travel Distribution, S.A. (the parent company) and its investees.

4. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

A) TRUE AND FAIR VIEW

The 2001 consolidated financial statements were prepared from the accounting records of Iberia, Líneas Aéreas de España, S.A. and of its subsidiaries (as detailed in Notes 2 and 3), which include, in the case of certain companies, the effects of the revaluation made pursuant to Royal Decree-Law 7/1996, and, accordingly, give a true and fair view of the consolidated net worth, financial position and consolidated results of operations for 2001.

The financial statements of the Spanish subsidiaries consolidated by the global integration method were prepared by each company's directors in accordance with the Spanish National Chart of Accounts.

The Amadeus Group and Touroperador Viva Tours, S.A. were consolidated on the basis of their provisional financial statements as of December 31, 2001, before the issuance of the related auditors' reports.

As a result of the situation of Venezolana Internacional de Aviación, S.A. (see Note 9) and because recent financial statements were not available, this company was consolidated on the basis of its latest available provisional financial statements.

The 2001 consolidated financial statements, which were prepared by the directors of Iberia, Líneas Aéreas de España, S.A., will be submitted for approval by the Shareholders' Meeting, and it is considered that they will be approved without any changes.

B) COMPARATIVE INFORMATION

2001 is the first year for which the Iberia Group presents its consolidated financial statements in thousands of euros. Pursuant to Article 2 of Royal Decree 2814/1998 approving the regulations on the accounting aspects of the introduction of the euro, the figures in these consolidated financial statements were translated to euros at the irrevocable conversion rate of € 1/Ptas. 166.386, applying the stipulated rounding off.

As a result of the deconsolidation in 2001 of Binter Mediterráneo, S.A. due to its sale, effective January 1, 2001, in certain tables included in these notes to consolidated financial statements disclosing the variations in 2001, the "Sale of Companies" column shows the effect of the elimination of the balances contributed by Binter Mediterráneo, S.A. to consolidation in 2000.

C) CONSOLIDATION PRINCIPLES

The companies over which there is effective control were consolidated by the global integration method. The Controlling Company and the companies consolidated by the global integration method constitute the "consolidable Group".

The associated companies in which the Controlling Company has a significant influence on management but does not have majority voting rights and does not manage them jointly with third parties are carried by the equity method.

The companies composing the consolidable Group and those carried by the equity method constitute the Iberia Group.

The equity of minority interests in the net worth and results of the consolidated subsidiaries is reflected under the "Minority Interests" caption on the liability side of the consolidated balance sheet. Also, the equity of minority interests in the results of the aforementioned consolidated subsidiaries is reflected under the "Income Attributed to Minority Interests" caption in the consolidated statement of income.

All material accounts and transactions between companies consolidated by the global integration method were eliminated in consolidation.

5. DISTRIBUTION OF THE CONTROLLING COMPANY'S INCOME

The directors of Iberia, Líneas Aéreas de España, S.A. propose the following distribution of 2001 income:

DISTRIBUTION OF THE CONTROLLING COMPANY'S INCOME	THOUSANDS OF EUROS
TO LEGAL RESERVE	2,937
TO VOLUNTARY RESERVES	17,304
DIVIDENDS	9,130
INCOME FOR THE YEAR	29,371

6. VALUATION STANDARDS

The main valuation methods applied in preparing the consolidated financial statements for 2001, in accordance with the Spanish National Chart of Accounts, were as follows:

A) GOODWILL IN CONSOLIDATION AND NEGATIVE GOODWILL IN CONSOLIDATION

GOODWILL

Goodwill was calculated as the positive difference between the additional investment made in Aviación y Comercio, S.A. by Iberia, Líneas Aéreas de España, S.A. and the underlying book value of the holding per the balance sheet used as the basis for the acquisition.

The balance of the "Goodwill in Consolidation" caption in the accompanying consolidated balance sheet as of December 31, 2001, relates in full to amounts that cannot be assigned to assets and is being amortized on a straight-line basis over 20 years (see Note 11). The directors of Iberia, Líneas Aéreas de España, S.A. set this amortization period in accordance with Law 37/1999 amending Article 194 of the Corporations Law because they considered that this is the period in which the goodwill will contribute to the obtainment of income by the Group.

NEGATIVE GOODWILL

The negative goodwill in consolidation was calculated as the negative difference between the investment made in Touroperador Viva Tours, S.A. by Iberia, Líneas Aéreas de España, S.A. and the underlying book value of the holding per the balance sheet used as the basis for the acquisition.

The negative goodwill in the accompanying consolidated balance sheet as of December 31, 2000, was treated as a provision for contingencies and expenses and was allocated to income as the contingencies and expenses materialized or as the projected losses were recognized (see Note 11).

B) UNIFORMITY OF PRESENTATION

The main valuation principles and standards used by Iberia, Líneas Aéreas de España, S.A. were applied to all the consolidated companies and to the associated companies so as to ensure uniform presentation of the items composing the consolidated financial statements.

C) START-UP EXPENSES

These expenses consist basically of public deed execution and registration expenses relating to capital increases, and are amortized at an annual rate of 20%.

€ 914 thousand of amortization of start-up expenses were charged to the 2001 consolidated statement of income.

D) INTANGIBLE ASSETS

Leased assets are recorded as intangible assets at the cost of the related item, excluding the related interest expenses, and are amortized by the same methods as those used to depreciate similar items of property, plant and equipment. The total debt for lease payments plus the amount of the purchase option is recorded as a liability. The difference between the two amounts, which represents the interest expenses on the transaction, is recorded under the "Deferred Charges" caption in the accompanying consolidated balance sheet and is allocated to income each year by the interest method.

In prior years Iberia, Líneas Aéreas de España, S.A. modified the net book value of certain of its leased aircraft pursuant to a Ministry of Economy and Finance Order (see Note 6-j).

Since the Controlling Company did not lease any aircraft in currencies other than the peseta or the euro in 2001 or in any of the four preceding years, no modification pursuant to this Order was made to the net book value of any aircraft in 2001.

Computer software is recorded at cost and is amortized on a straight-line basis over an estimated useful life of five years.

Intellectual property is carried at cost and is amortized on a straight-line basis over an estimated useful life of ten years.

E) PROPERTY, PLANT AND EQUIPMENT

The valuation methods applied by the consolidable Group are basically as follows:

1. AIRCRAFT:

Aircraft are carried at cost revalued pursuant to the applicable enabling legislation, including Royal Decree-Law 7/1996, except for certain aircraft, the cost of which was not revalued because it was modified pursuant to the provisions of a Ministry of Economy and Finance Order (see Note 6-j).

2. OTHER TANGIBLE FIXED ASSETS:

The tangible fixed assets recorded under the "Other Tangible Fixed Assets" caption in the consolidated balance sheet are carried at cost revalued pursuant to the applicable enabling legislation, including Royal Decree-Law 7/1996.

3. REPAIRS, UPKEEP AND MAINTENANCE:

The consolidable Group companies record a provision for the periodic major repairs of the fuselages of their aircraft (basically B-747, B-757, A-300, A-319, A-320, A-321, A-340 and ATR-72 aircraft), based on the total estimated cost to be incurred, and allocate this cost to income on a straight-line basis during the period elapsing between two successive major repairs. The balance of this provision is reflected under the "Provisions for Contingencies and Expenses - Provision for Major Repairs" caption in the consolidated balance sheet (see Note 15).

The costs of repairs of engines and of minor repairs to the aforementioned types of aircraft and of all repairs to the MD-87 and MD-88 aircraft are expensed currently, since the annual expenses tend to be uniform.

The Group does not record provisions for major repairs to the DC-10 aircraft because these aircraft are grounded and ready for sale.

Upkeep and maintenance expenses are expensed currently.

F) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

The consolidable Group companies depreciate their property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life.

The methods applied to calculate the depreciation of the main items of property, plant and equipment are as follows:

1. AIRCRAFT:

The depreciable cost of the aircraft is equal to their book value less the estimated residual value at the end of their useful lives. The residual value ranges from 10% to 20%, depending on the aircraft.

2. AIRCRAFT SPARE PARTS:

Spare parts for aircraft maintenance are depreciated, depending on the type of part, as follows:

a. Rotatable parts

These parts are depreciated over a period ranging from 10 to 18 years from the date of purchase, assuming a residual value of between 10% and 20%, depending on the type of aircraft.

b. Repairable parts

These parts are depreciated in a period ranging from eight to ten years, depending on the aircraft, from the date of purchase, assuming a residual value of 10% in all cases.

The Companies also record provisions for diminution in value of spare parts due to obsolescence.

3. YEARS OF ESTIMATED USEFUL LIFE:

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

YEARS OF ESTIMATED USEFUL LIFE	
	YEARS
AIRCRAFT	16 - 18 (a)
BUILDINGS AND OTHER STRUCTURES	20 - 50
MACHINERY, INSTALLATIONS AND TOOLS	10 - 15
TRANSPORT EQUIPMENT	7 - 10
FURNITURE AND FIXTURES	10
COMPUTER HARDWARE	5 - 7
SPARE PARTS	8 - 18
FLIGHTS SIMULATORS	10 - 14

(a) The used aircraft acquired by the Group are depreciated over a period shorter than their estimated useful life based on accounting criteria.

The buildings and facilities built on land owned by the Spanish State, mostly at Spanish airports, with an aggregate net book value of € 27,862 thousand as of December 31, 2001, are depreciated over the respective concession periods.

Depreciation is taken on the net amount of tangible fixed asset revaluations from the date they are recorded, using the same useful life periods as for the cost values.

G) SHAREHOLDINGS AND OTHER FINANCIAL INVESTMENTS

SHAREHOLDINGS

Investments in nonconsolidated companies are carried at cost net, where appropriate, of the required provisions for diminution in value (excess of cost over fair value at year-end).

SHORT-TERM FINANCIAL INVESTMENTS

Investments in time deposits are recorded at the amount delivered. The interest on these transactions is credited to the consolidated statement of income when earned and is charged through maturity to the "Short-Term Financial Investments" caption.

H) SHARES OF THE CONTROLLING COMPANY

Treasury stock is carried at cost.

I) TRANSLATION OF FOREIGN CURRENCY BALANCES

The balances of accounts denominated in foreign currencies are translated to pesetas at the exchange rates ruling at December 31 of each year. However, following customary airline practice, the balance of the liability for unused traffic documents is reflected in the consolidated balance sheet at the exchange rate ruling 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 days of the preceding month.

Translation differences arising from translation at official year-end exchange rates and from the difference between exchange rates at December 31 of the preceding year and those prevailing at the date of effective collection or payment are recorded under the "Exchange Gains/Losses" captions in the consolidated statement of income, except for the net gains or losses relating to the financing obtained for the acquisition of certain aircraft.

Unrealized exchange gains arising on currencies for which exchange losses have not been allocated to income in prior years or in the current year are recorded under the "Deferred Revenues" caption in the consolidated balance sheet.

J) EXCHANGE DIFFERENCES ARISING FROM AIRCRAFT FINANCING

Pursuant to Valuation Rule 14 in Section 5 of the Spanish National Chart of Accounts, on March 23, 1994, the Ministry of Economy and Finance issued, at the proposal of the Accounting and Audit Institute (ICAC), a Ministerial Order on the accounting treatment of certain foreign currency exchange differences.

This Ministerial Order was repealed by a Ministerial Order dated December 18, 2001, to regulate using the same criteria the exchange differences with respect to the euro and to extend it to all airlines.

Under this accounting regulation, from January 1, 1993, the net amount of foreign currency exchange differences arising in each year on financing for the acquisition by airlines of aircraft added to their fleet in the current year and in the four immediately preceding years has to be recorded as an increase or decrease in the value of such aircraft.

In accordance with this regulation, in 2001 Iberia, Líneas Aéreas de España, S.A. recorded a net increase in the value of its aircraft of approximately de € 524 thousand, of which € 547 thousand related to cost and € 23 thousand to accumulated depreciation.

K) INVENTORIES

Inventories, basically aeronautical supplies and fuel, are valued at average acquisition cost, and the related provisions for diminution in value are recorded.

L) RECOGNITION OF REVENUES AND EXPENSES

Revenues and expenses are recognized 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 consolidated balance sheet. The balance of this consolidated balance-sheet caption reflects the liability for tickets and traffic documents sold prior to December 31, 2001, but not yet used as of that date. The revenues relating to these items are recognized when the transport or service is performed.

Iberia, Líneas Aéreas de España, S.A. and its commercial airline subsidiary Binter Canarias, S.A. have introduced the "Iberia Plus" card as a promotional tool whereby the holder of the card accumulates points for taking certain flights, using certain hotels, renting cars or making credit card purchases with credit cards covered by the program. The points can be exchanged for free tickets or other services offered by the companies included in the program. The accompanying consolidated balance sheet as of December 31, 2001, includes a provision of € 42,897 thousand in this connection, based on estimates of the value of the points, at the established redemption price, accumulated as of that date.

M) PROVISIONS FOR PENSIONS

Under the collective labor agreements currently in force, Iberia, Líneas Aéreas de España, S.A. is required to pay full compensation through their regulatory retirement age to flight personnel who take early retirement (special leave) and to supplement the social security benefits of ground personnel taking early retirement, in accordance with the conditions specified for each case.

The "Provisions for Contingencies and Expenses – Provisions for Pensions" account in the accompanying consolidated balance sheet (see Note 15) includes the liabilities that are not subject to externalization incurred in this connection as of December 31, 2001. The provisions recorded to cover the discounted value of the liabilities incurred as of December 31, 2001, and the interest allocable to the recorded allowance amount to € 4,879 thousand and € 3,171 thousand, respectively, and these amounts are included under the "Personnel Expenses" and "Financial and Similar Expenses" captions, respectively, in the accompanying 2001 consolidated statement of income.

The liability incurred as of December 31, 2001, was determined on the basis of actuarial studies conducted by independent actuaries using the unit credit method, and the main assumptions were an annual interest rate of 3.5%, an expected annual CPI variation of 2% and annual provisions payable in arrears. Also, the Spanish generational life-expectancy tables used were the PERM/F-2000 P tables.

Pursuant to current legislation, in September 2001 Iberia, Líneas Aéreas de España, S.A. externalized the estimated liability in this connection, through an insurance policy taken out with Winterthur Vida Sociedad Anónima de Seguros sobre la Vida, and paid the related single premium of € 37,606 thousand.

N) MONTEPIO 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 of its subsidiary Sistemas Automatizados Agencias de Viaje, S.A.) and other welfare benefits in certain circumstances (death and permanent disability).

Under the current collective labor agreements, the aforementioned companies and their employees make the statutory contributions (defined contributions) to the Montepío, as established in these labor agreements. The Montepío's bylaws limit these companies' liability to the payment by them of the statutory contributions.

The consolidable Group's contributions of € 22,414 thousand in 2001 were recorded under the "Personnel Expenses" caption in the accompanying consolidated statement of income.

O) OBLIGATIONS TO FLIGHT PERSONNEL PLACED ON THE RESERVE

Under the collective labor agreements in force, Iberia, Líneas Aéreas de España, S.A. is required to pay full compensation through their regulatory retirement age to flight personnel placed on the reserve.

The "Provisions for Contingencies and Expenses - Provisions for Obligations to Employees" account in the accompanying consolidated balance sheet (see Note 15) includes the liabilities incurred in this connection as of December 31, 2001. The provision recorded to cover the estimated liability incurred in 2001 and the interest allocable to the recorded allowance amount to € 37,471 thousand and € 14,536 thousand, respectively, and these amounts are included under the "Personnel Expenses" and "Financial and Similar Expenses" captions, respectively, in the accompanying 2001 consolidated statement of income.

The liability incurred as of December 31, 2001, was determined on the basis of actuarial studies conducted by independent actuaries using the unit credit method, and the main assumptions were an annual interest rate of 3.5%, an expected annual CPI variation of 2% and annual provisions payable in arrears. Also, the Spanish generational life-expectancy tables used were the PERM/F-2000 P tables.

P) PROVISION FOR THIRD-PARTY LIABILITY

The "Provisions for Contingencies and Expenses - Provision for Third-Party Liability" caption in the accompanying consolidated balance sheet includes the estimated amount required for probable or certain third-party liability arising from legal proceedings and litigation in progress or from outstanding indemnity payments or obligations of undetermined amount, and collateral and other similar guarantees provided by the consolidated companies. As described in Note 15, this caption includes the provisions for the costs of the layoff plan initiated in 1999 and implemented in 2000 and 2001 and for the estimated costs of the Labor Force Reduction Plan authorized by the Ministry of Employment and Social Affairs on December 26, 2001.

q) CORPORATE INCOME TAX

The corporate income tax of each year for each consolidated company is calculated on the basis of the book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, net of tax relief and tax credits, excluding tax withholdings and prepayments.

r) FUTURES AND OTHER SIMILAR INSTRUMENTS

Iberia, Líneas Aéreas de España, S.A. uses these instruments in transactions to hedge its asset and liability positions and its future flows of collections and payments (see Note 17). It only carries out "nongenuine" hedging transactions (i.e. those arranged between two parties, establishing in each case the contractual terms of the transactions agreed upon between them).

If cash deposits are required as security for the obligations inherent to the aforementioned transactions, they are recorded under the "Short-Term Financial Investments - Short-Term Deposits and Guarantees" caption on the asset side of the consolidated balance sheet.

The expenses relating to transactions involving futures and similar instruments are expensed currently.

The price differences arising during the term of futures and similar instruments are recorded as follows:

1. In the case of transactions arranged to hedge exchange rates relating to asset or liability positions, the related balances are discounted to present value based on the gains or losses that arise.
2. For the other exchange and interest rate transactions, the price differences are recorded in the consolidated statement of income when the transactions involving futures or similar instruments are cancelled or finally settled.

7. INTANGIBLE ASSETS

The variations in 2001 in intangible asset accounts and in the related accumulated amortization were as follows:

2001	THOUSANDS OF EUROS					12-31-01
	01-01-01	SALE OF COMPANIES	ADDITIONS AND PROVISIONS	RETIREMENTS	(NOTE 8) TRANSFERS	
RIGHTS ON LEASED ASSETS	503,478	-	36,270	-	(108,270)	431,478
COMPUTER SOFTWARE	32,031	(323)	22,382	(350)	(161)	53,579
INTELLECTUAL PROPERTY AND LEASEHOLD ASSIGNMENT RIGHTS	772	(7)	667	(17)	-	1,415
ACCUMULATED AMORTIZATION	(109,100)	297	(31,020)	264	50,648	(88,911)
NET VALUE	427,181					397,561

As of December 31, 2001, the cost of the Iberia Group's fully amortized intangible assets amounted to € 6,929 thousand.

COMPUTER SOFTWARE

The period additions relate basically to investments in projects that are being used by the Group.

INTELLECTUAL PROPERTY

On September 21, 2001, Iberia, Líneas Aéreas de España, S.A. acquired from Binter Mediterráneo, S.A. the Spanish brand name, business sign and the Internet domains of Binter Mediterráneo, S.A. for € 301 thousand.

RIGHTS ON LEASED ASSETS

In 2001 Iberia, Líneas Aéreas de España leased one A-320 aircraft. The price of the aircraft amounted to € 43,294 thousand, although it was leased for € 30,313 thousand. The difference relates to advances of € 11,175 thousand and a cash amount payable of € 1,806 thousand.

The main features of the lease contract are as follows:

1. Expiration date: March 30, 2008.
2. Lease payments: half-yearly.
3. Interest rate: 6.185%.

4. Purchase option: may be exercised at any time from the contract date to September 30, 2002, and from five years from the contract date to the expiration date of the contract. The price of the option varies depending on when it is exercised.

Also, in 2001 the purchase options were exercised on three A-320 and two MD-87 aircraft and on certain computer hardware and, accordingly, the cost and related accumulated depreciation of these assets were reclassified to property, plant and equipment (see Note 8).

The general features of the lease contracts (relating mainly to aircraft) in force as of December 31, 2001, some of which provide for floating interest and lease payments denominated in foreign currencies, are as follows:

DECEMBER 31, 2001	THOUSANDS OF EUROS
CASH PRICE OF THE FIXED ASSETS ACQUIRED, ACCORDING TO CONTRACTS	431,184
AMOUNT OF LEASE PAYMENTS PAID:	
IN PRIOR YEARS	251,851
IN 2001	105,612
AMOUNT OF LEASE PAYMENTS OUTSTANDING AT DECEMBER 31 (NOTE 16)	220,216 (a)
AMOUNT OF PURCHASE OPTIONS (NOTE 16)	218,513 (a)

(a) As of December 31, 2001, these amounts included € 80,111 thousand of unaccrued interest at that date, the balancing entry for which is included under the "Deferred Charges" caption in the accompanying consolidated balance sheet.

The due dates for the lease payments outstanding as of December 31, 2001, including the amount of the purchase options, are as follows:

DECEMBER 31, 2001	
LEASE PAYMENTS DUE IN:	THOUSANDS OF EUROS
2002	73,169
2003	61,813
2004	33,555
2005	34,106
2006 - 2010	236,086

8. PROPERTY, PLANT AND EQUIPMENT

The variations in 2001 in property, plant and equipment accounts and in the related accumulated depreciation and provisions were as follows:

COST	THOUSANDS OF EUROS					12-31-01
	01-01-01	SALE OF COMPANIES	ADDITIONS	RETIREMENTS	(NOTE 7) TRANSFERS	
AIRCRAFT	2,499,572	(41,527)	124,222	(486,255)	158,025	2,254,037
ADVANCES ON AIRCRAFT	255,864	-	134,335	(90,748)	(36,263)	263,188
	2,755,436	(41,527)	258,557	(577,003)	121,762	2,517,225
OTHER TANGIBLE FIXED ASSETS :						
LAND	4,766	-	-	(2)	-	4,764
BUILDINGS AND OTHER STRUCTURES	170,966	-	31	(2,914)	-	168,083
MACHINERY, INSTALLATIONS AND TOOLS	402,016	(168)	20,606	(8,241)	1,780	415,993
TRANSPORT EQUIPMENT	27,386	(22)	2,217	(609)	45	29,017
FURNITURE AND FIXTURES	22,034	(98)	1,560	(2,098)	1	21,399
COMPUTER HARDWARE	81,780	(303)	12,248	(16,941)	1,973	78,757
SPARE PARTS	216,761	-	114,314	(92,573)	(12,975)	270,527
FLIGHT SIMULATORS	44,697	-	1,945	(1,052)	10,989	56,579
OTHER TANGIBLE FIXED ASSETS	6,609	-	264	-	-	6,873
CONSTRUCTION IN PROGRESS	19,016	-	30,599	(16,048)	(15,144)	18,423
	1,041,031	(591)	183,784	(140,478)	(13,331)	1,070,415

ACCUMULATED DEPRECIATION AND PROVISIONS						THOUSANDS OF EUROS
	01-01-01	SALE OF COMPANIES	PROVISIONS	RETIREMENTS	(NOTE 7) TRANSFERS	12-31-01
AIRCRAFT	1,466,842	(31,439)	95,167	(190,084)	51,100	1,391,586
OTHER TANGIBLE FIXED ASSETS :						
BUILDINGS AND OTHER STRUCTURES	100,008	-	5,198	(1,450)	-	103,756
MACHINERY, INSTALLATIONS AND TOOLS	267,739	(142)	21,789	(6,003)	101	283,484
TRANSPORT EQUIPMENT	14,351	(22)	2,743	(550)	35	16,557
FURNITURE AND FIXTURES	15,657	(74)	1,168	(1,999)	(96)	14,656
COMPUTER HARDWARE	53,419	(241)	12,161	(15,955)	422	49,806
SPARE PARTS	133,984	-	18,576	(17,189)	(914)	134,457
FLIGHT SIMULATORS	38,030	-	3,125	(1,052)	-	40,103
OTHER TANGIBLE FIXED ASSETS	4,876	-	17	-	-	4,893
	628,064	(479)	64,777	(44,198)	(452)	647,712

The transfers relate mainly to the exercise of the purchase option on three A-320 and two MD-87 aircraft (see Note 7). Two of these A-320 aircraft were sold and subsequently leased back under an operating lease arrangement.

ADVANCES ON AIRCRAFT

The advances on aircraft relate to advances paid as a result of purchase commitments to manufacturers in accordance with the established schedules.

The additions in 2001 relate to advances paid in connection with eleven A-320, four A-321 and three A-340 aircraft to be received under Iberia, Líneas Aéreas de España, S.A.'s fleet renewal plan.

Also, € 68,400 thousand and € 22,348 thousand relating to the advances paid for the three A-340 and two A-320 aircraft, respectively, that came into service in 2001 were recovered. € 24,933 thousand were transferred to the "Aircraft" caption and € 11,175 thousand were transferred to the "Intangible Assets" caption, relating to the advances paid for two A-321 aircraft acquired and one A-320 aircraft leased by Iberia, Líneas Aéreas de España, S.A. in 2001.

As of December 31, 2001, the deadline for exercising the purchase options arranged with The Boeing Company (Boeing) on 14 B-757 aircraft expired, and an agreement was reached to use the advances paid by Iberia, Líneas Aéreas de España, S.A. (€ 3,495 thousand) to purchase aeronautical supplies.

Also, as of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had firm purchase commitments to Airbus Industrie, G.I.E. (Airbus) for three A-340 aircraft, for a basic price of approximately US\$ 414 million (€ 470 million as of December 31, 2001). The parties agreed that the aircraft would be delivered in 2002, although Iberia, Líneas Aéreas de España, S.A. negotiated the postponement of the delivery of one of the aircraft from June to December 2002. In addition, Iberia, Líneas Aéreas de España, S.A. is entitled to exercise through 2004 purchase options on another five A-340 aircraft. The advances paid by Iberia, Líneas Aéreas de España, S.A. as of December 31, 2001, for the three aircraft for which there were firm purchase commitments and for the aforementioned purchase options amounted to € 70,412 thousand and € 1,702 thousand, respectively.

In 2001 Iberia, Líneas Aéreas de España, S.A. renegotiated with Airbus the schedule for the delivery of the A-320-type aircraft subject to the framework agreement entered into in 1998 and subsequent amendments. The delivery dates were put back as follows:

AIRCRAFT SUBJECT TO FIRM PURCHASE COMMITMENT

TYPE OF AIRCRAFT	2002	2003	2004	2005	2006	TOTAL
A-319	-	-	-	-	-	-
A-320	6 (a)	2	6	2	2	18
A-321	3 (a)	-	5	4	-	12
	9	2	11	6	2	30

(a) These aircraft will be delivered by the manufacturer in 2002 to a finance entity, although Iberia, Líneas Aéreas de España, S.A. will start to operate them 12 months afterwards.

AIRCRAFT SUBJECT TO PURCHASE OPTION

TYPE OF AIRCRAFT (a)	2002	2003	2004	2005	2006	TOTAL
A-319	-	-	-	4	5	9
A-320	-	-	3	2	2	7
A-321	-	-	5	-	6	11
	-	-	8	6	13	27

(a) As part of the agreement reached, 13 of the existing purchase options were exchanged for purchase rights, thereby making the aircraft delivery date flexible and the aircraft subject to the seller's commercial and production restrictions. The purchase rights have to be converted into firm orders in writing before December 31, 2004, and the aircraft must be delivered before December 31, 2007.

The basic price of the A-320-type aircraft on which there is a firm purchase commitment in this transaction is approximately € 1,729 million. Iberia, Líneas Aéreas de España, S.A. had paid advances of € 187,388 thousand on account of these aircraft and options as of December 31, 2001.

Iberia, Líneas Aéreas de España, S.A. received one A-320 aircraft in 2004 to replace the aircraft damaged in Bilbao. Iberia, Líneas Aéreas de España, S.A. is currently negotiating with insurance companies the compensation for the losses incurred.

AIRCRAFT, PERIOD ADDITIONS

In 2001 Iberia, Líneas Aéreas de España, S.A. acquired two A-321 aircraft for a total price of € 96,461 thousand (€ 71,528 thousand in cash and € 24,933 thousand of advances paid previously).

Also, Iberia, Líneas Aéreas de España, S.A. made certain changes to certain aircraft that have increased their revenue-generating capacity. These changes, consisting mainly of modifications to cabins and the incorporation of materials, pursuant to the manufacturers' bulletins (which must be complied with), were made to the B-747, MD-87, MD-88, A-300, A-320 and A-340 aircraft, for a total amount of € 42,368 thousand.

Lastly, A-340 aircraft engines were acquired for € 8,445 thousand.

AIRCRAFT, PERIOD RETIREMENTS

In four transactions in 2001 Iberia, Líneas Aéreas de España, S.A. sold 18 B-727 aircraft and 45 B-727 engines and 9 DC-9 engines to various companies for a total amount of € 7,357 thousand. The sale of these items, which had a net book value of € 9,801 thousand, gave rise to a net loss of € 238 thousand, and this amount was recorded as a gain of € 3,992 thousand under the "Gains on Fixed Asset Disposals" and as a loss of € 4,230 thousand under the "Losses on Fixed Assets" caption in the accompanying 2001 consolidated statement of income.

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had entered into agreements with three companies for the sale of 10 B-727 aircraft and 18 B-727 engines and 12 DC-9 engines for a total amount of € 5,464 thousand. As of December 31, 2001, these aircraft and engines, which will be delivered in the first quarter of 2002, had a net book value of € 5,547 thousand.

Also, in February 2001 Iberia, Líneas Aéreas de España, S.A. sold one B-747 aircraft and four B-747 engines, which had been recorded at a cost of € 70,348 thousand, the related accumulated depreciation amounting to € 44,991 thousand. Also, a provision for major repairs of € 2,032 thousand had been recorded for this aircraft. Since the sale price was € 25,082 thousand, this transaction gave rise to a gain, taking into account certain additional adjustments, of € 671 thousand, and this amount is recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying 2001 consolidated statement of income.

In addition, in 2001 Iberia, Líneas Aéreas de España, S.A. sold 9 A-320 aircraft and 18 A-320 engines for a total amount of € 277,077 thousand. Since the recorded cost and accumulated depreciation of these items were € 317,848 thousand and € 65,393 thousand, respectively, their sale gave rise to a gain of € 24,622 thousand, and this amount was recorded under the "Deferred Revenues" caption in the accompanying consolidated balance sheet as of December 31, 2001, because, subsequent to these sales, Iberia, Líneas Aéreas de España, S.A. entered into operating lease contracts for the same planes. The gain will be credited to income over the term of the lease contracts.

Lastly, in 2001 VIVA Vuelos Internacionales de Vacaciones, S.A. sold certain engines that had been recorded for a net book value of ¢862 thousand, for € 8,263 thousand. The gain of € 7,401 thousand on this sale was recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying 2001 consolidated statement of income.

OTHER

In 2001 the Group sold for € 11,201 thousand substantially the whole of a building and a portion of the related installations which had a net book value of € 1,673 thousand. The sale gave rise to a gain of € 9,528 thousand, which is recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying 2001 consolidated statement of income.

REVALUATION RESERVE ROYAL DECREE-LAW 7/1996

On December 31, 1996, Iberia, Líneas Aéreas de España, S.A. and certain of its dependent companies revalued their property, plant and equipment pursuant to Royal Decree-Law 7/1996, and paid the single 3% tax. These companies had previously availed themselves of other revaluation legislation. The revaluation surplus and the effect thereof as of December 31, 2001, are as follows:

REVALUATION				THOUSANDS OF EUROS
	SURPLUS AT 01-01-01	2001 PROVISION	RETIREMENTS	BALANCE AT 12-31-01
AIRCRAFT	33,566	(2,930)	(3,474)	27,162
LAND	883	-	-	883
BUILDINGS AND OTHER STRUCTURES	9,718	(1,052)	(910)	7,756
MACHINERY, INSTALLATIONS AND TOOLS	926	(425)	(3)	498
TRANSPORT EQUIPMENT	7	(5)	-	2
FLIGHT SIMULATORS	649	(374)	-	275
	45,749	(4,786)	(4,387)	36,576

As of December 31, 2001, the accumulated depreciation taken on the surplus arising from the revaluation made by the Iberia Group amounted to approximately € 89,090 thousand.

The revaluation increased the 2001 depreciation charge by approximately € 4,786 thousand, and will increase the 2002 depreciation charge by approximately € 3,731 thousand.

The revaluation surplus, net of the single 3% tax, was credited to the "Revaluation Reserve" caption, with a charge to the appropriate revalued asset accounts, without altering the recorded accumulated depreciation amount.

ACCUMULATED DEPRECIATION AND PROVISIONS

As of December 31, 2001, the cost of the Iberia Group's fully depreciated property, plant and equipment amounted to € 304,870 thousand.

In 2001 Iberia, Líneas Aéreas de España, S.A. recorded provisions for the diminution in value of aircraft that were grounded (DC-9 and DC-10) or that will be grounded in 2002 (A-300) to reduce them to their estimated realizable value. The provisions amounted to € 6,100 thousand for the DC-10 aircraft, € 950 thousand for the DC-9 aircraft and € 9,688 thousand for the A-300 aircraft, and these amounts were recorded under the "Extraordinary Expenses" caption in the accompanying 2001 consolidated statement of income (see Note 19-g).

TRANSACTIONS INVOLVING THE AIRCRAFT

The aircraft in service of the consolidated companies as of December 31, 2001, are summarized as follows:

AIRCRAFT IN SERVICE					
TYPE OF AIRCRAFT	OWNED BY THE COMPANIES	UNDER FINANCIAL LEASE	UNDER OPERATING LEASE	WET LEASE (a)	TOTAL
B-727	- (b)	-	-	-	-
B-747	5	-	4	-	9
B-757	-	1	17	-	18
A-300	5 (c)	-	-	-	5
A-319	-	-	4	-	4
A-320	9 (d)	9	34	-	52
A-321	2	2	-	-	4
A-340	-	-	15	-	15
DC-9	- (e)	-	-	-	-
DC-10	- (f)	-	-	-	-
MD-87	19	-	5	-	24
MD-88	13	-	-	-	13
ATR-72	7	1	3	-	11
BEEHCRAFT-1900	-	-	-	2	2
	60	13	82	2	157

(a) Lease type including aircraft and crew. In 2001, Iberia, Líneas Aéreas de España, S.A. terminated all the wet lease contracts and returned the aircraft, having reached the appropriate termination agreements. However, as of the date of preparation of these financial statements, Iberia, Líneas Aéreas de España, S.A. had not reached an agreement with Air Europa, S.A. regarding six B-757 aircraft, which were not in service as of December 31, 2001. As of that date, Binter Canarias, S.A. was leasing two Beechcraft 1900 under a wet lease arrangement.

(b) Excluding eleven aircraft, ten of which are ready for delivery to their new owners and the other one is damaged, pending an agreement with the related insurance company.

(c) Excluding one aircraft which was grounded as of December 31, 2001, pending sale to Airbus.

(d) Excluding one damaged and grounded aircraft in Bilbao. Iberia, Líneas Aéreas de España, S.A. is currently negotiating with the related insurance company.

(e) Excluding twenty-five inactive aircraft that are ready for sale. In February 2002 Iberia, Líneas Aéreas de España, S.A. entered into agreements for the sale of these aircraft.

(f) Excluding six inactive aircraft that are ready for sale.

One B-757 aircraft leased by Iberia, Líneas Aéreas de España, S.A. under a financial lease contract, with a net book value of € 19,064 thousand as of December 31, 2001, has been mortgaged. Also, the A-320 and A-321 aircraft, on which financial and operating lease contracts, respectively, were entered into in 2000 and 2001, respectively, have been mortgaged by the respective lessors under the legislation in force in each of the countries concerned.

As of December 31, 2001, 44 aircraft (11 B-727, 25 DC-9, 6 DC-10, 1 A-300 and 1 A-320 aircraft), with a net book value of € 86,414 thousand as of that date, were grounded. These aircraft, except for the A-320 aircraft, are ready for sale, and the directors of Iberia, Líneas Aéreas de España, S.A. do not expect any material losses to arise in this connection. Agreements have been reached to sell 10 of the B-727 aircraft and the 25 DC-9 aircraft, although the aircraft will not be delivered until 2002.

On September 26, 2000, a bond issue of € 496,473 thousand was launched in the European market secured by 18 aircraft which, in turn, Iberia, Líneas Aéreas de España, S.A. guarantees to operate under an operating lease or a financial lease. As of December 31, 2001, eight A-320 aircraft (seven under operating lease and one under financial lease), two A-321 aircraft (under financial lease) and eight B-757 aircraft (under operating lease) relating to this issue were in operation.

In 2001 Iberia, Líneas Aéreas de España, S.A. entered into an agreement for the lease of the holds of two DC-8 aircraft in 2002.

OWNED AIRCRAFT

A-300

Iberia, Líneas Aéreas de España, S.A. owns six A-300 aircraft, one of which had been grounded as of December 31, 2001. The agreements entered into in 2001 with Airbus provide for the purchase by Airbus of these six aircraft for € 17,019 thousand. This sale will be made as the three A-340 aircraft are delivered in 2002.

DC-9

In February 2002 Iberia, Líneas Aéreas de España, S.A. entered into agreements for the sale of its 25 DC-9 aircraft and 52 DC-9 engines for a total amount of € 11,913 thousand. As of December 31, 2001, the net book value of these items was € 9,152 thousand.

AIRCRAFT OPERATED UNDER OPERATING LEASE CONTRACTS

BOEING AIRCRAFT

B-757

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. was leasing 17 B-757 aircraft from various companies (a different company for each plane). The lease contracts expire in 2004 and 2005, at which time the aircraft will be returned to the lessors. However, for 16 of these aircraft, at the end of the related lease term the lessor has a residual value guarantee provided by International Lease Finance Corporation.

In 2001 Iberia, Líneas Aéreas de España, S.A. terminated the wet lease contracts (operating lease of aircraft with crew) with Air Europa, S.A. on six B-757 aircraft. Three of these aircraft that had previously been operated by Iberia, Líneas Aéreas de España, S.A. under an operating lease agreement were sublet in 2000 to Air Europa, S.A.

B-747

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. was operating four B-747 aircraft under operating lease contracts with The Boeing Company (one aircraft) and Air Atlanta, S.A. (three aircraft) expiring in the period from 2002 to 2005. Under the contract with Boeing, the purchase option may be exercised at any time during the contract term, and the contracts with Air Atlanta are renewable for a further year. Iberia, Líneas Aéreas de España, S.A. may terminate these three contracts early on certain dates.

In connection with the contracts with Air Atlanta, S.A., as of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had deposited a completion bond amounting to € 2,042 thousand, and this amount is recorded under the "Other Long-Term Receivables" caption in the accompanying consolidated balance sheet as of December 31, 2001 (see Note 9).

AIRBUS AIRCRAFT

A-340

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. were operating 15 A-340 aircraft under operating lease contracts, 11 of which were leased from the "Iberbus" companies (see Note 9), in which Iberia, Líneas Aéreas de España, S.A. has ownership interests. When these contracts expire (between 2003 and 2007), Iberia, Líneas Aéreas de España, S.A. will have the following three options: to exercise the purchase option and pay a predetermined price for the aircraft; to extend the lease for periods of three and eight years and mandatorily exercise the purchase option; or to return the planes to the lessor.

If Iberia, Líneas Aéreas de España, S.A. opts to return the planes and if the lessor of the aircraft does not find a buyer for the aircraft, Iberia, Líneas Aéreas de España, S.A. is obliged to extend the operating lease contract for a further one-year period for contracts expiring in 2003 (four aircraft) and for a further two-year period for the other contracts. The expiration dates initially agreed on for the lease contracts on three of these aircraft were extended from 2003 to 2005, provided that these aircraft are not sold during this period.

The lease contracts for the other four A-340 aircraft have a term of nine years and expire in 2009 and 2010, upon which Iberia, Líneas Aéreas de España, S.A. may opt to purchase the aircraft for a predetermined price or to return them to the lessor.

A-319, A-320 and A-321

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. was operating 34 A-320 aircraft and four A-319 aircraft under operating lease contracts, the main features of which are as follows:

- 12 A-320 aircraft and four A-319 aircraft are leased under a contract with International Lease Finance Corporation, expiring in 2004 (two aircraft), 2005 (seven aircraft) and 2006 (seven aircraft). When the lease contract expires, Iberia, Líneas Aéreas de España, S.A. may extend the contract twice for one- or five-year periods, provided that the two extensions do not total more than six additional years.

As a result of having entered into this contract, as of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had deposited a completion bond of € 11,913 thousand, and this amount is recorded under the "Other Long-Term Receivables" caption in the accompanying consolidated balance sheet as of December 31, 2001 (see Note 9).

- Two A-320 aircraft are leased under two contracts expiring in 2004, when Iberia, Líneas Aéreas de España, S.A. may renew the contracts for an additional seven years.

- Nine A-320 are leased under nine contracts expiring between 2012 and 2014, when Iberia, Líneas Aéreas de España, S.A. will return the aircraft to the lessor. However, Iberia, Líneas Aéreas de España, S.A. may choose to exercise the purchase option on the aircraft for a predetermined price provided for in the contracts on certain dates: September 30, 2007 (one aircraft), March 30, 2008 (two aircraft), September 30, 2009 (four aircraft) and September 15, 2011 (two aircraft).

- Five A-320 aircraft are being leased under five lease contracts expiring in 2006 (three aircraft) and 2007 (two aircraft). When the contracts expire, Iberia, Líneas Aéreas de España, S.A. may extend them for a further five years, provided that it notifies the lessor of its decision 12 months prior to the expiration of the original lease term.

- Six A-320 aircraft are leased under six lease contracts expiring between 2001 and 2003. When the contracts expire, Iberia, Líneas Aéreas de España, S.A. may return the aircraft or extend the term of the contracts for a further five years. In 2001 the two aircraft lease contracts that expired in that year were renewed.

MD-87

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. was operating five MD-87 aircraft under operating lease contracts. The term of the lease contracts is 96 months, at the end of which Iberia, Líneas Aéreas de España, S.A. may exercise the purchase option provided for in the contract or return the planes.

WET LEASE

In recent years Iberia, Líneas Aéreas de España, S.A. entered into several wet lease contracts (lease of aircraft with crew).

In March 1998 Iberia, Líneas Aéreas de España, S.A. entered into a contract with Air Europa, S.A. for the lease of eleven aircraft (six B-757, three B-737 and two B-767) under a wet lease arrangement. These contracts had an initial term of two years and were renewable annually.

Following the events with worldwide repercussions that occurred in September 2001, Iberia, Líneas Aéreas de España, S.A. decided to terminate all its wet lease contracts.

The contract for two B-747 entered into with Air Atlanta, S.A. in November 2001 was terminated. Following negotiations in December 2001, an agreement was reached by the parties whereby Iberia, Líneas Aéreas de España, S.A. undertook to pay a termination penalty of US\$ 2,603,133 (€ 2,950 thousand), and this amount was recorded under the "Extraordinary Expenses" caption in the accompanying 2001 consolidated statement of income.

As regards the contracts with Air Europa, S.A. for the wet lease of eleven aircraft (six B-757, three B-737 and two B-767 aircraft):

1. The wet lease of the three B-737 aircraft was terminated in October 2001 at no cost.

2. The contracts for the two B-767 aircraft, which had been operated since December 1999 under a dry lease arrangement, were terminated in November 2001. An agreement was reached by the parties in December 2001 whereby Iberia, Líneas Aéreas de España, S.A. undertook to pay a penalty recorded under the "Extraordinary Expenses" caption in the accompanying 2001 consolidated statement of income.

3. The six B-757 aircraft ceased to be operational at the end of October 2001. Three of the aircraft were being operated under an operating lease by Iberia, Líneas Aéreas de España, S.A. which in turn sublet the aircraft to Air Europa, S.A. which in turn leased them under a wet lease arrangement to Iberia, Líneas Aéreas de España, S.A. Also, there is an agreement relating to two of these aircraft whereby, once the wet lease contract expired, the aircraft would once again be operated under the original operating lease arrangement through expiration of related contract. At the date of preparation of these consolidated financial statements, no termination agreement had been reached by the parties. Iberia, Líneas Aéreas de España, S.A. recorded a provision for the penalty costs that the directors consider will ultimately be paid under the "Extraordinary Expenses" caption in the accompanying 2001 consolidated statement of income and under the "Provision for Third-Party Liability" caption in the accompanying consolidated balance sheet as of December 31, 2001.

In connection with the wet lease contracts with Air Europa, S.A., as of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had made deposits amounting to € 8,443 thousand, and these amounts are recorded under the "Other Long-Term Receivables" caption in the accompanying consolidated balance sheet as of December 31, 2001 (see Note 9).

Also, Binter Canarias, S.A. entered into one-year wet lease contracts (renewable annually) for two Beechcraft 1900 aircraft that were in force as of December 31, 2001.

LEASE EXPENSES

The lease payments accrued in 2001 for the operating lease of the aforementioned B-747, B-757, B-767, A-319, A-320, A-340, MD-87 and ATR-72 aircraft amounted to €376,955 thousand, and this amount is included under the "Other Operating Expenses" caption in the accompanying 2001 consolidated statement of income (see Note 19). The detail as of December 31, 2001, of the approximate total operating lease payments payable for these aircraft (denominated in U.S. dollars) and of the related due dates is as follows:

LEASE EXPENSES	
YEAR	MILLIONS OF EUROS
2002	365
2003	346
2004	315
2005 TO 2014	650
	1,676

INSURANCE COVERAGE

Iberia, Líneas Aéreas de España, S.A. and its dependent companies have arranged insurance policies for their property, plant and equipment and intangible assets which sufficiently covered their net book value as of December 31, 2001. Also, they have arranged insurance policies for the aircraft leased from third parties, in accordance with the conditions stipulated in the related lease contracts. Most of these policies are with Musini, Sociedad Anónima de Seguros y Reaseguros.

9. LONG-TERM FINANCIAL INVESTMENTS

HOLDINGS IN COMPANIES CARRIED BY THE EQUITY METHOD

The variation in 2001 in the balance of the "Holdings in Companies Carried by the Equity Method" caption in the accompanying consolidated balance sheet relates to the effect of recording the equity in the earnings of Touroperador Viva Tours, S.A. and the Amadeus Group, to the reduction in the holding in the Amadeus Group as a result of the distribution of a dividend and to the capital reduction at the Amadeus Group.

As of December 31, 2001, the holding in Touroperador Viva Tours, S.A. had a negative value of € 758 thousand and, accordingly, this amount was reclassified to the "Provision for Third-Party Liability" caption in the accompanying consolidated balance sheet as of December 31, 2001.

The variations in this caption in 2001 are summarized as follows:

HOLDINGS IN COMPANIES CARRIED BY THE EQUITY METHOD	THOUSANDS OF EUROS
BALANCE AT JANUARY 1, 2001	81,683
CAPITAL REDUCTION	(389)
SHARE IN EARNINGS	22,220
DIVIDENDS	(9,664)
RECLASSIFICATION	758
BALANCE AT DECEMBER 31, 2001	94,608

AMADEUS GROUP

The Amadeus Group, whose corporate purpose consists of the management and operation of a computerized booking system, comprises Amadeus Global Travel Distribution, S.A. (the parent company) and its investees.

In 2001 the Shareholders' Meeting of Amadeus Global Travel Distribution, S.A. resolved to reduce capital by 55,384,709 series B shares (which only carry voting rights) through the reimbursement of contributions. Iberia, Líneas Aéreas de España, S.A.'s holding was reduced by 3,883,667 shares and it received € 39 thousand. Since the cost of these shares amounted to € 389 thousand, the capital reduction gave rise to a loss of € 350 thousand, which is recorded under the "Losses on Fixed Assets" caption in the accompanying 2001 consolidated statement of income.

In 2001 the Shareholders' Meeting of Amadeus Global Travel Distribution, S.A. resolved to pay a dividend of € 52,232 thousand out of 2000 income, of which € 9,664 thousand corresponded to the Iberia Group.

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had a holding of 27.92% in Amadeus Global Travel Distribution, S.A. in terms of voting rights and of 18.28% in terms of dividend rights.

LOANS TO COMPANIES CARRIED BY THE EQUITY METHOD

This caption in the accompanying consolidated balance sheet as of December 31, 2001, relates to the loans granted in prior years to Venezolana Internacional de Aviación, S.A. (VIASA) which had been fully provisioned as of that date.

LONG-TERM INVESTMENT SECURITIES

The detail of the investments recorded under this caption in the accompanying consolidated balance sheet as of December 31, 2001, is as follows:

LONG-TERM INVESTMENT SECURITIES	THOUSANDS OF EUROS
IBERBOND PLC 1999	35,490
INTERINVEST, S.A.	30,244
IBERBUS COMPANIES	24,930
OPODO, LTD.	9,504
ADQUIRA ESPAÑA, S.A.	3,583
CORDIEM LLC.	2,330
OTHER	6,437
	112,518

IBERBOND PLC 1999

In September 1999 Iberia, Líneas Aéreas de España, S.A. subscribed to bonds issued by Iberbond PLC 1999 totaling € 39,000 thousand. These bonds form part of an issue relating to the acquisition of six A-320 aircraft that were subsequently leased to Iberia, Líneas Aéreas de España, S.A. under a financial lease contract.

The bonds subscribed by Iberia, Líneas Aéreas de España, S.A. earn annual interest of 5.90%, which is settled every six months. The principal is paid annually and the final maturity of the transaction is September 1, 2007. 3% of the principal is payable each year in the first five years and the remaining 85% is payable in 2007. Based on this maturity, as of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. recorded the portion of the investment maturing at long term (€ 35,490 thousand) under the "Long-Term Investment Securities" caption and the portion maturing at short term (€ 1,170 thousand) under the "Short-Term Financial Investments" caption in the accompanying consolidated balance sheet as of December 31, 2001 (see Note 12).

The interest earned in 2001 amounted to € 2,186 thousand, and this amount was recorded under the "Other Interest and Similar Revenues" caption in the accompanying 2001 consolidated statement of income. The € 735 thousand receivable in this connection as of December 31, 2001, were recorded under the "Short-Term Financial Investments" caption in the accompanying consolidated balance sheet as of December 31, 2001.

AEROLÍNEAS ARGENTINAS GROUP AND INTERINVEST, S.A.

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A.'s holding in Interinvest, S.A. (the majority shareholder of Aerolíneas Argentinas, S.A.) was 0.1438% and was recorded at a cost of € 30,244 thousand. A provision was recorded for the same amount as of December 31, 1999, due to the accumulated losses incurred by Aerolíneas Argentinas, S.A.

In the first half of 1999 Iberia, Líneas Aéreas de España, S.A. granted a loan of US\$ 5,000,000 to Aerolíneas Argentinas, S.A. As of December 31, 2001, the € 6,273 thousand receivable in this connection were classified on the basis of their maturity, i.e. € 3,914 thousand were recorded under the "Other Long-Term Receivables" caption (including € 376 thousand of interest earned in 2001) and € 2,359 thousand were recorded under the "Short-Term Financial Investments" caption in the accompanying consolidated balance sheet as of December 31, 2001 (see Note 12).

Also, as of December 31, 2001, the Group had trade accounts receivable from and payable to Aerolíneas Argentinas, S.A. totaling an estimated net amount receivable of € 20,538 thousand.

As of that same date Iberia, Líneas Aéreas de España, S.A. had provided U.S. dollar guarantees (some of which are secured by a mortgage on two B-747 aircraft owned by Aerolíneas Argentinas, S.A.) for Aerolíneas Argentinas, S.A. to several entities totaling € 58,207 thousand.

Iberia, Líneas Aéreas de España, S.A. has covered this risk through a provision of € 85,031 thousand recorded under the "Provisions for Contingencies and Expenses" caption in the accompanying consolidated balance sheet as of December 31, 2001 (see Note 15). € 23,565 thousand of this provision were recorded under the "Extraordinary Expenses" caption in the accompanying 2001 consolidated statement of income.

IBERBUS COMPANIES

The information relating to these companies, which own the A-340 aircraft operated by Iberia, Líneas Aéreas de España, S.A. (see Note 8), as of December 31, 2001, drawn from their respective provisional financial statements, is as follows:

DECEMBER 31, 2001		THOUSANDS OF EUROS				
GROUP AND ASSOCIATED COMPANIES	ADDRESS	PERCENTAGE OF DIRECT OWNERSHIP	COST	CAPITAL	RESERVES	ORDINARY INCOME (LOSS)
IBERBUS CONCHA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00	2,029	7,775	(1,187)	603
IBERBUS ROSALÍA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00	2,056	7,716	(2,122)	747
IBERBUS CHACEL, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00	2,283	8,547	(5,630)	1,970
IBERBUS ARENAL, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	40.00	2,362	8,743	(7,092)	1,107
IBERBUS TERESA, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00	2,504	7,905	(4,454)	2,368
IBERBUS EMILIA, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00	2,497	7,940	(4,756)	2,370
IBERBUS AGUSTINA, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00	2,587	7,944	(1,670)	1,576
IBERBUS BEATRIZ, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	40.00	2,556	7,969	(1,220)	1,397
IBERBUS JUANA INÉS, LTD.	EARLSFORT CENTRE-HATCH ST., DUBLIN	45.45	1,896	4,753	(2,005)	(641)
IBERBUS M ^o DE MOLINA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	45.45	1,983	4,998	(2,648)	(403)
IBERBUS MARIA PITA, LTD.	GEORGE'S DOCK HOUSE, IFSC; DUBLIN	45.45	2,177	5,262	(1,789)	(596)
TOTAL			24,930			

As a result of the commitments assumed by the majority shareholder of these companies under the contracts entered into for the formation of the Iberbus companies which guarantee for Iberia, Líneas Aéreas de España, S.A. the recovery of the full amount of the amounts invested, these companies were excluded from consolidation in 2000.

OTHER INVESTMENTS

As of December 31, 2001, the Group had the following holdings:

1. A 9.143% holding in Opodo, Ltd. (formerly Online Travel Portal), a company which was incorporated to make common sales via the Internet. As of December 31, 2000, Iberia, Líneas Aéreas de España, S.A. had made an investment of € 7,200 thousand which had been provisioned in full. In 2001 Opodo, Ltd. increased capital by € 25,200 thousand, of which Iberia, Líneas Aéreas de España, S.A. subscribed to € 2,304 thousand (2,304,000 shares of € 1 par value each) relating to its ownership interest of 9.143%. As of December 31, 2001, the € 7,200 thousand provision was maintained.

2. In 2001 Iberia, Líneas Aéreas de España, S.A. acquired a 10% holding in Iniciativa de Mercados Interactivos, S.A., which in the future will be called Adquira, for € 3,583 thousand. This company engages in grouping together Internet purchase orders in order to obtain better prices. This holding was acquired through three loans granted by Telefónica, S.A. (€ 896 thousand), Telefónica Publicidad e Información, S.A. (€ 896 thousand) and BBVA E- Commerce (€ 1,791 thousand), which mature on August 15, 2002. To secure fulfillment of these obligations, the related securities are pledged to the lenders.

3. In 2001 Iberia, Líneas Aéreas de España, S.A. subscribed to 1.86% of the capital of Cordiem LLC and to 2.07% of the capital stock of Cordiem Inc for € 2,330 thousand. This Group engages in the creation of an Internet portal for the purchase and sale of assets common to airlines.

4. Also, in 2001 Iberia, Líneas Aéreas de España, S.A. subscribed to 40% of the capital stock of Sociedad Preparatoria de Medios de Pago, S.A. for € 361 thousand. This company, which was inactive in 2001, is the company which constitutes an initial step towards setting up a credit finance entity in 2002 for the issuance of payment instruments.

In 2001 the Iberia Group sold its holding in France Telecom that it obtained as a result of the exchange of shares of EQUANT, NV. The related capital gain of € 16,184 thousand was recorded under the "Revenues from Other Marketable Securities" caption in the accompanying 2001 consolidated statement of income.

OTHER LONG-TERM RECEIVABLES

The detail of the main items recorded under this caption in the accompanying consolidated balance sheet as of December 31, 2001, is as follows:

OTHER LONG-TERM RECEIVABLES	THOUSANDS OF EUROS
LOANS TO IBERBUS COMPANIES	224,725
LOAN TO AEROLÍNEAS ARGENTINAS, S.A.	3,914
DEPOSITS AND GUARANTEES FOR OPERATION OF AIRCRAFT UNDER DRY LEASE ARRANGEMENTS (NOTE 8)	2,042
DEPOSITS AND GUARANTEES FOR OPERATION OF AIRCRAFT UNDER WET LEASE ARRANGEMENTS (NOTE 8)	8,443
DEPOSITS AND GUARANTEES FOR OPERATION OF AIRCRAFT LEASED FROM ILFC (NOTE 8)	11,913
OTHER	14,543
	265,580

The main data on the principal loans granted by the Iberia Group as of December 31, 2001, are as follows:

LOANS			
	THOUSANDS OF EUROS	MATURITY	INTEREST RATE
AEROLÍNEAS ARGENTINAS, S.A.	3,914 (a)	2006	5.25%
IBERBUS CONCHA, LTD.	22,301	02-29-2003	5.00%
IBERBUS ROSALÍA, LTD.	22,133	05-10-2003	5.00%
IBERBUS CHACEL, LTD.	24,515	09-06-2003	6.00%
IBERBUS ARENAL, LTD.	25,078	10-18-2003	6.00%
IBERBUS TERESA, LTD.	22,676	10-21-2004	6.00%
IBERBUS EMILIA, LTD.	22,775	11-10-2004	6.00%
IBERBUS AGUSTINA, LTD.	22,786	05-15-2005	6.00%
IBERBUS BEATRIZ, LTD.	22,858	06-15-2005	6.00%
IBERBUS JUANA INÉS, LTD.	12,537	12-01-2006	6.00%
IBERBUS MARÍA DE MOLINA, LTD.	13,185	03-15-2007	6.00%
IBERBUS MARÍA PITA, LTD.	13,881	06-15-2007	6.00%
TOTAL	228,639		

(a) A provision for this amount is recorded under the "Provisions for Contingencies and Expenses" caption in the accompanying consolidated balance sheet as of December 31, 2001.

The Iberbus companies are the lessor companies of the A-340 aircraft (see Note 8). Both the principal and the related interest mature on the dates shown above.

10. SHARES OF THE CONTROLLING COMPANY

The variations in 2001 in the "Shares of the Controlling Company" caption in the accompanying consolidated balance sheet as of December 31, 2001, were as follows:

SHARES OF THE CONTROLLING COMPANY	THOUSANDS OF EUROS
BALANCE AT JANUARY 1, 2001	-
ADDITIONS	25,410
REDUCTIONS	(10,340)
BALANCE AT DECEMBER 31, 2001	15,070

In any evaluation of the Iberia Group's net worth as of December 31, 2001, the value of the treasury stock should be deducted from the consolidated equity figure included in the accompanying consolidated balance sheet. The 14,563,218 shares of the Controlling Company held by the Group as of December 31, 2001, represent 1.59% of the capital stock of Iberia, Líneas Aéreas de España, S.A., with an overall par value of € 11,359 thousand and an average acquisition cost of € 1.035 per share. The balance of € 15,070 thousand of the "Reserve for Treasury Stock" account as of December 31, 2001, covers in full the net book value of the aforementioned shares.

The period additions relate to the acquisitions made by Iberia, Líneas Aéreas de España, S.A. in 2001.

The period reductions relate mainly to the delivery of shares to certain employees of Iberia, Líneas Aéreas de España, S.A. who, pursuant to the agreements entered into in 2000 as a result of the merger of Iberia, Líneas Aéreas de España, S.A. and Aviación y Comercio, S.A., opted to collect their merger extra payroll payment in the form of Iberia, Líneas Aéreas de España, S.A. shares. As of December 31, 2000, the Iberia Group had recorded a provision of € 9,232 thousand to cover this obligation.

11. GOODWILL/NEGATIVE GOODWILL IN CONSOLIDATION

GOODWILL IN CONSOLIDATION

As indicated in Note 6-a, the goodwill relates to the positive difference between the amount paid by Iberia Líneas Aéreas de España, S.A. to acquire a 67% holding in Aviación y Comercio, S.A. and the underlying book value of the holding as of December 31, 1997.

As permitted by Law 37/1998 amending Article 194 of the Corporations Law, the directors of Iberia, Líneas Aéreas de España, S.A. opted to amortize this goodwill on a straight-line basis over 20 years from the acquisition date (November 10, 1998).

The only variation in 2001 in this caption in the accompanying consolidated balance sheet related to the period amortization charge of € 6,613 thousand.

NEGATIVE GOODWILL IN CONSOLIDATION

As indicated in Note 6-a, the negative goodwill in consolidation relates to the difference between the investment made in Touroperador Viva Tours, S.A. by Iberia, Líneas Aéreas de España, S.A. to acquire 49% of its capital stock and the underlying book value of the holding as of March 31, 2000.

The only variation in 2001 in this caption was the allocation of the Iberia Group's share of the losses incurred by Touroperador Viva Tours, S.A. in 2001 to the consolidated statement of income.

12. SHORT-TERM FINANCIAL INVESTMENTS

The detail of the balance of this caption in the accompanying consolidated balance sheet as of December 31, 2001, is as follows:

DECEMBER 31, 2001	THOUSANDS OF EUROS
SHORT-TERM DEPOSITS	884,314
SHORT-TERM DEPOSITS AND GUARANTEES	12,150
UNMATURED INTEREST RECEIVABLE	7,198
LOANS TO AEROLÍNEAS ARGENTINAS, S.A. (NOTE 9)	2,359
IBERBOND BONDS (NOTE 9)	1,170
OTHER SHORT-TERM FINANCIAL INVESTMENTS	31,762
TOTAL	938,953

The short-term deposits earned average annual interest of 4.472% in 2001.

13. SHAREHOLDERS' EQUITY

The variations in equity accounts in 2001 were as follows:

	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	DIFFERENCES DUE TO THE ADJUSTEMENT OF CAPITAL STOCK TO EUROS	LEGAL RESERVE	MERGER RESERVE
BALANCES AT JANUARY 1, 2001	712,110	96,454	1,201	40,474	165
DISTRIBUTION OF CONSOLIDATED INCOME FOR 2000	-	-	-	17,941	-
RESERVE FOR TREASURY STOCK	-	-	-	-	-
CONSOLIDATED INCOME FOR 2001, PER ACOMPANYING CONSOLIDATED STATEMENT OF INCOME	-	-	-	-	-
BALANCES AT DECEMBER 31, 2001	712,110	96,454	1,201	58,415	165

CAPITAL STOCK

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A.'s capital stock consisted of 912,962,035 fully subscribed and paid registered shares of € 0.78 par value each.

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A.'s shareholders were as follows:

CAPITAL STOCK AT DECEMBER 31, 2001		
	NUMBER OF SHARES	PERCENTAGE
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	91,290,716	10.00
BA & AA HOLDINGS LIMITED	91,296,204	10.00
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	66,642,223	7.30
COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA, S.A.	61,164,780	6.70
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES	49,212,526	5.39
OTHER SAVINGS BANKS	27,404,254	3.00
EL CORTE INGLÉS, S.A.	27,387,215	3.00
IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.	14,563,218	1.59
OTHER, INCLUDING EMPLOYEES	484,000,899	53.02
TOTAL	912,962,035	100.00

THOUSANDS OF EUROS							
RESERVE FOR TREASURY STOCK	REVALUATION RESERVE	VOLUNTARY RESERVES	RESERVES AT COMPANIES CONSOLIDATED BY GLOBAL INTEGRATION METHOD	RESERVES AT COMPANIES CARRIED BY THE EQUITY METHOD	INCOME FOR THE YEAR	TOTAL	DIVIDENDS
-	38	8,875	66,496	37,106	201,183	1,164,102	-
-	-	116,840	2,913	18,864	(201,183)	(44,625)	44,625
15,070	-	(15,070)	-	-	-	-	-
-	-	-	-	-	50,189	50,189	-
15,070	38	110,645	69,409	55,970	50,189	1,169,666	-

In April 2001 Sociedad Estatal de Participaciones Industriales, the former majority shareholder of Iberia, Líneas Aéreas de España, S.A., launched a public offering of shares on the stock exchange. 442,912,736 shares were ultimately offered and the issue price was € 1.19 per share. The offering was divided into a Spanish tranche and an international tranche.

The Spanish tranche had a retail tranche, divided into a general subtranche and an employee subtranche, and an institutional tranche.

The international tranche was targeted at institutional investors and was not registered in any jurisdiction other than Spanish jurisdiction.

Pursuant to the agreements entered into with the employees in 1999, Iberia, Líneas Aéreas de España, S.A. offered its employees from May 2001 a stock option plan for Iberia, Líneas Aéreas de España, S.A. shares. Under this plan, the employees had to accept the options prior to May 16, 2001, and deposit € 0.3 (Ptas. 50) per share before August 31, 2001. Iberia, Líneas Aéreas de España, S.A. undertook to refund the deposit within one year from acceptance of the plan by the employee concerned if the employee decided to abandon the plan. The option exercise price is the price at which the public offering of Iberia, Líneas Aéreas de España, S.A. shares was launched in April 2001.

As of December 31, 2001, approximately 30,187,000 options had been accepted and not returned by the employees. The related advance payments of € 9,056 thousand is recorded under the "Other Nontrade Payables" caption in the accompanying consolidated balance sheet as of December 31, 2001.

In order to cater for the commitments to the employees of Iberia, Líneas Aéreas de España, S.A., the latter's Shareholders' Meeting empowered its Board of Directors to issue debentures convertible into shares of Iberia, Líneas Aéreas de España, S.A., with exclusion of the current shareholders' preemptive subscription right, for an amount of up to € 343 million or, alternatively, to deliver shares of treasury stock.

ADDITIONAL PAID-IN CAPITAL

The revised Corporations Law expressly permits the use of the additional paid-in capital balance to increase capital and establishes no specific restrictions as to its use.

LEGAL RESERVE

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock.

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

DIFFERENCES DUE TO THE ADJUSTMENT OF CAPITAL STOCK TO EUROS

In the redenomination of the capital stock in euros, which was approved by the Board of Directors in 2000, the difference arising as a result of the rounding off made it necessary to reduce capital and to record a restricted reserve in accordance with current legislation.

REVALUATION RESERVE AND MERGER RESERVE

As a result of the merger by absorption of Aviación y Comercio, S.A. in 2000, a merger reserve was recorded.

Also, Aviación y Comercio, S.A., in its merger balance sheet as of January 31, 2000, had recorded a revaluation reserve as a result of the revaluation made pursuant to Royal Decree-Law 7/1996. Pursuant to current legislation, Iberia, Líneas Aéreas de España, S.A. recorded a revaluation reserve equal to the amount obtained by applying to the merger reserve the percentage represented by Aviación y Comercio, S.A.'s revaluation reserve on its total equity as of January 31, 2000.

**RESERVES AT COMPANIES CONSOLIDATED BY THE GLOBAL INTEGRATION METHOD
AND CARRIED BY THE EQUITY METHOD**

The detail of the balance of the "Reserves at Companies Consolidated by the Global Integration Method" caption in the accompanying consolidated balance sheet as of December 31, 2001, is as follows:

DECEMBER 31, 2001	THOUSANDS OF EUROS
BINTER CANARIAS, S.A.	5,296
BINTER MEDITERRÁNEO, S.A.	(38,405)
COMPANÍA AUXILIAR AL CARGO EXPRES, S.A.	1,584
CAMPOS VELÁZQUEZ, S.A.	6,300
CARGOSUR, S.A.	(3,657)
IBER-SWISS CATERING, S.A.	4,075
VIVA VUELOS INTERNACIONALES DE VACACIONES, S.A.	(74,235)
SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJES, S.A.	9,602
TOTAL	(89,440)
CONSOLIDATION ADJUSTMENTS	158,849
TOTAL	69,409

The breakdown of the consolidation adjustments is as follows:

DECEMBER 31, 2001	THOUSANDS OF EUROS
RESERVES OF AVIACIÓN Y COMERCIO, S.A.	83,827
REVERSAL OF PROVISIONS FOR LONG-TERM FINANCIAL INVESTMENTS IN IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A., MADE BY DEPENDENT COMPANIES IN PRIOR YEARS	125,321
ELIMINATION OF DIVIDENDS RECEIVED IN PRIOR YEARS	(35,857)
ELIMINATION OF GAINS ON FIXED ASSET DISPOSALS	(568)
AMORTIZATION OF GOODWILL	(14,329)
OTHER	455
TOTAL	158,849

The detail of the balance of the "Reserves at Companies Carried by the Equity Method" caption in the accompanying consolidated balance sheet as of December 31, 2001, is as follows:

RESERVES AT COMPANIES CARRIED BY THE EQUITY METHOD	THOUSANDS OF EUROS
VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A.	(93,447)
AMADEUS GROUP	93,355
TOUROPERADOR VIVA TOURS, S.A.	(1,719)
TOTAL	(1,811)
CONSOLIDATION ADJUSTMENTS	57,781
TOTAL	55,970

The breakdown of the consolidation adjustments is as follows:

CONSOLIDATION ADJUSTMENTS	THOUSANDS OF EUROS
REVERSAL OF PROVISIONS FOR LONG-TERM FINANCIAL INVESTMENTS IN IBERIA, LINEAS AÉREAS DE ESPAÑA, S.A., MADE BY DEPENDENT COMPANIES IN PRIOR YEARS	94,822
ELIMINATION OF DIVIDENDS RECEIVED IN PRIOR YEARS	(43,796)
ADDITION TO NET WORTH NET OF TAXES RELATING TO AMADEUS	12,494
ELIMINATION OF GAINS ON FIXED ASSET DISPOSALS	(7,458)
REVERSAL OF NEGATIVE GOODWILL IN CONSOLIDATION	1,719
TOTAL	57,781

OTHER MATTERS

The restricted reserves at the consolidable Group companies amounted to € 8,599 thousand as of December 31, 2001 (€ 5,660 thousand of revaluation reserves and € 2,939 thousand of legal reserves).

As of December 31, 2001, the accumulated losses of VIVA Vuelos Internacionales de Vacaciones, S.A. and Cargosur, S.A. had reduced their net worth to less than one-half and two-thirds, respectively, of capital stock and, accordingly, the respective directors are currently assessing various measures to restore the companies' net worth equilibrium by the related deadlines established in current legislation.

The companies with holdings of 10% or more in the capital stock of the dependent companies as of December 31, 2001, were as follows:

DECEMBER 31, 2001		
COMPANY	PERCENTAGE OF OWNERSHIP	INVESTEES
MARÍTIMAS REUNIDAS, S.A.	25.00	COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A.
AMADEUS GLOBAL TRAVEL DISTRIBUTION, S.A.	34.00	SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJES, S.A.
SWISS-AIR GROUP	30.00	IBER-SWISS CATERING, S.A.
AIR FRANCE	35.69	AMADEUS GROUP
LUFTHANSA	27.92	AMADEUS GROUP
FONDO DE INVERSIÓN VENEZOLANO	40.00	VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A.
BANCO PROVINCIAL	15.00	VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A.
SOL MELIÁ, S.A.	21.98	TOUOPERADOR VIVA TOURS, S.A.
IBEROSTAR HOTELES Y APARTAMENTOS, S.A.	14.99	TOUOPERADOR VIVA TOURS, S.A.

14. MINORITY INTERESTS

The variations, by dependent company, in the balance of the "Minority Interests" caption in the accompanying consolidated balance sheet as of December 31, 2001, were as follows:

DECEMBER 31, 2001	THOUSANDS OF EUROS				
	VIVA VUELOS INTERNACIONALES DE VACACIONES, S.A.	IBER-SWISS CATERING, S.A.	COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A.	SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJE, S.A.	TOTAL
BALANCE AT JANUARY 1, 2001	(56)	3,125	577	3,458	7,104
DIVIDENDS	-	(394)	(136)	(428)	(958)
SHARE IN 2001 INCOME	(20)	659	162	2,148	2,949
BALANCE AT DECEMBER 31, 2001	(76) (a)	3,390	603	5,178	9,095

(a) A provision had been recorded for this account receivable from minority interests as of December 31, 2001.

The breakdown, by company, of the balance of this caption as of December 31, 2001, is as follows:

DECEMBER 31, 2001					THOUSANDS OF EUROS
DEBT:	CAPITAL STOCK	RESERVES	REVALUATION RESERVES	SHARE IN INCOME	TOTAL
VIVA VUELOS INTERNACIONALES DE VACACIONES, S.A.	(68) (a)	12	-	(20)	(76)
IBER-SWISS CATERING, S.A.	902	1,410	419	659	3,390
COMPANÍA AUXILIAR AL CARGO-EXPRES, S.A.	48	391	2	162	603
SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJE, S.A.	83	2,947	-	2,148	5,178
	965	4,760	421	2,949	9,095

(a) In 1998 Iberia, Lineas Aéreas de España, S.A. made a contribution of Ptas. 2,500 million to offset losses. Since the minority shareholders did not make any contribution, this amount was not included in calculating the balance of the "Minority Interests" caption.

15. PROVISIONS FOR CONTINGENCIES AND EXPENSES

The detail of the balance of this caption in the accompanying consolidated balance sheet as of December 31, 2001, is as follows:

PROVISIONS FOR CONTINGENCIES AND EXPENSES	THOUSANDS OF EUROS
PROVISIONS FOR PENSIONS (NOTE 6-m)	47,186
PROVISIONS FOR OBLIGATIONS TO EMPLOYEES (NOTE 6-o)	452,106
PROVISION FOR MAJOR REPAIRS (NOTE 6-e)	129,188
PROVISION FOR THIRD-PARTY LIABILITY (NOTE 6-p)	669,592
TOTAL	1,298,072

PROVISION FOR THIRD-PARTY LIABILITY

The variations in the balance of this caption in 2001 were as follows:

PROVISION FOR THIRD-PARTY LIABILITY	THOUSANDS OF EUROS
BALANCE AT JANUARY 1, 2001	610,310
SALE OF COMPANIES	(42)
PROVISIONS (NOTE 19)	110,728
AMOUNTS USED	(52,162)
RECLASSIFICATION (NOTE 9)	758
BALANCE AT DECEMBER 31, 2001	669,592

As of December 31, 1999, a provision of € 180,304 thousand had been recorded relating to the estimated present value of payments to be made to employees availing themselves of a layoff plan carried out in 2000 and 2001. 869 employees availed themselves of this plan, which was closed as of December 31, 2001, and entailed a cost of € 131,484 thousand. As of December 31, 2001, a provision of € 98,990 thousand had been recorded for the early retirements (monthly payments) relating to 806 persons.

To calculate this liability as of December 31, 2001, an actuarial study was conducted by independent actuaries using the unit credit method, the main technical parameters of which were an assumed interest rate of 3.5%, an estimated annual CPI increase of 2% and Spanish PERM/F-2000 P life-expectancy tables.

In 2001 the payments made in this connection out of the provision recorded as of December 31, 2000, amounted to € 22,612 thousand.

In 2000 the directors of the Controlling Company recorded a provision of € 180,304 thousand, with a charge to the "Extraordinary Expenses" caption, to cover the estimated cost of a labor force rejuvenation plan that was going to be implemented in 2001, 2002 and 2003. As a result of the events of September 11, 2001, which had worldwide repercussions, Iberia, Líneas Aéreas de España, S.A. prepared a labor force reduction plan, which was approved by the Ministry of Employment and Social Affairs on December 26, 2001. This plan was approved for a total target of 2,515 employees, divided into different groups, and is voluntary for the two parties. The deadline for submitting applications for all the groups of employees ended on January 31, 2002, except for pilots, the deadline for whom ends on December 31, 2002.

As of January 31, 2002, Iberia, Líneas Aéreas de España, S.A. had received 2,670 applications, of which it had accepted 2,302 as of February 28, 2002.

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had recorded a provision of € 249,991 thousand which was covered through the transfer to the related caption of the provision recorded as of December 31, 2000, for the labor force rejuvenation plan that had been cancelled amounting to € 180,304 thousand, for the unvested portion of the liability incurred as of December 31, 1999, under the layoff plan amounting to € 63,677 thousand, and by a provision of € 6,010 thousand recorded in 2001 with a charge to the "Extraordinary Expenses" caption in the accompanying 2001 consolidated statement of income.

The other provisions in 2001, which were also recorded mainly with a charge to the "Extraordinary Expenses" caption in the accompanying consolidated statement of income, relate to the estimate made by the Controlling Company's directors of the amount required to cover probable sundry third-party liability, mainly contingencies relating to Aerolíneas Argentinas, S.A., risks relating to the termination of wet lease contracts and other contingencies.

The other amounts used relate mainly to the payment of indemnity payments to VIVA Vuelos Internacionales de Vacaciones, S.A. employees and to the write-off of provisions for contingencies.

The remainder of the balance of the "Provision for Third-Party Liability" caption relates to the estimated amount required for probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount, and collateral and other similar guarantees provided by the consolidated companies.

16. PAYABLE TO CREDIT ENTITIES

The breakdown, by maturity, of the payables to credit entities as of December 31, 2001 (which related to loans and financial lease transactions -see Note 7), is as follows:

DECEMBER 31, 2001		THOUSANDS OF EUROS					
		D U E I N :					
CURRENCY		2002	2003	2004	2005	2006	SUBSEQUENT YEARS
IN EUROS		96,517	59,008	42,301	38,074	31,225	220,408
IN FOREIGN CURRENCIES:	YEN (P)	7,661	9,255	-	-	-	-
	YEN (I)	2,725	2,745	-	-	-	-
	U.S. DOLLAR (P)	193,808	2,583	10,017	-	-	-
	U.S. DOLLAR (I)	187	-	-	-	-	-
		300,898	73,591	52,318	38,074	31,225	220,408

The weighted annual average interest rates on the foregoing loans in 2001 were 5.77% for euro loans and 4.36% for foreign currency loans, and some of the rates were tied to MIBOR or LIBOR, respectively.

17. FUTURES TRANSACTIONS

The policy of Iberia, Líneas Aéreas de España, S.A. is to actively manage the risks arising from fluctuations in exchange and interest rates and in fuel prices.

Hedging transactions are arranged to minimize the impact of these variables on the consolidated statement of income. Following is a detail of the transactions arranged by Iberia, Líneas Aéreas de España, S.A. as of December 31, 2001, based on the following criteria: notional values to hedge asset and liability positions, and for options, exchange rate hedging and fuel price hedging transactions, and present values of the income hedged for the other future collection and payment flow hedging transactions.

DECEMBER 31, 2001

THOUSANDS OF EUROS

HEDGING OF ASSET AND LIABILITY POSITIONS:
EXCHANGE RISK HEDGING TRANSACTIONS

CROSS-CURRENCY SWAPS	597,632
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INTEREST RATE RISK HEDGING TRANSACTIONS

INTEREST RATE SWAPS (IRS'S)	88,363
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HEDGING OF FUTURE CASH FLOWS:
EXCHANGE AND INTEREST RATE RISK HEDGING TRANSACTIONS

CROSS-CURRENCY INTEREST RATE SWAPS (SWAPS AND CURRENCY SWAPS)	85,984
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EXCHANGE RISK HEDGING TRANSACTIONS

CROSS-CURRENCY SWAPS	210,598
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CALL OPTIONS BOUGHT	183,853
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CALL OPTION SOLD	230,132
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PUT OPTIONS BOUGHT	34,891
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PUT OPTIONS SOLD	225,823
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EXCHANGE RATE INSURANCE	29,302
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INTEREST RATE RISK HEDGING TRANSACTIONS

INTEREST RATE SWAPS (IRS'S)	24,668
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OTHER HEDGING TRANSACTIONS

FUEL PRICE HEDGING TRANSACTIONS	332,907
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18. TAX MATTERS

The corporate income tax of each of the companies consolidated by the global integration method is calculated on the basis of the result per books, which does not necessarily coincide with the taxable income for corporate income tax purposes.

The reconciliation of the consolidated income per books for 2001 of the companies composing the consolidable group to the taxable income for corporate income tax purposes is as follows:

(a) Relating basically to the deduction by Iberia, Líneas Aéreas de España, S.A. of the provisions of subsidiaries.

(b) Relating basically to the provisions for pensions and other obligations to employees, provisions for labor force rejuvenation costs, for contingencies related to investees and deferred income arising from memorandum loans and aircraft sales.

(c) Relating basically to the inclusion of the gains deferred due to reinvestment in 1996 through 2000, since the Group availed itself of the new reinvestment tax credit system.

(d) Relating mainly to releases of provisions recorded in prior years for pensions and other obligations to employees and for risks relating to accounts receivable and other provisions.

2001	THOUSANDS OF EUROS		
	INCREASE	DECREASE	AMOUNT
LOSS FOR THE YEAR PER BOOKS (BEFORE TAXES)			(85,232)
PERMANENT DIFFERENCES	1,177	(118,019)(a)	(116,842)
TIMING DIFFERENCES :			
ARISING IN THE YEAR	159,776 (b)	(2,070)	157,706
ARISING IN PRIOR YEARS	61,298 (c)	(159,903) (d)	(98,605)
TAXABLE INCOME (BEFORE CONSOLIDATION ADJUSTMENTS)	-	-	(142,973)
CONSOLIDATION ADJUSTMENTS :			
PERMANENT DIFFERENCES	10,921	(25,093)	(14,172)
TAX LOSS	-	-	(157,145)

The balance of the "Corporate Income Tax" caption in the accompanying 2001 consolidated statement of income relates to the sum of the corporate income tax expenses recorded by each company consolidated by the global integration method, the detail being as follows:

2001	THOUSANDS OF EUROS
APPLICATION OF THE 35% TAX RATE TO INCOME PER BOOKS ADJUSTED BY PERMANENT DIFFERENCES	(75,686)
ADD / (LESS):	
PROVISION FOR NEGATIVE PERMANENT DIFFERENCES	39,122
ADJUSTMENT OF 2000 CORPORATE INCOME TAX	(110,445)
OTHER	8,639
CORPORATE INCOME TAX	(138,370)

Through December 31, 2000, the consolidable Group filed consolidated corporate income tax returns with the controlling entity SEPI, the former majority shareholder.

As of December 31, 2000, Iberia, Líneas Aéreas de España, S.A. estimated the deferral of the taxation of the gain that it obtained in 2000 on the sale of shares of Amadeus Global Travel Distribution, S.A. However, when the corporate income tax return for 2000 was filed, the tax benefits were not taken, but rather the gain was included in full in taxable income and was offset by the prior years' tax losses contributed to the SEPI tax group, and Iberia, Líneas Aéreas de España, S.A. paid to the latter the amount agreed on for these tax losses. The net worth improvement arising from this adjustment is the difference between the deferral recorded at 2000 year-end and the cost of recovering the tax losses.

The tax assets and liabilities were recorded, on the basis of the recovery date, under the "Accounts Receivable", "Other Long-term Receivables", "Other Nontrade Payables" and "Long-Term Debt - Other Accounts Payable" captions in the accompanying consolidated balance sheet, the detail being as follows:

	THOUSANDS OF EUROS					
	RECEIVABLE			PAYABLE		
	CURRENT ASSETS-ACCOUNTS RECEIVABLE	LONG-TERM RECEIVABLES	TOTAL ACCOUNTS RECEIVABLE	OTHER NONTRADE PAYABLES	LONG-TERM DEBT-OTHER ACCOUNTS PAYABLE	TOTAL ACCOUNTS PAYABLE
TAXABLE INCOME FOR 2001	-	-	-	5,907	-	5,907
TAX LOSS FOR 2001	-	20,689	20,689	-	-	-
TIMING DIFFERENCES ARISING IN THE YEAR	-	48,353	48,353	-	725	725
UNALLOCATED TIMING DIFFERENCES, ARISING IN PRIOR YEARS	31,661	308,392	340,053	-	1,415	1,415
TOTAL	31,661	377,434	409,095	5,907	2,140	8,047

The estimated years for use of the long-term tax assets as of December 31, 2001, are as follows:

YEAR OF RECOVERY	THOUSANDS OF EUROS
2003	38,696
2004	38,696
2005 AND SUBSEQUENT YEARS	300,042
	377,434

The directors of the Group companies consider that all these assets will be recovered in not more than ten years.

Current corporate income tax regulations provide certain tax incentives to encourage new investment, training and export activity. The consolidated companies availed themselves of the tax benefits envisaged in this legislation and earned tax credits of € 20,345 thousand in 2001 in this connection, which have not yet been used.

In 2001 the Iberia Group availed itself of the tax regime for the reinvestment of extraordinary income and deducted € 1,224 thousand of tax. It also reinvested the price of the sales that gave rise to the gains in fixed assets amounting to € 11,336 thousand.

As of December 31, 2001, the Iberia Group had included in its taxable income all the income for which it had availed itself of the former reinvestment deferral system in prior years:

YEAR	THOUSANDS OF EUROS
1996	4,450
1997	5,502
1998	41,404
1999	2,928
2000	7,014
	61,298

In January 1997 the tax authorities commenced an audit of 1993 to 1995 for all the taxes applicable to Iberia, Líneas Aéreas de España, S.A. As a result of the aforementioned tax audit, tax assessments were issued and contested. The directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those recorded as of December 31, 2001, to arise as a result of these tax assessments.

In 1999 the tax authorities commenced an audit of 1996 and 1997 for all the taxes applicable to Iberia, Líneas Aéreas de España, S.A. As a result of the aforementioned tax audit, tax assessments were issued and contested. The directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those recorded as of December 31, 2001, to arise as a result of these tax assessments.

In 2001 the tax authorities issued tax assessments against Iberia, Líneas Aéreas de España, S.A. for customs tax relating to the second half of 1998, 1999 and the first five months of 2000. These tax assessments were contested. The directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those recorded as of December 31, 2001, to arise as a result of these tax assessments.

As of December 31, 2001, Iberia, Líneas Aéreas de España, S.A. had 1998, 1999, 2000 and 2001 open for review by the tax inspection authorities for all the taxes applicable it. The directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those for which a provision had been recorded as of December 31, 2001, to arise as a result of inspection of the open years.

As of December 31, 2001, no decision had yet been handed down in relation to a tax assessment issued by the tax authorities in 1992 in connection with Aviación y Comercio, S.A. relating to the taxes applicable to the company in 1989 and 1990. Additionally, in 1996 the tax authorities issued two assessments relating to the treatment of the tax prepayments on compensation in kind as a result of the personal income tax audits for 1993 and 1994. The related tax assessments were contested. Lastly, in 2000 the tax authorities audited all the taxes applicable to Aviación y Comercio, S.A. in 1996, 1997 and 1998. The tax assessments issued as a result of this audit were contested, and the directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those recorded in the consolidated balance sheet as of December 31, 2001, to arise as a result of these tax assessments.

As of December 31, 2001, 1999 and the period ended January 31, 2000, were open for review by the tax inspection authorities for all the taxes applicable to Aviación y Comercio, S.A. The directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those provisioned as of December 31, 2001, to arise in the event of an inspection of these two periods.

The directors of Iberia, Líneas Aéreas de España, S.A. do not expect any liabilities additional to those provisioned as of December 31, 2001, to arise in the event of an inspection of the years open for review at the other subsidiaries in the consolidable Group.

19. REVENUES AND EXPENSES

A) NET SALES

The breakdown of the consolidable Group companies' net sales in 2001 and 2000, by type of activity, is as follows:

BY TYPE OF ACTIVITY	THOUSANDS OF EUROS	
	2001	2000
PASSENGER TICKET REVENUES (a)	3,798,455	3,561,502
CARGO REVENUES	270,793	256,296
HANDLING (AIRCRAFT DISPATCHING AND AIRPORT SERVICES)	220,746	232,730
TECHNICAL ASSISTANCE TO AIRLINES	94,816	124,379
OTHER REVENUES	130,253	121,885
TOTAL	4,515,063	4,296,792

(a) Including other revenues derived from commercial agreements amounting to € 155,155 thousand in 2001 and € 103,102 thousand in 2000.

The breakdown of passenger ticket revenues in 2001, by network, is as follows:

BY NETWORK	THOUSANDS OF EUROS	
	2001	2000
SPAIN AND EUROPE	2,534,881	2,382,911
ATLANTIC	1,181,074	1,085,789
AFRICA AND ASIA	82,500	92,802
TOTAL	3,798,455	3,561,502

B) OTHER OPERATING REVENUES

The detail of the balances of the "Other Operating Revenues" caption in the accompanying consolidated statements of income is as follows:

OTHER OPERATING REVENUES	THOUSANDS OF EUROS	
	2001	2000
COMMISSIONS	105,839	93,313
RENT	19,589	57,144
OTHER SUNDRY REVENUES	97,757	40,136
	223,185	190,593

The revenues from commissions relate basically to the commissions on the sale of tickets for other airlines, the commissions arising from the franchise agreement entered into with Air Nostrum and the commissions obtained as a result of the agreements entered into with Mundicolor and Touroperador VivaTours, S.A.

C) EXTRAORDINARY REVENUES

The detail of the balance of the "Extraordinary Revenues" caption in the accompanying 2001 consolidated statement of income is as follows:

EXTRAORDINARY REVENUES	THOUSANDS OF EUROS
RECOVERY OF PROVISIONS FOR THIRD-PARTY LIABILITY	14,507
RECOVERY OF CONTINGENCY-RELATED OPERATING PROVISIONS	12,249
OTHER	6,025
	32,781

D) PURCHASES

The detail of the "Purchases" caption in the accompanying 2001 and 2000 consolidated statements of income is as follows:

PURCHASES	THOUSANDS OF EUROS	
	2001	2000
AIRCRAFT FUEL	634,677	576,299
AIRCRAFT SPARE PARTS	140,497	114,889
CATERING MATERIALS	33,232	30,922
OTHER PURCHASES	38,890	56,700
	847,296	778,810

The aircraft fuel expense in 2001 totaled € 668,257 thousand. However, the related futures transactions reduced this expense by € 33,580 thousand.

The amounts for 2000 were reclassified in accordance with the methods applied in 2001.

E) HEADCOUNT AND PERSONNEL EXPENSES

The breakdown of the balance of the "Personnel Expenses" caption in the accompanying consolidated statements of income for 2001 and 2000 is as follows:

HEADCOUNT AND PERSONNEL EXPENSES	THOUSANDS OF EUROS	
	2001	2000
WAGES, SALARIES, ETC.	1,033,950	1,013,138
EMPLOYEE WELFARE EXPENSES	327,238	324,210
	1,361,188	1,337,348

The average number of employees at the Group companies consolidable by the global integration method, measured in terms of equivalent average headcount, by professional category, in 2001 and 2000 was as follows:

EMPLOYEES	2001	2000
GROUND PERSONNEL:		
SENIOR MANAGERS AND OTHER LINE PERSONNEL	1,441	1,574
CLERICAL STAFF	6,940	7,103
OTHER	12,331	12,453
	20,712	21,130
FLIGHT PERSONNEL:		
PILOTS	1,973	1,921
FLIGHT ENGINEERS	153	216
CABIN CREW	4,685	4,340
	6,811	6,477
	27,523	27,607

F) OTHER OPERATING EXPENSES

The detail of the balances of this caption in the accompanying 2001 and 2000 consolidated statements of income is as follows:

OTHER OPERATING EXPENSES	THOUSANDS OF EUROS	
	2001	2000
COMMERCIAL EXPENSES	514,124	509,748
AIRCRAFT LEASE PAYMENTS (a)		
WET LEASE (a)	111,079	146,671
DRY LEASE (a)	354,843	200,504
OTHER	11,098	13,713
AIR TRAFFIC SERVICES	293,427	279,198
STOPOVER EXPENSES	49,887	46,411
INCIDENT EXPENSES	18,802	16,115
NAVIGATION CHARGES	218,387	200,000
AIRCRAFT MAINTENANCE (b)	134,725	162,398
GENERAL MAINTENANCE	30,209	30,172
BOOKING SYSTEM EXPENSES	133,349	111,068
IN-FLIGHT SERVICES	106,321	83,040
OTHER RENT (c)	70,134	63,329
OTHER	296,249	266,899
	2,342,634	2,129,266

(a) In addition to the operating aircraft lease expense (see Note 8), this amount includes the cost of the aircraft wet lease contracts, which amounted to € 119,598 thousand in 2001 and to € 120,754 thousand in 2000.

The aircraft lease expense amounted to € 376,955 thousand and € 261,331 thousand in 2001 and 2000, respectively. However, the related futures transactions reduced these expenses by € 8,519 thousand in 2001 for wet leases and by € 22,112 thousand and € 60,827 thousand in 2001 and 2000, respectively, for lease expenses.

(b) Including maintenance expenses and the provision for major repairs.

(c) Including hold lease expenses amounting to € 5,229 thousand in 2001 and € 3,413 thousand in 2000.

The amounts for 2000 were reclassified in accordance with the methods applied in 2001.

G) EXTRAORDINARY EXPENSES

The detail of the balance of the "Extraordinary Expenses" caption in the accompanying 2001 consolidated statement of income is as follows:

EXTRAORDINARY EXPENSES	THOUSANDS OF EUROS
PROVISIONS FOR THIRD-PARTY LIABILITY (NOTE 15)	110,728
PROVISIONS FOR DC-9, DC-10 AND A-300 AIRCRAFT (NOTE 8)	16,738
PRIVATIZATION BONUS PAID TO EMPLOYEES	26,703
OTHER EXTRAORDINARY EXPENSES	15,197
	169,366

20. CONTRIBUTION OF GROUP AND ASSOCIATED COMPANIES TO CONSOLIDATED INCOME

The contribution of Group and associated companies to the 2001 and 2000 consolidated income was as follows:

CONTRIBUTION OF GROUP AND ASSOCIATED COMPANIES	THOUSANDS OF EUROS	
	INCOME / (Loss)	
	2001	2000
IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.	16,865	151,918
BINTER CANARIAS, S.A.	8,464	8,576
BINTER MEDITERRÁNEO, S.A.	-	6
COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A.	487	409
CAMPOS VELÁQUEZ, S.A.	15	-
CARGOSUR, S.A.	(1,244)	(6)
IBER-SWISS CATERING, S.A.	1,537	1,839
VIVA VUELOS INTERNACIONALES DE VACACIONES, S.A.	(3,738)	2,013
SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJE, S.A.	5,583	4,460
AMADEUS GROUP	24,928	32,978
VENEZOLANA INTERNACIONAL DE AVIACIÓN, S.A. (a)	-	-
TOUOPERADOR VIVA TOURS, S.A.	(2,708)	(1,010)
INCOME ATTRIBUTED TO THE CONTROLLING COMPANY	50,189	201,183

(a) As described in Note 3, it was not possible to obtain any recent financial statements for this company.

The detail of the balances of the "Income Attributed to Minority Interests" caption in the accompanying 2001 and 2000 consolidated statements of income is as follows:

COMPANY	THOUSANDS OF EUROS	
	INCOME / (Loss)	
	2001	2000
COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A.	162	138
IBER-SWISS CATERING, S.A.	659	787
VIVA VUELOS INTERNACIONALES DE VACACIONES, S.A.	(20)	12
SISTEMAS AUTOMATIZADOS AGENCIAS DE VIAJE, S.A.	2,148	1,713
INCOME ATTRIBUTED TO MINORITY INTERESTS	2,949	2,650

21. DIRECTORS' COMPENSATION AND OTHER BENEFITS

The compensation of all types earned by the directors of Iberia, Líneas Aéreas de España, S.A. amounted to € 1,321 thousand in 2001.

In 2001 no advances or loans were granted to the directors of Iberia, Líneas Aéreas de España, S.A. and there are no pension commitments to them.

22. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.



ANNUAL REPORT 2001



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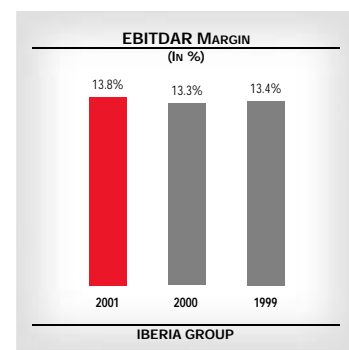
2001 CONSOLIDATED MANAGEMENT REPORT

DUE TO ITS LENGTH, THIS PUBLICATION INCLUDES ONLY A SUMMARY OF THE MANAGEMENT REPORT. THE COMPLETE TEXT HAS BEEN DEPOSITED WITH THE MERCANTILE REGISTER. TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH. IN THE EVENT OF A DISCREPANCY, THE SPANISH-LANGUAGE VERSION PREVAILS.

IBERIA
I B E R I A G R O U P

MAIN AGGREGATES

IBERIA GROUP	2001	2000	% VARIATION
INCOME (MILLIONS OF €)			
OPERATING REVENUES	4,738.3	4,487.4	5.6
EBITDAR	655.3	598.4	9.5
OPERATING INCOME	4.9	65.8	(92.6)
INCOME (LOSS) BEFORE TAXES	(85.2)	221.4	N/A
NET INCOME ATTRIBUTED TO THE COMPANY	50.2	201.2	(75.0)
NET EARNINGS PER SHARE (€ CENTS) (1)	5.50	22.04	(75.0)
DIVIDEND PER SHARE (€ CENTS) (1)	-	4.91	-
PASSENGER TRAFFIC: PRODUCTION AND REVENUES			
MILLIONS OF ASKS	59,014	54,863	7.6
MILLIONS OF RPKS	41,810	40,484	3.3
PASSENGER LOAD FACTOR (%)	70.8	73.8	(3.0 P.)
PASSENGER TICKET REVENUES (MILLIONS OF €)	3,643.3	3,458.4	5.3
AVERAGE REVENUE PER RPK (€ CENTS)	8.71	8.54	2.0
FINANCIAL AGGREGATES AND RATIOS			
SHAREHOLDERS' EQUITY (MILLIONS OF €)	1,169.7	1,164.1	0.5
NET DEBT (MILLIONS OF €) (2)	(243.0)	(17.7)	N/A
EBITDAR MARGIN (%)	13.8	13.3	0.5 P.
OPERATING INCOME MARGIN (%)	0.1	1.5	(1.4 P.)
OPERATING REVENUES PER ASK (€ CENTS)	8.03	8.18	(1.8)
OPERATING COST PER ASK (€ CENTS)	8.02	8.06	(0.5)
RESOURCES			
EQUIVALENT AVERAGE NO. OF FULL-TIME EMPLOYEES (3)	27,479	27,441	0.1
OPERATING AIRCRAFT AT DECEMBER 31	157	175	(10.3)
USAGE OF GROUP AIRCRAFT (B.H. PER AIRCRAFT PER DAY)	8.24	7.41	11.2



(1) Number of shares as of December 31, 2001 and 2000: 912,962,035.

(2) Negative figure means cash and cash equivalents exceed interest-bearing debt.

(3) Excluding Binter Mediterráneo and VIVA employees in both years.

1. 2001 HIGHLIGHTS

*Translation of a report originally
issued in Spanish.
In the event of a discrepancy,
the Spanish-language version prevails.*

In 2001 the Iberia Group proved capable of overcoming very difficult circumstances. Despite the weakness of the markets, it achieved an EBITDAR margin of 13.8% and positive consolidated earnings: operating income of € 4.9 million and income after taxes and minority interests of € 50.2 million.

In 2001 **IBERIA was admitted to listing**, a landmark in the Company's history which, in addition, constituted the last stage of its privatization. In April 2001, Sociedad Estatal de Participaciones Industriales (SEPI), through a public offering, sold 442,912,736 shares representing 48.51% of the Company's capital stock. One year earlier SEPI had sold 40% of IBERIA's capital stock to various institutional investors.

The aforementioned public offering consisted of a Spanish institutional tranche, an international institutional tranche and a retail tranche with two subtranches, one general and one aimed at employees. The sale process ended on April 2 with the placement of the securities at a price of € 1.19 per share. On April 3, 2001, IBERIA shares were admitted to listing on the Spanish Stock Exchanges.

Following the public offering, the Company's shareholder structure was as follows: Free-Float, 54.6%; British Airways and American Airlines, 10%; Caja Madrid, 10%; BBVA, 7.3%; Logista, 6.7%; El Corte Inglés, 3%; Ahorro Corporación, 3%; and, lastly, SEPI retained a holding of 5.4% as a nonstrategic financial investment.

On March 30, 2001, the Spanish Council of Ministers approved a Royal Decree for the application of the Prior Administrative Authorization Regime (golden share) to IBERIA. This golden share, which the Spanish government will retain in the Company for five years, will enable it to make certain acts that might affect IBERIA subject to State protection. The corporate resolutions subject to this regime are as follows: change of corporate purpose; voluntary dissolution, the spin-off or merger of IBERIA; the sale or charging with liens or encumbrances of the tangible fixed assets or intangible assets or of indeterminate portions or shares thereof owned by IBERIA; and the direct or indirect acquisition of Company shares or other equity interests that might carry the entitlement to subscribe or acquire, directly or indirectly, a holding of at least 10% in the Company's capital stock.

In 2001 the **air transport industry** was badly hit by the progressive cooling of the world economy and, above all, by the consequences of the terrorist attacks of September 11 in the U.S., which led to a sharp drop in demand in the last quarter and to spectacular increases in aircraft insurance and security costs.

As a result of the slowdown of the world economy, the air traffic volume growth rate, following several years of significant increases, dropped in early 2001. Per the Association of European Airlines (AEA), scheduled passenger traffic rose by only 0.7% in the first eight months of the year.

Following the terrorist attacks, the demand for plane tickets dropped by more than 15% between September and December 2001, leading to significant losses in the industry, as a result of which airlines reduced their supply.

According to AEA figures, in 2001 as a whole, scheduled passenger traffic fell by 4.7% and the capacity supplied was reduced by 1.7%. The decrease in air transport demand in 2001 led to an across-the-board drop in airline load factors, which was particularly significant in business class passengers.

In addition to these world-level problems, regard should be had to the specific effects at IBERIA of the labor unrest and conflicts concerning the pilots (between February 26 and March 7), and of the labor union SEPLA staged ten one-day strikes in June, July and August, the Company's busiest period in terms of traffic.

As a result of all of this, the Iberia Group's scheduled passenger traffic, in terms of revenue passenger-kilometres (RPKs), grew by 3.3% over the year with respect to 2000. This sound performance can be explained, in part, by IBERIA's relatively minor presence in the markets which have been worst hit by the crisis (North Atlantic and the Middle East).

IBERIA's available seat-kilometres (ASKs) increased notably once again in 2001, particularly in Europe. IBERIA management, pursuant to the strategic **medium- and long-haul network company** structure, had projected an average increase of 10% as a whole and of 15% on European flights. However, the lackluster growth in global traffic in the first part of the year, together with the damage caused to the Company by the SEPLA (pilots' labor union) strikes, led management to prepare a Contingency Plan in which these growth forecasts were reduced. The sharp drop in demand following the September 11 terrorist attacks triggered the immediate application of a more aggressive anti-crisis Plan.

As a result, the annual growth was somewhat lower than initially expected. The Group's ASKs increased by 7.6% in its network as a whole; by 13.5% in the medium-haul segment (in which IBERIA had increased its capacity by 13.4% in 2000); by 7.9% on long-haul routes; and by 1.8% on domestic flights.

In the international medium-haul network, IBERIA operated new direct flights from Madrid to Stuttgart, Dublin and Hamburg, and it increased the frequency of flights on certain of its by now habitual scheduled routes such as Amsterdam, Brussels, Rome and Milan from Madrid and Barcelona; and Dusseldorf, Paris and Malabo from Madrid. Also, when the summer season started, the Iberia Group included a new route in its scheduling, namely Madrid - Strasbourg, through its franchised airline Air Nostrum.

As regards long-haul routes, IBERIA's scheduling included additional direct flights to Mexico, Buenos Aires, Lima, Caracas, Bogotá, Santiago de Chile, São Paulo, Quito and Guayaquil. Accordingly, the Airline offered one or more direct flights per day between Spain and 13 Latin American capitals. The number of flights each week to Johannesburg was also increased from July onwards.

In addition, in March and April 2001 the Company replaced the four MD-87 stationed at the Miami hub with four A-319 aircraft, which have more seats, thereby increasing by 6.5% the number of seats on the flights between Miami and Central America (Cancun, Panama, Guatemala, San Salvador, San Pedro Sula, Managua and San José de Costa Rica). The A-319 aircraft are also equipped with more advanced technology, are more comfortable and offer additional services to passengers.

This growth in the long- and medium-haul networks was accompanied by the expansion of the short-haul network, mainly through the franchised airline Air Nostrum. In the domestic market, Air Nostrum took over certain low-frequency routes (such as those between Madrid and Almería, Santander and Melilla). This enabled IBERIA to optimize its resources and improve profitability, while maintaining customer service and service quality and, at the same time, contributing passengers to the Group's network. Air Nostrum, the leading regional airline in Spain, also increased the frequency of its flights on certain routes that it already operated (such as Barcelona - Valladolid) and started to fly to new destinations (such as Badajoz) in 2001. As in prior years, the Iberia Group scheduled additional flights between the mainland and the Balearic and Canary Islands at Easter and Christmas (111 and 184 flights, respectively) to cater for the increase in demand during these vacation periods.

Under the Contingency Plan, the implementation of which was expedited to respond more efficiently to the drop in demand, flight scheduling was restructured from the beginning of the winter season (October 28, 2001). Iberia reduced its capacity by approximately 11% with respect to the forecasts in the 2000/2003 Master Plan, and discontinued routes or reduced supply on a selective basis. The frequency of flights to Tel Aviv and Cairo was reduced and the direct flights between New York and Barcelona and the routes with Tunisia were discontinued. Also, in line with its strategic objectives, IBERIA reduced the number of domestic flights, which affected certain mainland routes and flights between the Spanish mainland and the Canary Islands.

Although the Iberia Group's load factor fell by 3.0 percentage points in 2001, its market share in strategic sectors improved, as follows: Spain-Europe, 35.3% (up 0.3%); and Europe-Latin America, 15.8% (up 0.7%). These improvements were even more significant in business class traffic (another strategic area of the 2000/2003 Master Plan), where IBERIA's market share increased by 1.1% in the Spain-Europe market to 38.5%, and by 1.7% in the Europe-Latin America market to 15.6%.

In 2001 IBERIA entered into several **agreements with airlines** (with both members of the **oneworld** alliance and other airlines), including most notably an extension of the code-sharing agreements between IBERIA and its partner British Airways, which were first entered into in 1999. Accordingly, from January 31, 2001, British Airways introduced its code in another four routes operated by Iberia Regional Air Nostrum (between Madrid and Almería, Murcia, Pamplona and Zaragoza), and from May 1, IBERIA and British Airways extended their agreements to two long-haul routes, specifically to Bangkok, for flights operated by British Airways, and to Lima, for flights operated by IBERIA. At the end of 2001, the code-sharing agreements between the **oneworld** alliance partners encompassed 35 destinations, most of which were located in Spain and the U.K.

In May 2001 IBERIA and British Airways entered into a more far-reaching agreement with the signing of a Memorandum of Understanding for joint operations in Latin American markets. This would mainly entail the extension of code-sharing operations, including the parallel services between Europe and Latin America; the joint planning of flight timetables on South Atlantic routes and the joint setting of price levels for these routes; and the coordination of sales activities, including joint price offers.

In 2001 the Iberia Group obtained passenger revenues of € 3,643 million, up € 185 million (5.3%) on 2000. International traffic revenues increased by the slightly higher rate of 6.3%.

By sales volume, IBERIA continues to be the leader in e-commerce in Spain. In 2001 the sales made through **iberia.com**, the Company's Internet website, amounted to € 75 million, more than double the billings achieved in 2000. During the year iberia.com was improved by simplifying its browsing processes and amplifying its content. The website can now be accessed from more countries (Spain, the U.K., Ireland, Germany, Austria, France, Italy and the U.S.), and customers are now offered additional products, such as an electronic ticket service, a virtual store and a tourism package (Fly&Drive).

As a result of the growth in direct sales through the iberia.com and Serviberia sales channels and of the development of new commercial management models in Spain and Europe, IBERIA was able to reduce the relative weight of its commercial costs (net of third-party revenues) by 0.9 percentage points with respect to 2000 to 10.1% of traffic revenues in 2001 and, therefore, to meet another of the objectives of the Master Plan.

With the same objective of making the offer of new services and the reduction of costs compatible, IBERIA continued to foster the use of the **electronic ticket** in Spain. In 2001 232,014 "cybertickets" were sold (by both travel agencies and the Company's own sales channels), representing an increase of 172% with respect to 2000. In 2002 these electronic tickets will foreseeably be introduced in Germany, Belgium, France, the Netherlands, Italy, Portugal and the U.K.

At 2001 year-end, **Iberia Plus**, the Company's frequent-flier loyalty-card program, which celebrated its tenth anniversary in September 2001, had more than one million registered cardholders and included more than 30 international cooperating companies. The tour operator Viva Tours and the NH Hoteles hotel chain joined the program in June 2001 and January 2002, respectively. Moreover, the Iberia Plus cardholders benefit from the program's membership of the **oneworld** alliance, as a result of which the card is recognized by all eight of the members of the alliance (IBERIA, Aer Lingus, American Airlines, British Airways, Cathay Pacific, Finnair, Lan Chile and Qantas) and their respective subsidiaries.

As regards its **customer service policy**, in 2001 IBERIA and the other leading European airlines signed the "Voluntary Commitment to the Customer". This is a code of conduct which establishes the service levels offered to customers before, during and after their flight. This commitment covers 14 different points encompassing aspects including, inter alia: improving information when making bookings and in all stages of the journey; meeting customer needs in the event of prolonged flight delays; reducing the number of passengers affected by overbooking, promoting the voluntary surrender of seats; expediting baggage check-in and collection; and reducing claim response times.

IBERIA received ISO 9001 certification from AENOR for its Flight Operations Department and ISO 9002 certification for its handling and cargo services and for its Systems Management data processing center.

As regards the **cargo business**, 2001 was a good year for IBERIA but a bad year for the industry as a whole, since the economic cooldown led to a general drop in traffic. In these circumstances, the Company's strategy was to focus on passenger traffic and base its cargo operations on the use of available space in the passenger aircraft holds, which proved to be a wise decision. Despite the market conditions, in 2001 Iberia Carga increased its revenues by 7.4% with respect to 2000, as a result of an increase in the load factor (almost 2 percentage points) and in the average yield (5.9%).

IBERIA, fulfilling its **fleet renewal plan**, added 15 Airbus aircraft to its fleet in 2001, consisting of ten A-320 planes, two A-321 planes and three A-340 planes. The A-320 and A-321 aircraft form part of IBERIA's new short-/medium-haul fleet structure, whereas the A-340 aircraft enabled supply to be increased in the long-haul market. These 15 new aircraft were added to the 48 (31 Airbus and 17 Boeing planes) received in 1999 and 2000.

Also, in 2001 the last remaining DC-9 and B-727 aircraft in service, which were used for domestic and medium-haul international flights, were retired from Iberia, L.A.E.'s operating fleet. These aircraft, which had been used for 34 and 28 years, respectively, were replaced by new A-320-type aircraft.

The fleet renewal plan constitutes a fundamental stepping stone towards creating shareholder value. In addition to being more comfortable and offering new services to passengers, these new aircraft provide greater uniformity, thereby increasing the use of the aircraft and crew productivity (key strategic objectives of the 2000/2003 Master Plan) and reducing maintenance and fuel costs. The average usage of the aircraft owned by the Iberia Group was 8.2 block hours per plane per day in 2001, up 11% on 2000, with the biggest increase being achieved by Iberia, L.A.E. (almost 15%).

The productivity of Iberia, L.A.E.'s labor force improved by 8% with respect to 2000 in terms of ASKs per employee and by 4.5% in terms of block hours per technical crew member.

In 2001 IBERIA negotiated and signed new **collective labor agreements** (the ground personnel, the pilots, cabin crew and flight engineers) to regulate the Company's labor relations, thereby guaranteeing that there will be no labor unrest in the coming years.

These collective labor agreements will remain in force for four years (through December 31, 2004) for flight personnel. The collective labor agreement for ground personnel has a term of two years (through December 31, 2002), and an extension of a further two years is currently being negotiated. The main economic provisions of the agreements are similar for the four groups of employees, namely a pay rise equal to the increase in the CPI (2.7%) plus 0.5 percentage points in 2001, and equal to the increase in the CPI for the other years. The agreements also provided for several measures to increase productivity and for certain mechanisms for achieving additional pay rises tied to improved results and to the Company's earnings.

Negotiations between Company management and the pilots' representatives was set up on February 7, and continued in the second quarter of the year, but no agreement was reached. Finally, the industrial dispute led the Spanish government to impose mandatory arbitration.

The arbitral award, issued July 19, laid the foundations for the 7th Collective Labor Agreement. As regards wages, it provided for pay conditions similar to those offered by the Company, with compensation being tied to improved results, and it established that these conditions would be in force for four years. A highly significant feature of the award was the creation of a committee for resolving disputes between IBERIA and SEPLA-IBERIA to iron out any possible discrepancies between the Company and its pilots. This committee will constitute a fundamental means of avoiding conflicts arising from differing interpretations of the Collective Labor Agreement.

As regards the Iberia, L.A.E. labor force **Rejuvenation Plan** included in the 2000/2003 Master Plan and implemented from September 2000 onwards, in the period from January to September 2001 413 employee retirements were approved, bringing the total number of retirements since the Plan was introduced to 869.

In June 2001 the Board of Directors of Iberia, L.A.E. approved a new organizational structure for the Company's passenger transport area. This measure forms part of the unfinished process of creating subsidiaries and profit centers that will assume the management of the Company's various businesses, such as cargo transport, aircraft maintenance, passenger services at airports, systems and training. The plan for creating the "Iberia Holding Company" was put on hold due to the need to focus maximum attention and efforts on responding to the crisis arising from the events of September 11.

Work continued as scheduled on the **Euro Project**, which commenced in 1998, to adapt the procedures and systems affected. Since January 1, 2001, IBERIA has used the euro in issuing invoices to customers and in receiving invoices from suppliers. In addition, since July 1 the management systems have been euro-compliant, and since October 1 the euro has been used as the basic currency for the Company's accounting entries. By December 2001 IBERIA was issuing all its tickets in euros, and the Iberia Group did not encounter any problem in its transition to the euro in January 2002. In addition, IBERIA was an official sponsor of the European Central Bank's Euro Sponsorship Plan, which was managed in Spain jointly by the Bank of Spain and the Ministry of Economy.

On August 16, 2001, IBERIA and Air Nostrum entered into a contract for the **sale of Binter Mediterráneo** (executed in a public deed in October) for € 4.43 million. Accordingly, Air Nostrum took over the routes, aircraft and employees of Binter Mediterráneo in August 2001.

Also, in the third quarter of the year the subsidiary VIVA, which since 1999 had engaged solely in aircraft maintenance, discontinued operations due to its negative performance, to its accumulated losses and to the very black outlook for its market.

IBERIA continued to implement its nonoperating risk hedging strategy, and maintained its aircraft **fuel price hedging policy**. 2001 was characterized by an average crude oil price of over US\$ 26 per barrel in the first three quarters (with a maximum price of US\$ 30 per barrel) and by a drastic drop in crude oil prices (to approximately US\$ 19 per barrel) in the last quarter of the year.

IBERIA was able to hedge the price of 50% of the kerosene used in 2001 at US\$ 18.5 per equivalent barrel, and 40% in bands of between US\$ 23 and US\$ 32 per barrel. This enabled IBERIA to obtain a gain on its hedging positions of approximately € 34 million. Once again, IBERIA had one of the lowest unit fuel costs of the European airlines (US\$ 0.096 per ASK).

In 2001 approximately 18% of IBERIA's operating revenues were earned in U.S. dollars, while around 29% of its operating expenses were sensitive to fluctuations in the U.S. dollar. The hedging transactions arranged through various financial instruments corrected this mismatch, thereby reducing the sensitivity of the Group's earnings to fluctuations in the U.S. dollar/euro parity.

Iberia, L.A.E.'s operating revenue per ASK was 7.84 euro cents, down 1.4% from 2000, due mainly to the drop of 3 percentage points in the passenger load factor. However, the average cost per ASK remained practically the same as in 2000 at 7.88 euro cents, despite the increase caused by the exceptional increase in aircraft insurance costs and the cost of the security measures adopted after September 11. Disregarding these cost increases, the unit cost per ASK would have fallen by more than 1%.

The Iberia Group, shielded by its solid financial position, responded calmly to the crisis in the air transport industry, which affected Spain and Latin America to a lesser extent than other regions. Although December witnessed a general recovery in traffic, there is still an evident degree of uncertainty regarding the future of the markets. To cater for this situation, management of IBERIA implemented a capacity and cost cutting plan:

a) IBERIA reduced capacity by 11% (with respect to the targets in the 2000/2003 Master Plan) from the beginning of the 2001/02 winter season, through selective scheduling cuts. It reduced the number of planes in service, above all by terminating early the wet lease contracts with Air Europa and Air Atlanta. It also negotiated the postponement of the delivery of 17 new Airbus aircraft, which had been scheduled for delivery in 2002.

b) At the end of December 2001, the Directorate-General of Employment partially approved the Labor Force Reduction Plan submitted by IBERIA, affecting 2,515 employees of all categories (207 pilots, 520 cabin crew members, 13 flight technicians and 1,775 ground employees). This Labor Force Reduction Plan, which was approved by most of the Company's labor unions, provides for voluntary redundancies, in line with the formulas envisaged in the Social and Budget Law Accompanying Plan: early retirements, voluntary redundancies, deferred rehiring (termination of the employment contract for a minimum period of one year and maximum of two years, with the guarantee that the employee can rejoin the labor force thereafter) and novation of contract to a stable employment contract (i.e. a temporary reduction of working hours). The related decision extended these conditions to the pilots, with whom it had been impossible to reach this agreement, and stipulated that all the redundancies had to be voluntary.

c) The Company implemented the Investment and Cost Rationalization and Optimization Plan (PRO.ICO) the aim of which is to save € 108.2 million (Ptas. 18,000 million) in 2003 by taking measures in relation to all the controllable expense and investment areas.

The profitability levels achieved, together with its decision-making efficiency and speed, permit the Iberia Group to face 2002 with confidence and optimism, albeit within the constraints of the prudence imposed by the uncertainties that still surround the future of the air transport market.

2. BUSINESS PERFORMANCE

2.1. IBERIA GROUP PASSENGER TRANSPORT

Set forth below are the Iberia Group's statistics on supply, traffic and passenger revenues, broken down by company and by commercial sector. The sectors were defined by grouping legs together geographically, whereas the networks are defined by grouping together traffic routes (one or more legs linked by a flight code).

Binter Mediterráneo was sold to Air Nostrum in the summer of 2001, and its aggregates are only included in those of the Iberia Group through July. Accordingly, when analyzing the production and traffic figures for Binter Mediterráneo, it should be taken into account that the two periods being compared are not uniform.

2.1.1. PRODUCTION AND TRAFFIC

In terms of ASKs, the Iberia Group's supply increased by 7.6% with respect to 2000. Until October the growth in production exceeded 9%, but the adjustment made by Iberia, L.A.E. from the beginning of the winter season, in response to the fall in demand suffered by the air transport industry as a result of the terrorist attacks of September 11, reduced the annual average increase.

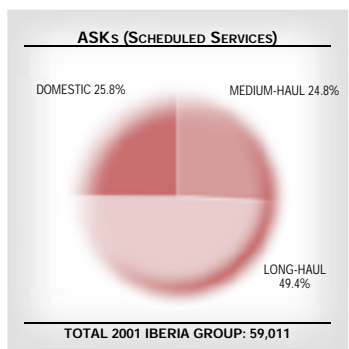
In 2001 99% of the Group's ASKs were operated by Iberia, L.A.E., which increased its supply by 7.7% with respect to 2000. Binter Canarias, whose supply rose by 6.2%, maintained its leadership in the inter-Canary Islands air transport market. The detail, by company, of the Iberia Group's ASKs is as follows:

SUPPLY BY COMPANY	MILLIONS OF ASKS			
	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	58,467	54,290	4,177	7.7
BINTER CANARIAS	496	467	29	6.2
BINTER MEDITERRÁNEO	51	106	(55)	(51.9)
IBERIA GROUP	59,014	54,863	4,151	7.6

By market, a noteworthy feature was the 13.5% increase in supply on international medium-haul flights, basically as a result of a greater density of frequencies to the main EU destinations, an area on which Iberia, L.A.E. continued to focus its efforts, in line with the strategy defined in the 2000/2003 Master Plan. Long-haul supply was 7.9% higher than in 2000, although supply on these flights grew by more than 10% in the summer season. In 2001 as a whole, the Iberia Group's supply on international flights in 2001 rose by 9.7% with respect to the preceding year.

The annual average increase in supply on domestic flights was 1.8%, although the percentage growth was 3.9% in the first ten months of the year.

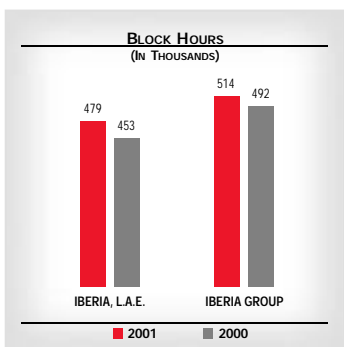
Fewer than 100 charter flights were operated at specific times by the subsidiaries, evidencing the scant importance of flights of this type to the Group's supply as a whole.


SUPPLY BY SECTOR

MILLIONS OF ASKs

	2001	2000	VARIATION 01/00	% VARIATION
DOMESTIC	15,225	14,956	269	1.8
INTERNATIONAL MEDIUM-HAUL	14,648	12,904	1,744	13.5
LONG-HAUL	29,138	26,998	2,140	7.9
SCHEDULED TRAFFIC	59,011	54,858	4,153	7.6
CHARTER TRAFFIC	3	5	(2)	(40.0)
IBERIA GROUP	59,014	54,863	4,151	7.6

Group production in terms of block hours was 4.6% higher than in 2000, despite the sale of Binter Mediterráneo in the summer and the cutback in the production of Iberia, L.A.E. in the last few months of the year, which was achieved mainly by retiring the planes operated under wet lease arrangements from service and returning them to the lessors.


PRODUCTION

PASSENGER AIRCRAFT BLOCK HOURS

	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	478,814	452,816	25,998	5.7
BINTER CANARIAS	30,970	30,396	574	1.9
BINTER MEDITERRÁNEO	4,260	8,394	(4,134)	(49.2)
IBERIA GROUP	514,044	491,606	22,438	4.6

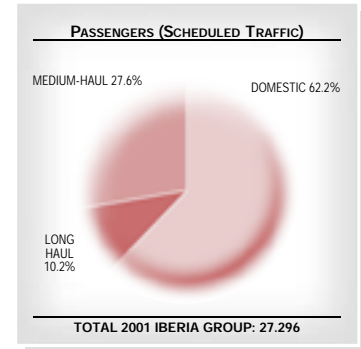
The Iberia Group carried 1.6% more passengers in 2001 than in 2000, and disregarding Binter Mediterráneo, the increase was 2.0%. The growth was due mainly to the greater number of flights offered by Iberia, L.A.E. on European international routes, and to the increase achieved by Binter Canarias on its Canary Island routes. The following two tables show the breakdown of the Iberia Group's passengers by company and by sector:

PASSENGERS BY COMPANY

THOUSANDS

	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	24,971	24,543	428	1.7
BINTER CANARIAS	2,183	2,035	148	7.3
BINTER MEDITERRÁNEO	144	291	(147)	(50.5)
IBERIA GROUP	27,298	26,869	429	1.6

PASSENGERS BY SECTOR	THOUSANDS			
	2001	2000	VARIATION 01/00	% VARIATION
DOMESTIC	16,989	17,029	(40)	(0.2)
INTERNATIONAL MEDIUM-HAUL	7,540	7,120	420	5.9
LONG-HAUL	2,767	2,713	54	2.0
SCHEDULED TRAFFIC	27,296	26,862	434	1.6
CHARTER TRAFFIC	2	7	(5)	(71.4)
IBERIA GROUP	27,298	26,869	429	1.6



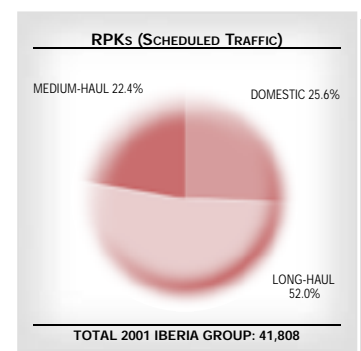
The Iberia Group's traffic, measured in revenue passenger-kilometres (RPKs), grew by 3.3% in 2001. RPKs increased faster than the number of passengers because, in line with the 2000/2003 Master Plan, the development of the scheduled flight network was focused on international routes. The RPKs increased by 6.4% on medium-haul flights and by 3.8% on long-haul flights, giving an average increase of 4.6% for international traffic taken as a whole.

This demand growth at the Iberia Group was achieved in difficult market conditions, due to the conflicts with SEPLA, to the progressive cooling of the economy and, above all, to the extraordinary events of September 11. Traffic grew by a cumulative 5.6% in the first eight months of 2001, only to fall back by 1.3% in the period from September to December.

The following two tables show the breakdown of the Iberia Group's RPKs by company and by sector:

TRAFFIC BY COMPANY	MILLIONS OF RPKs			
	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	41,390	40,049	1,341	3.3
BINTER CANARIAS	384	362	22	6.1
BINTER MEDITERRÁNEO	36	73	(37)	(50.7)
IBERIA GROUP	41,810	40,484	1,326	3.3

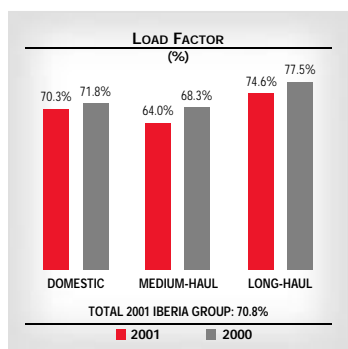
TRAFFIC BY SECTOR	MILLIONS OF RPKs			
	2001	2000	VARIATION 01/00	% VARIATION
DOMESTIC	10,700	10,739	(39)	(0.4)
INTERNATIONAL MEDIUM-HAUL	9,377	8,809	568	6.4
LONG-HAUL	21,731	20,932	799	3.8
SCHEDULED TRAFFIC	41,808	40,480	1,328	3.3
CHARTER TRAFFIC	2	4	(2)	(50.0)
IBERIA GROUP	41,810	40,484	1,326	3.3



The Iberia Group's passenger load factor of 70.8% in 2001 was 3 percentage points lower than in 2000 (when a very high load factor was achieved). The difference related to Iberia, L.A.E.'s network, where the rise in supply was the greatest, whereas the load factors of the regional subsidiaries were similar to those reported in 2000. The breakdown, by company, of the load factor is as follows:

LOAD FACTOR BY COMPANY				%
	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	70.8	73.8	(3.0)	(4.1)
BINTER CANARIAS	77.5	77.4	0.1	0.1
BINTER MEDITERRÁNEO	69.1	69.2	(0.1)	(0.1)
IBERIA GROUP	70.8	73.8	(3.0)	(4.1)

The growth in Iberia, L.A.E.'s traffic was lower than the increase in supply, due to the aforementioned negative factors that successively hit the Company during the year, making it impossible to consolidate the signs of recovery that certain markets showed for a brief period. The detail, by sector, of the load factor in 2001 and 2000 is as follows:



LOAD FACTOR BY SECTOR				%
	2001	2000	VARIATION 01/00	% VARIATION
DOMESTIC	70.3	71.8	(1.5)	(2.1)
INTERNATIONAL MEDIUM-HAUL	64.0	68.3	(4.3)	(6.3)
LONG-HAUL	74.6	77.5	(2.9)	(3.7)
SCHEDULED TRAFFIC	70.8	73.8	(3.0)	(4.1)
CHARTER TRAFFIC	55.9	85.5	(29.6)	(34.6)
IBERIA GROUP	70.8	73.8	(3.0)	(4.1)

2.1.2. TRAFFIC REVENUES

The yield (average revenue per RPK) increased by 2.0% with respect to 2000. Several factors prevented the rise from being higher: (I) the across-the-board increase in supply, above all in Europe, and the weakness of certain international markets, which pushed prices down; (II) the effect on the average yield of the significant growth in the supply of Iberia, L.A.E. on international routes, which have a lower yield because their distance is longer; and (III) the general deterioration of the class mix, which was an important factor in the crisis suffered by the air transport industry in 2001.

The trend in the yield was positive in the domestic sector in 2001, with a rise of 4.3% with respect to 2000, as a result of the strategy implemented by IBERIA in this market. The yield also increased by 3.5% on long-haul routes, due in part to the slight appreciation of the U.S. dollar.

The following two tables show the variations in the Iberia Group's average yield, by company and sector:

AVERAGE YIELD PER RPK BY COMPANY

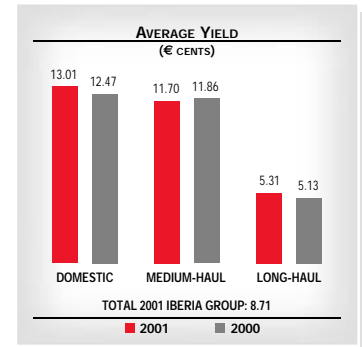
€ CENTS

	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	8.51	8.35	0.16	1.9
BINTER CANARIAS	27.94	25.48	2.46	9.7
BINTER MEDITERRÁNEO	33.40	29.03	4.37	15.1
IBERIA GROUP	8.71	8.54	0.17	2.0

AVERAGE YIELD PER RPK BY SECTOR

€ CENTS

	2001	2000	VARIATION 01/00	% VARIATION
DOMESTIC	13.01	12.47	0.54	4.3
INTERNATIONAL MEDIUM-HAUL	11.70	11.86	(0.16)	(1.3)
LONG-HAUL	5.31	5.13	0.18	3.5
SCHEDULED TRAFFIC	8.71	8.54	0.17	2.0
CHARTER TRAFFIC	24.62	14.17	10.45	73.7
IBERIA GROUP	8.71	8.54	0.17	2.0



Since the rise in the average yield only partially offset the fall in the load factor, the average revenue per ASK dropped by 2.1% for the Iberia Group's production as a whole. The detail of the average revenues per ASK by company and sector is as follows:

UNIT REVENUES PER ASK BY COMPANY

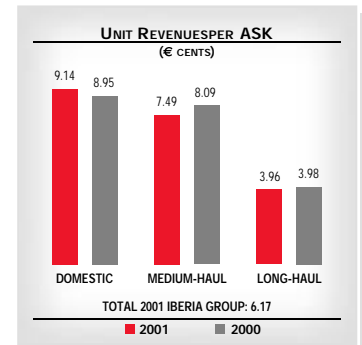
€ CENTS

	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	6.03	6.16	(0.13)	(2.1)
BINTER CANARIAS	21.64	19.73	1.91	9.7
BINTER MEDITERRÁNEO	23.10	20.10	3.00	14.9
IBERIA GROUP	6.17	6.30	(0.13)	(2.1)

UNIT REVENUES PER ASK BY SECTOR

€ CENTS

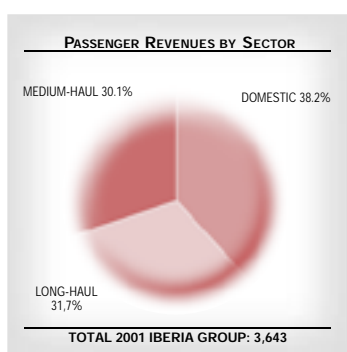
	2001	2000	VARIATION 01/00	% VARIATION
DOMESTIC	9.14	8.95	0.19	2.1
INTERNATIONAL MEDIUM-HAUL	7.49	8.09	(0.60)	(7.4)
LONG-HAUL	3.96	3.98	(0.02)	(0.5)
SCHEDULED TRAFFIC	6.17	6.30	(0.13)	(2.1)
CHARTER TRAFFIC	13.77	12.12	1.65	13.6
IBERIA GROUP	6.17	6.30	(0.13)	(2.1)



The Iberia Group's passenger revenues increased by 5.3% (almost € 185 million), to € 3,643 million in 2001, the detail by company being as follows:

PASSENGER REVENUES BY COMPANY				MILLIONS OF €
	2001	2000	VARIATION 01/00	% VARIATION
IBERIA, L.A.E.	3,524.1	3,345.0	179.1	5.4
BINTER CANARIAS	107.3	92.2	15.1	16.4
BINTER MEDITERRÁNEO	11.9	21.2	(9.3)	(43.9)
IBERIA GROUP	3,643.3	3,458.4	184.9	5.3

In a difficult year due to the adverse circumstances described earlier, the Iberia Group increased its traffic revenues in the three markets in 2001. In the domestic market, despite the slight fall in demand, revenues rose by 3.9%. Medium-haul international revenues increased by 5.0%, helped by the rise in demand and despite a 1.3% drop in the average yield. The increase in long-haul traffic (3.8%) was accompanied by a higher yield (3.5%), leading to a 7.5% increase in long-haul revenues.



PASSENGER REVENUES BY SECTOR				MILLIONS OF €
	2001	2000	VARIATION 01/00	% VARIATION
DOMESTIC	1,391.6	1,339.2	52.4	3.9
INTERNATIONAL MEDIUM-HAUL	1,096.8	1,044.3	52.5	5.0
LONG-HAUL	1,154.5	1,074.3	80.2	7.5
SCHEDULED TRAFFIC	3,642.9	3,457.8	185.1	5.4
CHARTER TRAFFIC	0.4	0.6	(0.2)	(33.3)
IBERIA GROUP	3,643.3	3,458.4	184.9	5.3

2.2. BINTER CANARIAS

In 2001 Binter Canarias continued to dominate the Canary Islands air transport market, with a market share of over 96%. In terms of ASKs, supply in 2001 (125 flights per day) increased by 6.2% with respect to 2001, and satisfactory quality and frequency levels were attained. Demand was firm, and the number of passengers on scheduled flights increased by 7.5%.

In 2001 Binter Canarias entered into a wet lease contract with NAYSA to operate the low-demand routes (La Gomera) using the lessor's 19-seat Beechcraft 1900 aircraft. This made it possible to cover the routes and slots that the disappearance of Atlantic Airways had left vacant since December 2000, within the framework of a market governed by the "Public Service Obligations" established for the Canary Islands air transport routes.

Implementation of the measures envisaged in the Strategic Plan for 1999-2002, as regards the increase in the number of scheduled flights, had to be postponed, and the restrictions on the hiring of technical crew was extended to the summer of 2001. Accordingly, Binter Canarias entered into a wet lease contract for one 68-seat ATP aircraft to meet demand in the summer months (July through October). Binter Canarias obtained a margin of € 0.6 million on this transaction.

The implementation of the major aeronautical repair program evidenced, following the latest 36,000 cycle overhaul, that the provisions recorded in this connection were insufficient, since aircraft aging has accentuated the effects of corrosion and wear, leading to an increase in aircraft maintenance costs. This increase with respect to previous estimates was quantified at 27%, making it necessary to update the provisions recorded in prior years, leading to an increase in both operating and extraordinary expenses.

The work to bring the aircraft into line with the safety standards established by Eurocontrol was completed at the end of the summer. The total investment of € 2.15 million made in 2000 and 2001 in this connection covered both owned and leased aircraft.

The cost of insurance policies relating to the air transport industry (third-party liability, ordinary hull loss and hull war insurance) rocketed throughout the industry after September 11. Binter Canarias was not able to offset this increase through fare increases, since the fare increase applied at the beginning of January 2001 (an average rise of 5.1%) was the maximum increase permitted under the Public Service Obligations (established in July 1998 and not yet revised). The Ministry of Development is expected to revise these maximum fare ceilings in the first quarter of 2002.

There was a significant decrease in the corporate income tax charge as a result of the provision of € 6.12 million to be recorded to the Canary Islands Investment Reserve for future investments in the Canary Islands. This reserve is deductible from the tax base for corporate income tax purposes and is restricted as to its use for five years.

Despite the aforementioned cost increases, which adversely affected the company's earnings in 2001, operating income amounted to € 9.61 million and income before taxes to € 9.08 million (as compared with the € 10.24 million posted in 2000).

Both cash-flow and working capital improved with respect to 2000. In 2001 the ROE remained practically unchanged from 2000 at 36%. The ratio of equity to total equity and liabilities was unchanged at 33%, thereby consolidating a healthy financial structure.

The detail of this company's main aggregates is as follows:

BINTER CANARIAS				
	2001	2000	VARIATION 01/00	% VARIATION
MILLIONS OF ASKS	496	467	29	6.2
MILLIONS OF RPKS	384	362	22	6.1
LOAD FACTOR (%)	77.5	77.4	0.1	0.1
YIELD (€ CENTS/RPK)	27.94	25.48	2.46	9.7
PASSENGER REVENUES (MILLIONS OF €)	107.3	92.2	15.1	16.4
OPERATING INCOME (MILLIONS OF €)	9.6	11.1	(1.5)	(13.8)
NET INCOME AFTER TAXES (MILLIONS OF €)	8.5	8.6	(0.1)	(1.2)
EQUIVALENT FULL-TIME EMPLOYEES	412	371	41	11.1

2.3. BINTER MEDITERRÁNEO

Last summer Iberia, L.A.E. sold this regional airline subsidiary to Air Nostrum for € 4.43 million. Binter Mediterráneo operated its last flights as an Iberia Group company in July 2001.

2.4. VIVA AIR (MAINTENANCE)

This company, which had engaged in aircraft maintenance for the preceding two years, ceased operating in June 2001 and was subsequently liquidated, due to its poor business performance and the negative outlook for the market in which it operated.

2.5. SAVIA

The most salient feature of 2001 was the plan to replace ticket printers at travel agencies with others using more modern ATB technology, a process which commenced at the end of 2000. Also, as part of this technological renewal policy, work continued on replacing computers, for which renting transactions were used. This type of arrangement was also used to introduce new ticket printers. In addition, the migration of communication lines was substantially completed.

In January 2001 the company launched "Savia Tours", which distributes tour operators' products to travel agencies over the Internet.

Despite the crisis that hit the air transport industry in the last four months of the year, SAVIA's volume of business increased significantly in 2001 in comparison with 2000. In the Spanish market, the number of agencies connected to the system increased by 13.3% from 5,716 at 2000 year-end to 6,478 in December 2001. In the same period, the number of terminals installed at travel agencies increased by 17.8% from 16,468 to 19,393. Bookings (including flight and other bookings) totaled 28,055,908 in 2001, up 4.34% on the 26,888,130 bookings made in 2000.

As regards the Portuguese market, 253.889 bookings were made in 2001, up 26.8% on the 200,248 made in 2000. The number of terminals increased by 50% in 2001 from 301 to 451. Lastly, 135 agencies were connected to the system at 2001 year-end, as compared with 82 at the end of 2000, an increase of 43%.

The detail of this company's main aggregates is as follows:

SAVIA				
	2001	2000	VARIATION 01/00	% VARIATION
OPERATING REVENUES (MILLIONS OF €)	61.3	64.0	(2.7)	(4.2)
OPERATING INCOME (MILLIONS OF €)	11.4	9.9	1.5	15.0
NET INCOME AFTER TAXES (MILLIONS OF €)	7.7	6.2	1.5	24.2
EQUIVALENT FULL-TIME EMPLOYEES	99	83	16	19.3

2.6. IBER-SWISS CATERING

This company's volume of business in 2001, in terms of the number of trays, increased by 1.6% with respect to 2000. However, the increase in the number of trays through September 11 was approximately 6.5% higher than in 2000. Since demand for food trays slumped following the terrorist attacks in the U.S., the number of trays sold in 2001 was only slightly higher than in the preceding year.

As regards new customers, SAS has been an Iber-Swiss customer since November 1, 2001. However, due to a global agreement with LSG, the company stopped supplying US Airways from October 1, 2001.

The "suspensión de pagos" (Chapter 11-type insolvency proceedings) of Aerolíneas Argentinas and Swissair, together with the bankruptcy of Sabena, had a notable effect on the drop in production, particularly at the Málaga center. In the case of Swissair, the loss of production was partially offset by the increased volume of business of its subsidiary Crossair. All these circumstances, combined with the reduction in the number of Iberia, L.A.E. flights from November, made it necessary to tailor the resources of all types to the new demand situation.

The company is carrying out the last phase of the C.P.C. (Catering Points Calculation) project, which was based on the introduction of a tool for controlling each center's production and labor force; it will also be able to be used to calculate the cost incurred at each work center, on raw materials and labor and other expenses.

The company received AENOR certification under the UNE-EN-ISO-14001 standard for its environmental management. Also, Bureau Veritas Internacional España, S.A., under license from Club Gestión de Calidad, granted Iber-Swiss Catering the "European Quality" seal of approval for its management system.

Operating revenues amounted to € 68.81 million in 2001, up 1.7% on 2000. The cash flow of € 5.27 million in 2001 was 11.7% lower than that generated in 2000. Net income for the year amounted to € 2.20 million.

This company's main aggregates are summarized as follows:

IBER-SWISS CATERING				
	2001	2000	VARIATION 01/00	% VARIATION
PRODUCTION OF FOOD-TRAYS (THOUSANDS)	14,562	14,331	231	1.6
PLANES SERVED (UNITS)	139,619	138,361	1,258	0.9
EQUIVALENT FULL-TIME EMPLOYEES	1,523	1,475	48	3.3
FOOD-TRAYS PER EMPLOYEE	9,562	9,716	(154)	(1.6)
OPERATING REVENUES (MILLIONS OF €)	68.81	67.66	1.15	1.7
OPERATING INCOME (MILLIONS OF €)	3.85	4.37	(0.52)	(11.8)
NET INCOME AFTER TAXES (MILLIONS OF €)	2.20	2.63	(0.43)	(16.5)

2.7. CACESA

Sales of the Ibexpress product increased by 27.8% to € 14.97 million, although sales in terms of the number of kilograms grew by 37.8%. Worthy of particular mention in connection with this product was the increase in airport/airport sales, with an increase of 53% in terms of billings, and in Ibexpress Internacional sales, which increased by a notable 24.6% in terms of billings. In 2001 the company continued to develop the International Network in order to increase traffic between the Americas and Spain. To this end, agreements were entered into with agents in new countries (Colombia, Venezuela and the U.S.), to supplement those already in force (Mexico, Santo Domingo, Puerto Rico, Peru, Brazil, Argentina and Chile).

Sales of the Ibertras product amounted to € 17.35 million in 2001, down 2.2% from 2000, due to the decrease in the volume of animal-carrying traffic (bulls and cows) as a result of mad cow disease and to the loss of a significant volume of fish-carrying traffic between New York and Spain. Work continued on expanding the international network by carrying out sales promotion work in Latin American countries.

During the year a Quality Management system was implemented at the company, which made it possible to obtain certification under the international UNE-EN-ISO-9001-2000 standard in January 2002.

Total operating revenues amounted to € 36.49 million in 2001, an increase of 11.4% with respect to 2000. Implementation of the expense containment program continued in 2000, with positive results.

The detail of this company's main aggregates is as follows:

CACESA				
	2001	2000	VARIATION 01/00	% VARIATION
IBEXPRESS REVENUES (MILLIONS OF €)	14.97	11.71	3.26	27.8
IBERTRAS AÉREO REVENUES (MILLIONS OF €)	17.35	17.74	(0.39)	(2.2)
IBERTRAS MARÍTIMO REVENUES (MILLIONS OF €)	0.66	0.59	0.07	12.0
OPERATING INCOME (MILLIONS OF €)	1.01	0.74	0.27	36.5
NET INCOME AFTER TAXES (MILLIONS OF €)	0.65	0.55	0.10	18.2
EQUIVALENT FULL-TIME EMPLOYEES	137	126	11	8.7

2.8. VIVA TOURS

In 2001 this company adopted certain measures aimed at refocusing its positioning, with the following objectives: (I) to consolidate its image as the leading tour operator in its priority markets; (II) to achieve active recommendation by travel agencies by transmitting an image of quality and efficiency; (III) to participate in e-business projects; and (IV) to attain the business volume required to be profitable and to lead the Spanish market.

In order to achieve these objectives, certain measures were taken. As regards the internal organization, the operating, sales and marketing areas were strengthened. In connection with the product, a broad program of destinations was designed (separating Europe, Latin America and Spain) and emphasis was placed on transmitting an image of quality. In the distribution area, targets were set for sales of each product to travel agencies and Internet sales were promoted (Savia Tours, iberia.com, etc.). Lastly, Viva Tours joined the Iberia Plus program on June 1, 2001, as part of its policy to promote the company's product with the end customer.

In 2001 approximately 200,000 package tours were sold, as compared with the 315,000 sold in 2000. This significant drop in sales, which affected most destinations, was due to a series of adverse events, namely the economic recession which began to emerge in the first few months of the year; the Iberia, L.A.E. pilots' strikes at the beginning of the high season; and the terrorist attacks of September 11 in the U.S.

As a result of all the foregoing, the company's financial results for 2001 were extremely negative, despite the various cost-cutting measures adopted, some of which were partially felt in 2001, such as the reduction of the labor force by 59 employees (25% of the total headcount), whereas the effects of others (reduction of brochures, advertising, etc.) will be seen in 2002.

A budget has been set for 2002 which maintains a similar volume of package tours to that of 2001 due to the restrictive market conditions, but which, as regards earnings, envisages a breakeven or a slight profit, thanks to the aggressive cost-cutting measures.

3. RESOURCES

3.1. FLEET

The detail of the passenger aircraft operated by the Iberia Group as of December 31, 2001, is as follows:

FLEET				
AIRCRAFT TYPE	IBERIA	BINTER CANARIAS	WET LEASE	TOTAL OPERATED
B-727	-	-	-	-
B-737	-	-	-	-
B-747	9	-	-	9
B-757	18	-	-	18
B-767	-	-	-	-
A-300	5	-	-	5
A-319	4	-	-	4
A-320	52	-	-	52
A-321	4	-	-	4
A-340	15	-	-	15
DC-9	-	-	-	-
MD-87	24	-	-	24
MD-88	13	-	-	13
BEECH	-	-	2	2
CN-235	-	-	-	-
ATR-72	-	11	-	11
TOTAL*	144	11	2	157

* Excluding grounded aircraft ready for sale.

As of December 31, 2000, there were 175 available passenger aircraft. The following list shows the additions and retirements in 2001, explaining this reduction of 18 aircraft in service:

ADDITIONS

- 2 A-321 aircraft owned outright
- 10 leased A-320 aircraft (9 under operating lease and 1 under financial lease).
- 3 A-340 aircraft under operating lease
- 2 B-747 aircraft under operating lease
- 2 Beech-1900 aircraft under wet lease

RETIREMENTS

- 9 B-727 aircraft owned outright
- 3 B-737 aircraft under wet lease
- 2 B-747 aircraft under wet lease
- 1 B-747 aircraft owned outright
- 6 B-757 aircraft under wet lease
- 2 B-767 aircraft under operating lease
- 1 A-300 aircraft owned outright
- 1 A-320 aircraft owned outright
- 7 DC-9 aircraft owned outright
- 5 CN-235 aircraft owned outright

In the first ten months of 2001 IBERIA operated two B-737 aircraft (three until the commencement of the summer season), six Air Europa B-757 and two Air Atlanta B-747 aircraft under wet lease arrangements. However, in November operation of all these aircraft was discontinued as a result of the measures adopted by Iberia L.A.E. to respond to the crisis in the air transport industry.

In 2001 Binter Canarias operated two NAYSA Beechcraft 1900 under a wet lease arrangement. This subsidiary also operated one ATP under wet lease for a little over one month, between January and February; and subsequently, from July to October.

The average usage of the Iberia Group's aircraft, in terms of total block hours per aircraft per day, increased significantly in 2001, thereby meeting one of the key objectives of the 2000/2003 Master Plan:

USAGE AIRCRAFT	BH/AIRCRAFT/DAY	
	2001	2000
B-727	5.2	5.2
B-747	13.2	12.8
B-747M	10.7	10.4
B-757	7.9	7.2
B-767	11.5	11.9
DC-9	3.7	4.1
DC-10	-	8.9
MD-87	7.4	7.2
MD-88	7.6	7.5
A-300	7.8	6.8
A-319	6.8	6.1
A-320	7.8	7.1
A-321	8.5	8.2
A-340	14.2	13.1
CN-235 (BINTER MEDITERRÁNEO)	4.0	4.6
ATR-72 (BINTER CANARIAS)	6.5	7.5
AVERAGE SHORT- AND MEDIUM-HAUL AIRCRAFT USE	7.3	6.6
AVERAGE LONG-HAUL AIRCRAFT USE	13.6	12.4
TOTAL AVERAGE AIRCRAFT USE	8.2	7.4

3.2. PERSONNEL

3.2.1. HEADCOUNT

The table below shows the Iberia Group's average headcounts in 2001 and 2000 (both this and the following table contain figures for both years excluding the employees of Binter Mediterráneo and VIVA, in order to make the figures comparable):

AVERAGE ANNUAL HEADCOUNT						
	GROUND		FLIGHT		TOTAL	
	2001	2000	2001	2000	2001	2000
IBERIA, L.A.E.	18,682	19,122	6,626	6,264	25,308	25,386
BINTER CANARIAS	227	195	185	176	412	371
CACESA	137	126	-	-	137	126
IBER-SWISS	1,523	1,475	-	-	1,523	1,475
SAVIA	99	83	-	-	99	83
IBERIA GROUP	20,668	21,001	6,811	6,440	27,479	27,441
VARIATION 2001 / 2000 (%)	(1.6) %		5.8 %		0.1 %	

At 2001 year-end, Iberia, L.A.E. had 26,254 employees, representing almost 93% of the Group's total headcount. The comparative detail of the year-end headcount is as follows:

YEAR-END HEADCOUNT						
	GROUND		FLIGHT		TOTAL	
	2001	2000	2001	2000	2001	2000
IBERIA, L.A.E.	19,837	20,378	6,417	6,436	26,254	26,814
BINTER CANARIAS	225	201	178	175	403	376
CACESA	142	132	-	-	142	132
IBER-SWISS	1,415	1,551	-	-	1,415	1,551
SAVIA	106	88	-	-	106	88
IBERIA GROUP	21,725	22,350	6,595	6,611	28,320	28,961
VARIATION 2001 / 2000 (%)	(2.8) %		(0.2) %		(2.2) %	

In 2001 the Iberia Group's headcount fell, due mainly to the completion of Iberia, L.A.E.'s Rejuvenation Plan pursuant to the 2000/2003 Master Plan. Iber-Swiss's labor force was also reduced to tailor its resources to the fall in demand in the last four months of the years.

3.2.2. PRODUCTIVITY

The detail of the productivity of the crews (in block hours per crew member) in 2001 and 2000 is as follows:

PRODUCTIVITY OF THE CREWS	BLOCK HOURS PER CREW MEMBER			
	TECHNICAL CREW		CABIN CREW	
	2001	2000	2001	2000
IBERIA, L.A.E.	239.5	229.2	102.7	104.6
BINTER CANARIAS	346.4	350.1	325.7	338.9

The detail of the productivity in terms of ASKs per employee of the total labor force of each of the Iberia Group companies in 2001 and 2000 is as follows:

PRODUCTIVITY OF THE LABOR FORCE	MILLIONS OF ASKs/TOTAL EMPLOYEES		
	2001	2000	% VARIATION
IBERIA, L.A.E.	2.31	2.14	7.9
BINTER CANARIAS	1.20	1.25	(4.3)

4. FINANCIAL PERFORMANCE

4.1. OPERATING INCOME

The Iberia Group's operating income for 2001 amounted to € 4.88 million, the detail by company being as follows:

BY COMPANY	MILLIONS OF EUROS	
	2001	2000
IBERIA	(24.8)	36.4
AVIACO	-	(0.0)
VIVA	(2.2)	(2.5)
BINTER CANARIAS	9.6	11.1
BINTER MEDITERRÁNEO	(1.1)	0.5
CACESA	1.0	0.7
CARGOSUR	(0.0)	(0.0)
SAVIA	11.4	9.9
IBERSWISS	3.9	4.4
CAMPOS VELÁZQUEZ	(0.0)	(0.0)
IBERIA GROUP (*)	4.9	65.8

(*) The Group's figures do not match the total because of consolidation adjustments, including the sale of Binter Mediterráneo.

The detail of the Iberia Group's operating income statement for management accounting purposes, which differs from the audited statement of income because the revenue and expense items are aggregated using management accounting criteria, is as follows:

	MILLIONS OF EUROS			
	2001	2000	VARIATION 01/00	% VARIATION
OPERATING INCOME				
OPERATING REVENUES				
PASSENGER REVENUES	3,781.5	3,551.8	229.7	6.5
CARGO REVENUES	270.5	258.3	12.2	4.7
HANDLING	220.7	237.1	(16.4)	(6.9)
MAINTENANCE	94.8	120.7	(25.9)	(21.5)
SALES REVENUES	105.8	93.3	12.5	13.4
CATERING SALES	22.2	15.8	6.4	40.5
OTHER OPERATING REVENUES	242.7	210.4	32.3	15.4
	4,738.2	4,487.4	250.8	5.6
OPERATING EXPENSES				
PERSONNEL EXPENSES	1,361.2	1,337.4	23.8	1.8
FUEL	634.7	576.3	58.4	10.1
COMMISSIONS	514.1	509.7	4.4	0.9
AIRCRAFT LEASE EXPENSES	482.2	364.3	117.9	32.4
TRAFFIC SERVICES	362.1	341.7	20.4	6.0
AIRCRAFT MAINTENANCE	275.2	289.9	(14.7)	(5.1)
NAVIGATION CHARGES	218.4	200.0	18.4	9.2
PERIOD DEPRECIATION AND AMORTIZATION	173.4	171.7	1.7	1.0
BOOKING SYSTEMS	133.3	111.0	22.3	20.1
IN-FLIGHT SERVICES	106.3	83.0	23.3	28.1
OTHER OPERATING EXPENSES	472.4	436.6	35.8	8.2
	4,733.4	4,421.6	311.8	7.1
OPERATING INCOME	4.9	65.8	(60.9)	(92.6)

4.1.1. OPERATING REVENUES

The Iberia Group's operating revenues increased by nearly € 251 million (5.6%) in 2001, due mainly to the rise in traffic revenues, which increased as a result of the growth in the medium- and long-haul flight networks and of the positive trend in the passenger yield in the domestic and intercontinental markets and of the increase in the average cargo yield.

PASSENGER REVENUES

The difference in the passenger revenues between the figure shown in "Main Aggregates" and that included in "Traffic Revenues" (section 2.1.2., accompanying the production statistics) is due to the fact that the latter relates directly to the actual production for each year and does not reflect accounting adjustments and revaluations or the revenues derived from the unused ticket recovery process, which are included in the operating income statement.

The passenger revenues increased by € 229.7 million in 2001, the detail being as follows:

VARIATION IN PASSENGER REVENUES						MILLIONS OF EUROS
	VARIATION IN PASSENGER REVENUES 01/00	CAUSE OF THE VARIATION				VARIATION IN REVENUES PER BOOKS 01/00
		PRICE	VOLUME	PARITY	OTHER	
IBERIA, L.A.E.	179.1	56.1	99.2	23.8	56.9	236.0
BINTER CANARIAS	15.1	9.1	6.0	0	0.1	15.2
BINTER MEDITERRÁNEO (a)	(9.3)	1.7	(11.0)	0	(12.2)	(21.5)
IBERIA GROUP	184.9	66.9	94.2	23.8	44.8	229.7

(a) Binter Mediterráneo was excluded from consolidation.

The increase of € 229.7 million (6.5%) in passenger revenues in 2001 was due mainly to the rise in demand of 3.3% in terms of RPKs, despite the difficult market conditions and the sale of Binter Mediterráneo. Also, the average yield increased (by an annual average of 2.0% for the Group as a whole), due to the 3.5% rise on long-haul flights and, above all, the 4.3% increase in the domestic market. The slight appreciation of the U.S. dollar also contributed, albeit to a lesser extent, to the increase.

CARGO REVENUES

The cargo revenues were € 12.2 million (4.7%) higher than in 2000. Iberia, L.A.E. carried a slightly higher volume of cargo (1%) than in 2000, but achieved a 6.3% increase in the average yield, aided by the recovery of demand in the Mid and South Atlantic markets and, partially, by the appreciation of the U.S. dollar.

HANDLING REVENUES

The 6.9% drop in handling revenues was due to the 7.7% fall in handling services provided to third parties, measured in terms of weighted planes handled, which was not offset by the increase in the volume of planes handled for the Iberia Group (2.8%) and for Air Nostrum (8.7%). In the latter case, a portion of the increase was due to the acquisition of Binter Mediterráneo in the summer.

MAINTENANCE

In 2001 maintenance revenues fell by € 25.9 (21.5%) with respect to 2000, due mainly to the decrease in technical assistance rendered to third parties by Iberia Mantenimiento, particularly in relation to work on engines and parts, as a result of the difficulties experienced by certain of the main customers (Aerolíneas Argentinas and Air Liberté). Accordingly, in June the company terminated the related contracts. Revenues were also affected by Viva Mantenimiento's discontinuation of operations in the summer of 2001.

SALES COMMISSIONS

The increase in the volume of business led to an increase of € 12.5 million (13.4%) in these revenues, due largely to the greater activity of Air Nostrum and to the rise in billings relating to third-party ticket sales, in particular through the **oneworld** alliance.

OTHER OPERATING REVENUES AND CATERING SALES

In 2001 other operating revenues were 17.1% higher overall than in 2000, with the following items experiencing the highest growth: revenues from the use of booking systems; other traffic revenues (commercial agreements); work performed by the Company; catering sales; and, lastly, aircraft lease revenues (including the lease through October of two B-747 aircraft to Air Atlanta).

"Other Operating Revenues" include "Adjustment of Traffic Revenues Not Allocable to Passenger Routes" and "Other Traffic Revenues", which are included under "Passenger Revenues" in the notes to consolidated financial statements. The aggregate balances of these accounts were € 17 million in 2001 and € 9.7 million in 2000. Also, the "Other Operating Revenues" caption includes the balances of the "Adjustment of Traffic Revenues Not Allocable to Passenger Routes" and "Other Traffic Revenues" accounts relating to the cargo division, which in the notes to consolidated financial statements are included under "Cargo Revenues" and which totaled € 0.3 million in 2001 and -€ 2 million in 2000.

4.1.2. OPERATING EXPENSES

Operating expenses increased by 7.1% (€ 311.8 million) in 2001, due mainly to the higher passenger aircraft lease expenses as a result of the fleet renewal plan. Fuel costs and other operating costs (including traffic services, navigation charges and in-flight service costs) also grew significantly, due to the increase in production and higher prices. Safety expenses and, above all, aircraft insurance costs increased spectacularly as a result of the events of September 11. In contrast, other significant items such as personnel expenses or commercial expenses increased only slightly (by 1.8% and 0.9%, respectively).

PERSONNEL EXPENSES

Personnel expenses increased by only € 23.8 million with respect to 2000, as a result of the measures taken to contain this significant expense item. These measures included most notably the moderate salary rise agreed on in the new collective labor agreements of Iberia, L.A.E. (actual CPI increase of 2.7% plus 0.5% for all groups of employees) and the reduction of the number of ground employees and the maintenance of technical crew numbers, which gave rise to a significant increase in the productivity of the two groups.

The balance of the "Wages, Salaries, etc." caption increased by € 20.8 million (2.1%), and flight personnel per diems by € 7.7 million, due to the higher volume of business. The employee welfare expenses for the Iberia Group employees as a whole rose by € 3.0 million (0.9%).

The personnel expenses relating to ground staff rose by 0.5%, with a lower headcount than in 2000 and cutbacks in various expense items (per diems and premiums, overtime, and bonuses). The cost of the technical crew, with a very similar average headcount to 2000, did not increase for the Group as a whole. A salient feature of 2001 was the reduction achieved in the cost of premiums. However, cabin crew personnel expenses rose by 8.2%, due largely to the increase in the average headcount of Iberia, L.A.E. as a result of the higher growth of the long-haul network.

FUEL

Fuel expenses in 2001 were 10.1% (€ 58.4 million) higher than in 2000 for the following reasons: (I) increased production; (II) the high price in U.S. dollars of crude oil in the first three quarters of the year; and, to a lesser extent, (III) the appreciation of the U.S. dollar. A notable saving was achieved as a result of the lower consumption derived from the replacement of aircraft (the saving due to lower consumption in 2001 was € 28 million, as compared to only € 7.4 million in 2000). Also noteworthy was the expense reduction achieved by IBERIA through the fuel price hedging policy implemented in recent years, which made it possible to save € 34 million in this connection in 2001.

COMMERCIAL EXPENSES (COMMISSIONS, OVERCOMMISSIONS AND ADVERTISING)

In 2001 commercial expenses amounted to € 514.1 million, up only 0.9% on 2000 (in contrast to the 6.3% rise in traffic revenues). Net commercial costs (commercial expenses net of commercial revenues) fell by € 8.1 million (1.9%) with respect to the preceding year. Net commercial costs as a percentage of traffic revenues (passengers and cargo revenues) fell from 10.9% in 2000 to 10.1% in 2001, thereby meeting the target for 2001 set in this connection in the 2000/2003 Master Plan.

91.5% of the commercial expenses related to sales commissions and promotion and development expenses, which, as a whole, grew by only € 1.1 million (0.2%), in contrast to the 6.3% increase in passenger and cargo revenues. These costs continue to fall with respect to revenues, as a result of various commercial measures: increased use of new direct selling systems (iberia.com and Serviberia); extension of the system of fares net of commissions; and application of new systems for remunerating Spanish (Plan Valor 98) and European (Millennium) travel agencies.

Advertising and promotion expenses increased by € 3.3 million (8.2%) with respect to 2000, although they dropped by 17.8% with respect to the Annual Operating Plan for the year, due to the expense containment measures adopted in the latter part of 2001.

AIRCRAFT LEASE EXPENSES

The aircraft lease expenses, which includes aircraft operating and wet lease expenses and the expenses incurred in the lease of cargo holds, increased by € 117.9 million with respect to 2000. A higher operating lease cost due to the new aircraft additions under the fleet renewal program. However, the lease expenses were 3.4% lower than budgeted, thanks in part to the progressive drop in interest rates during the year.

TRAFFIC SERVICE COSTS

Traffic services costs (including, inter alia, landing charges, aircraft dispatching, aircraft cleaning and catering equipment, stopover charges and incident costs) rose by € 20.4 million (6.0%) with respect to 2000, for two main reasons, namely the significant impact on unit prices of the new landing charge regulations in Spain, and the increase in the Group's activity of 3.6% in terms of the number of planes taking off). The combination of these two factors led to a € 29.6 million increase in landing charges with respect to 2000.

The greater activity also led other items to increase, such as the charges for the use of passenger loading bridges, and apron parking and other airport services (€ 5.6 million) and flight personnel accommodation costs (€ 3.1 million).

Also, the work-to-rule strikes by SEPLA in the first quarter and, in particular, the delays caused by the increased security measures at airports following September 11 were partially responsible for the increase of € 3.2 million in "non-quality costs" (interrupted journeys, missed connections, luggage delivery expenses, etc.) in 2001.

AIRCRAFT MAINTENANCE

Aircraft maintenance expenses (including outsourced maintenance, spare parts used and the provisions for major repairs) fell by € 14.7 million (5.1%) in 2001, as a result of the drop in maintenance work performed for third parties and in the expense incurred in outsourcing aeronautical services due to the grounding or retirement of the aircraft on which the maintenance work was most outsourced (B767 and B737 aircraft leased from Air Europa under a wet lease arrangement). The unit cost of the aforementioned aircraft maintenance work fell by 11.7% with respect to 2000 to 0.47 euro cents per ASK.

NAVIGATION CHARGES

There was an increase in air traffic control expenses of 9.2% (€ 18.4 million) in 2001, due largely to the increase in activity and, in particular, to the increase in 2001 in the prices charged by Eurocontrol. The rates paid by the airlines depend on the unit prices set each year, on the weight of the aircraft and on the length of each flight. At the beginning of 2001 Eurocontrol increased its reference unit prices by more than 10% for the Madrid, Barcelona and Canary Islands flight information regions with respect to those in force in 2000, although the price rises were lower in other European regions.

BOOKING SYSTEM AND IN-FLIGHT SERVICE COSTS

Booking system expenses increased by € 22.3 million (20.1%) in 2001, due mainly to the higher proportion of bookings per passenger and to the 6.6% increase in the prices charged by Amadeus.

In-flight service costs, which also depend on the volume of passenger traffic, also increased significantly (by 28.1%) in 2001. This was due to the higher growth in demand on international routes (4.8% in terms of passengers), which have a higher unit catering cost.

OTHER OPERATING EXPENSES

These expenses include items such as rent and repair and upkeep services (other than those relating to aircraft); catering materials and other consumables; the variation in operating provisions; insurance; utilities and other communication costs; auxiliary services; etc. The aggregate balance of these expenses increased by € 35.8 million (8.2%) in 2001. The main increases were in aircraft insurance costs (up by more than € 20.6 million on 2000, due substantially in full to the terrorist attacks in September), and in security expenses (up € 3.8 million on 2000).

4.2. FINANCIAL AND EXTRAORDINARY RESULTS

The Iberia Group reported consolidated net income of € 53.1 million 2001, a year characterized by numerous difficulties.

FINANCIAL AND EXTRAORDINARY RESULTS		MILLIONS OF EUROS		
	2001	2000	VARIATION 01/00	% VARIATION
OPERATING INCOME	4.9	65.8	(60.9)	(92.6)
FINANCIAL REVENUES	68.5	38.2	30.3	79.3
FINANCIAL EXPENSES	(52.0)	(77.0)	25.0	(32.5)
EXCHANGE GAINS	67.8	91.0	(23.2)	(25.5)
EXCHANGE LOSSES	(73.9)	(81.3)	7.4	(9.1)
FINANCIAL INCOME (LOSS)	10.4	(29.1)	39.5	N.A.
SHARE IN THE INCOME OF COMPANIES CARRIED BY THE EQUITY METHOD	22.2	32.0	(9.8)	(30.6)
REVERSAL OF NEGATIVE GOODWILL IN CONSOLIDATION	0.6	1.0	(0.4)	(40.0)
AMORTIZATION OF GOODWILL IN CONSOLIDATION	(6.6)	(6.6)	0.0	0.0
INCOME FROM ORDINARY ACTIVITIES	31.5	63.1	(31.6)	(50.1)
EXTRAORDINARY REVENUES	68.7	462.2	(393.5)	(85.1)
EXTRAORDINARY EXPENSES	(185.4)	(303.9)	118.5	(39.0)
EXTRAORDINARY INCOME (LOSS)	(116.7)	158.3	(275.0)	N.A.
NET INCOME (LOSS) BEFORE TAXES	(85.2)	221.4	(306.6)	N.A.
TAXES	138.3	(17.5)	155.8	N.A.
CONSOLIDATED INCOME	53.1	203.9	(150.8)	(74.0)
INCOME ATTRIBUTABLE TO MINORITY INTERESTS	2.9	2.7	0.2	7.4
INCOME OF THE CONTROLLING COMPANY	50.2	201.2	(151.0)	(75.0)

The Iberia Group's financial earnings improved significantly in 2001 (€ 39.5 million up on 2000). Financial revenues increased by more than € 30 million, due largely to the rise in short-term financial investments and, in part, to the gain obtained on the sale of the shares of Equant (€ 16 million). Financial expenses decreased by € 25 million, as a result of the lower average indebtedness and the gradual drop in interest rates. The net effect of exchange differences worsened by € 15.8 million with respect to 2000, due largely to the appreciation of the U.S. dollar against the euro and the decrease in value of the pound with respect to the euro.

Extraordinary earnings were € 275 million lower in 2001 than in 2000. It should be noted that in 2000 Iberia, L.A.E. sold a portion of its holding in Amadeus GTD for a net gain of approximately € 367 million. In 2001 the extraordinary expenses included the provisions for probable sundry third-party liability, relating to all the risks that the Company's directors considered should be covered.

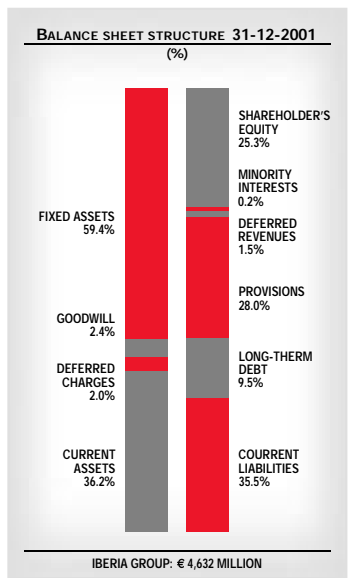
The lower corporate income tax expense partially cushioned this drop in extraordinary earnings. In preparing the 2000 consolidated financial statements, it was decided to apply the legal option of deferring over several years the taxation of the gain obtained on the aforementioned sale of Amadeus GTD shares. Subsequently, IBERIA used a portion of the prior years' tax losses to offset the full amount of the gain in the definitive corporate income tax settlement, since this was a better option than the deferral of the taxation. The net worth improvement arising from the adjustment of the corporate income tax for 2000 led to an increase in after-tax income of € 97 million in 2001.

4.3. INVESTMENTS

Most of the investment made by the Iberia Group in property, plant and equipment and intangible assets in 2001 relates to the plan to renew and standardize the aircraft, and includes the advances on aircraft ordered from Airbus (A-320, A-321 and A340 aircraft) and the resulting exchange differences, the addition to the proprietary fleet of three A-320, two A-321 and two MD-87 planes, the changes made to the long-haul aircraft and other transactions relating to the aircraft. Also noteworthy were the payments made for rotatable and repairable parts, flight simulators, computer hardware, vehicles and airport equipment, machinery and installations.

Also, the Group's sales of property, plant and equipment and intangible assets include most notably those arising from transactions relating to aircraft, including the recovery of advances on Airbus aircraft, the sale of 19 Boeing aircraft (18 B-727 planes and 1 B-747 M plane) and the sale of nine Airbus A-320 aircraft under sale and lease-back transactions.

The financial investments made by the Iberia Group in 2001 related mainly to the revaluation of Amadeus and the loans to the "Iberbus" companies (which own the A-340 aircraft).



4.4. BALANCE SHEET

As of December 31, 2001, the Iberia Group's equity amounted to € 1,169.7 million. Reserves increased by € 156.6 million with respect to 2000 year-end. In 2001 the Company paid a gross dividend of € 0.05 per share out of 2000 income, signifying that a total amount of € 44.83 million was allocated to shareholder remuneration.

The balance of the provisions for contingencies and expenses amounted to € 1,298.1 million at 2001 year-end. This figure includes: € 129.2 million of provisions for major aircraft repairs; € 499.3 million of provisions for pensions and other commitments to employees; and € 669.6 million of provisions for third-party liability.

The long-term debt decreased significantly in 2001, due to the reduction of almost € 157 million in long-term deferred income taxes as a result of the aforementioned adjustment of the corporate income tax for 2000 and of the transfer to short term of long-term payables to credit entities.

Current liabilities rose by € 349 million in 2001, due largely to the increase of nearly € 168 million in the balance of trade accounts payable, together with the aforementioned transfer of interest-bearing debt from long to short term.

Current assets (excluding treasury stock) were € 268 higher in 2001 than in 2000, thanks principally to the Company's higher volume of short-term financial investments.

The Company's net debt decreased significantly from -€ 17.7 million as of 2000 year-end to -€ 243.0 million as of December 31, 2001. In both years the short-term financial receivables exceeded the accounts payable to credit entities (including the interest on financial lease transactions).

4.5. OUTLOOK

The traffic statistics published each week by the Spanish Airline Association and the trend in bookings show a slight improvement in air traffic in recent weeks, following the slump after the events of September 11, although demand has not yet recovered to the levels of the preceding winter.

The main uncertainty surrounding the evolution of air traffic in the coming months appears to lie in the role that the economic cycle will play. The most probable scenario is that until the much-awaited upturn in the U.S. and European economies actually materializes, air traffic, above all in the business-class segment, will not return to the growth rates of prior years. The air transport industry still has several difficult months ahead.

In any case, IBERIA is one of the airlines best placed to face up to the present crisis in the air transport industry, because of both the market that it serves and its financial strength and the measures adopted.

The Iberia Group's strategic markets (Spain - Europe and Europe - Latin America) are expected to continue to perform better than most other regions. In addition, the effective and opportune measures adopted to respond to the new market situation (a cutback in production, the discontinuation of wet lease operations and the postponement of new aircraft additions, together with the reduction of other controllable costs through PRO.ICO and the Labor Force Reduction Plan) will contribute to a notable reduction in costs and increased profitability.

In short, the Iberia Group approaches 2002 with prudence as regards revenue generation and with stringent cost-cutting programs, in view of the uncertainties that still exist, but also with determination and optimism based on its production flexibility and financial strength.

