



**LEGAL
INFORMATION**

ANNUAL REPORT 2002

IBERIA 

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. 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, 2002, 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 2002 figures for each item in the balance sheet and statements of income and of changes in financial position, the figures for 2001. Our opinion refers only to the 2002 financial statements. Our auditors' report dated April 18, 2002, on the 2001 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 this same date containing an unqualified opinion. The effect of consolidation is indicated in Note 4-c to the financial statements referred to above.

In our opinion, the 2002 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, 2002, 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 2002 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 2002. 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.

DELOITTE & TOUCHE ESPAÑA, S.L.
Registered in ROAC under no. S0692

Luis de la Mora
April 7, 2003



FINANCIAL STATEMENTS

ANNUAL REPORT 2002

IBERIA 

BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001. (IN THOUSANDS OF EUROS).

The accompanying Notes 1 to 22 are an integral part of the balance sheet as of December 31, 2002.

ASSETS	Thousands of Euros	
	2002	2001
FIXED AND OTHER NONCURRENT ASSETS:		
Intangible assets (Note 5)	460,478	379,471
Property, plant and equipment (Note 6)	1,225,252	1,594,115
Aircraft:		
Cost	1,885,563	2,345,900
Accumulated depreciation and allowances	(1,036,834)	(1,151,520)
	848,729	1,194,380
Other tangible fixed assets:		
Cost	1,007,136	1,004,798
Accumulated depreciation and allowances	(630,613)	(605,063)
	376,523	399,735
Long-term investments (Note 7)	385,830	372,891
Investments in Group and associated companies	120,890	145,529
Loans to Group and associated companies	25,623	25,623
Long-term investments securities	117,373	110,350
Other loans	200,862	236,732
Long-term deposits and guarantees given	86,431	27,733
Allowances	(165,349)	(173,076)
Long-term receivables (Note 18)	351,567	377,145
Total fixed and other noncurrent assets	2,423,127	2,723,622
DEFERRED CHARGES (Note 5)	121,653	92,829
CURRENT ASSETS:		
Treasury stock (Note 8)	31,896	15,070
Inventories (Note 9)	89,014	89,981
Receivable from Group companies (Note 17)	24,185	26,221
Accounts receivable (Note 10)	521,595	486,123
Short-term investments (Note 11)	1,198,371	913,281
Cash	9,623	16,272
Accrual accounts	36,060	40,164
Total current assets	1,910,744	1,587,112
TOTAL ASSETS	4,455,524	4,403,563

SHAREHOLDERS' EQUITY AND LIABILITIES	Thousands of Euros	
	2002	2001
SHAREHOLDERS' EQUITY (Note 12):		
Capital stock	712,110	712,110
Additional paid-in capital	96,454	96,454
Revaluation reserve	38	38
Legal reserve	61,352	58,415
Voluntary reserves	111,327	110,645
Reserve for treasury stock	31,896	15,070
Merger reserve	165	165
Differences due to the adjustment of capital stock to euros	1,201	1,201
Income for the year	143,188	29,371
Total shareholders' equity	1,157,731	1,023,469
DEFERRED REVENUES (Note 4-g)		
	70,535	69,322
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 13):		
Provisions for pensions	41,367	47,186
Provisions for obligations to employees	452,157	452,106
Provision for major repairs	109,775	113,166
Provision for third-party liability	656,679	667,145
Total provisions for contingencies and expenses	1,259,978	1,279,603
LONG-TERM DEBT:		
Convertible debentures (Note 15)	22,573	-
Payable to credit institutions (Note 14)	476,903	405,336
Other payables	10,187	2,365
Total long-term debt	509,663	407,701
CURRENT LIABILITIES:		
Convertible debentures (Note 15)	7,524	-
Payable to credit institutions (Note 14)	101,106	295,708
Payable to Group and associated companies (Note 17)	14,383	14,412
Trade accounts payable	1,030,587	1,035,235
Customer advances	423,845	396,737
Accounts payable for purchases and services	606,742	638,498
Compensation payable	161,372	107,840
Other nontrade payables (Note 18)	141,960	168,789
Accrual accounts	685	1,474
Total current liabilities	1,457,617	1,623,458
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,455,524	4,403,563

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 23). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF INCOME FOR 2002 AND 2001. (IN THOUSANDS OF EUROS).

The accompanying Notes 1 to 22 are an integral part of the 2002 statement of income.

DEBIT	Thousands of Euros	
	2002	2001
EXPENSES:		
Procurements (Note 19)	742,415	818,040
Personnel expenses (Note 19)	1,310,613	1,294,283
Depreciation and amortization expense (Notes 5 and 6)	164,121	163,486
Variation in operating allowances	11,388	8,310
Other operating expenses (Note 19)	2,175,925	2,322,545
	4,404,462	4,606,664
Operating income	228,655	-
Financial and similar expenses (Note 14)	38,927	49,661
Exchange losses	119,499	73,702
	158,426	123,363
Financial income	-	31,836
Income from ordinary activities	220,510	7,005
Variation in fixed asset allowances	(274)	2,896
Losses on fixed assets (Note 6)	10,772	13,779
Extraordinary expenses (Note 19)	101,529	167,981
Prior years' expenses and losses	5,357	3,234
	117,384	187,890
Extraordinary income	-	-
Income before taxes	168,847	-
Corporate income tax (Note 18)	25,659	(148,858)
Income for the year	143,188	29,371

CREDIT	Thousands of Euros	
	2002	2001
REVENUES:		
Net sales (Note 19)	4,407,797	4,333,399
Other operating revenues (Notea 19)	225,320	248,434
	4,633,117	4,581,833
Operating loss	-	24,831
Revenues from equity investments (Note 7)	14,769	20,614
Revenues from other marketable securities	840	15,860
Other interest and similar revenues (Note 11)	48,539	51,364
Exchange gains	86,133	67,361
	150,281	155,199
Financial loss	8,145	-
Gains on fixed asset disposals (Notes 6 and 7)	42,983	12,699
Gains on transactions involving treasury stock (Note 8)	1,982	-
Extraordinary revenues (Note 19)	11,326	40,811
Prior years' revenues and income	9,430	7,888
	65,721	61,398
Extraordinary loss	51,663	126,492
Loss before taxes	-	119,487

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