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.

ANNUAL REPORT 2002

IBERIA

IBERIA

0 Main Aggregates

IBERIA, L.A.E.	2002	2001	% Variation
Income (millions of €)			
Operating revenues	4,633.1	4,581.8	1.1
EBITDAR	783.8	604.9	29.6
Operating income (loss)	228.7	(24.8)	n.m.
Income (Loss) before taxes	168.8	(119.5)	241.3
Net income for the year	143.2	29.4	n.m.
Net earnings per share (€ cents) (1)	15.68	3.22	n.m.
Dividend per share (€ cents) (1)	4.0	1.0	300.0
Passenger traffic: production and revenues			
Millions of ASKs	55,405	58,467	(5.2)
Millions of RPKs	40,470	41,390	(2.2)
Passenger load factor (%)	73.04	70.79	2.3 p.
Passenger ticket revenues (millions of €)	3,481.4	3,524.1	(1.2)
Average yield (€ cents)	8.60	8.51	1.1
Financial aggregates and ratios			
Shareholders' equity (millions of €)	1,157.7	1,023.5	13.1
Net debt (millions of €) (2)	(710.2)	(317.1)	124.0
EBITDAR margin (%)	16.9	13.2	3.7 p.
Operating income margin (%)	4.9	(0.5)	5.4 p.
Operating revenues per ASK (€ cents)	8.36	7.84	6.6
Operating cost per ASK (€ cents)	7.95	7.88	0.9
Resources			
Equivalent average no. of full-time employees	24,044	25,308	(5.0)
Productivity (thousands of ASKs per employee)	2,304	2,310	(0.3)
Operating aircraft at December 31	146	144	1.4
Usage of Company aircraft (B.H. per aircraft per day)	8.78	8.46	3.8

IBERIA GROUP	2002	2001	% Variation
Income (millions of €)			
Operating revenues	4,699.5	4,738.2	(0.8)
EBITDAR	804.8	655.3	22.8
Operating income	249.1	4.9	n.m.
Income (Loss) before taxes	194.1	(85.2)	n.m.
Net income attributed to the Company	157.1	50.2	212.9
Financial aggregates and ratios			
Shareholders' equity (millions of €)	1,317.7	1,169.7	12.7
Net debt (millions of €) (2)	(714.8)	(331.4)	115.7
EBITDAR margin (%)	17.1	13.8	3.3 p.
Operating income margin (%)	5.3	0.1	5.2 p.

(1) Number of shares as of December 31, 2002 and 2001: 912,962,035.

(2) Negative figure means cash and cash equivalents exceed interest-bearing debt (excluding interest on financial lease contracts).

n.m.: Not meaningful. No figure is given when the variation exceeds +/- 300%.

1 2002 HIGHLIGHTS

Iberia, Líneas Aéreas de España, S.A. ("Iberia, L.A.E.") celebrated its 75th anniversary in 2002. Founded in June 1927, the Company made its maiden commercial flight (from Barcelona to Madrid) in December of the same year. Throughout its 75 years of history, more than 500 million passengers have placed their trust in the Company, which today leads the Spanish air transport market and the market for flights between Europe and Latin America and has consolidated its position as one of Europe's most profitable airlines. In particularly adverse conditions, in 2002 the Iberia Group reported operating income of €249 million, the second best result in its history.

The Iberia Group met the basic targets established for 2002, namely, to adapt the routes and flights it offers to market demand; to increase its market share in all its strategic markets; to increase unit revenues (which rose by 6.6% in terms of revenues per available seat-kilometre (ASK), in the case of Iberia, L.A.E.); rigorous resource and cost cutting measures; and improved profitability, an area in which expectations were surpassed. Thus, the Iberia Group reported earnings before depreciation and amortization and aircraft lease expenses (EBITDAR) of almost €805 million in 2002, up 23% on 2001, and its EBITDAR as a percentage of revenues was 17.1% (3.3 points higher than in 2001). The net income after taxes and before minority interests of €159.8 million more than tripled the €53 million obtained in 2001, and the return on equity (ROE) rose to 12%.

2002 was a very difficult year for the air transport industry, which was badly hit by the consequences of the terrorist attacks of September 11, 2001, and by the world economic slowdown. As a result of these circumstances, world air transport demand fell by more than 15% in the last quarter of 2001, triggering significant losses in the industry, which provoked airlines into making across-the-board cutbacks in flights, grounding aircraft and reducing their labor forces. The terrorist attacks also led to tightened security, thereby reducing passenger comfort, and to a spectacular increase in security expenses (according to IATA, US$ 3,000 million were spent on additional security measures to supplement those already in place) and flight insurance costs, which amounted to US$ 5,000 million for the industry as a whole, as compared with the US$ 1,000 spent in 2001 (also per IATA information).

In 2002 demand recovered at different rates in different markets, but as a whole it remained well below prior years' levels. According to information from the Association of European Airlines (AEA), scheduled passenger traffic dropped by 4.6% in 2002 with respect to 2001 and by 8.7% with respect to 2000.

ANTI-CRISIS PLAN

Iberia, L.A.E. reacted swiftly to the aforementioned terrorist attacks by introducing an Anti-crisis Plan, which consisted basically of implementing the flexibility measures envisaged therein, in order to tailor capacity to market conditions. In addition, a wide-reaching cost-cutting plan was introduced. The rapid and rigorous application of this Plan was a major factor behind the Group's excellent results in 2002.

By implementing this Plan, Iberia, L.A.E. put its growth strategy on hold, and reduced its annual supply by 5.2% with respect to 2001 and by 11.3% with respect to the forecast for 2002 contained in the Master Plan for 2000/2003. However, the reduction in the number of seats on offer was selective. Capacity was reduced on the least profitable routes and on those worst hit by the crisis, whereas strategic markets were protected. Accordingly, there was a proportionally

smaller drop (-2.2%), in revenue passenger-kilometres (RPKs), whereas the load factor increased by 2.3 percentage points from 2001 to stand at 73% in 2002, one of the highest percentages ever achieved by the Company. As a result, consolidated operating revenues fell by only 0.8% in 2002, while consolidated operating expenses decreased by 6.0% with respect to the preceding year.

The success of the measures adopted was reflected in the excellent performance of Iberia shares on the stock market in their first full year of trading. The share market price rose by more than 27% (the highest increase in the industry), the volume traded increased and the shares were included in the IBEX index and other leading indexes such as Stoxx 600 and Morgan Stanley's MSCI index.

In 2002 Iberia, L.A.E. once again demonstrated its flexibility and speed in tailoring its capacity to the trends in the various markets in which it operates. Although the total number of ASKs in 2002 was practically as budgeted, there were variances in the distribution thereof between markets.

Although the number of ASKs fell by 3.9% with respect to 2001 on long-haul routes, the RPKs remained practically unchanged in 2002. The load factor improved by 2.9 percentage points to 77.5%, the highest percentage ever achieved by the airline. Also, Iberia, L.A.E. once again increased its market share on routes between Europe and Latin America (16.5% in 2002), thereby reinforcing its leadership and widening the gap between it and its closest rivals. One advantage of the Latin American market, apart from its huge growth potential, is that it is made up of a large number of smaller markets, which reduces risk exposure. Therefore, the economic crisis in Argentina and the social instability in Venezuela prompted the Company to shift a portion of its capacity to other destinations that were experiencing a sharp increase in traffic, such as Ecuador and Peru.

Because of the positive trend in traffic on international medium-haul routes, Iberia L.A.E. increased the frequency of flights to European destinations from April onwards. At 2002 year-end, capacity had fallen by only 1.6% with respect to 2001 and was higher than initially forecast. The Company recovered market share, and its unit revenue performed well, although it fell back in the last quarter as a result of the recession in the leading economies and of the prevailing climate of uncertainty.

The reduction in supply was more pronounced in the domestic market (-11.5%), where Iberia, L.A.E. withdrew from the least profitable routes and focused its strategy on improving unit revenues, which yielded positive results.

Commercial agreements

Iberia, L.A.E. continued to efficiently implement the agreements with its franchised airline Air Nostrum. Iberia Regional Air Nostrum took over certain low-density routes in the domestic market, such as the Madrid-Almería and Madrid-Santander routes, and continued to inaugurate new European routes, such as Barcelona-Porto, Madrid-Luxembourg and Madrid-Pisa.

Iberia Regional Air Nostrum was named "Regional Airline of the Year 2002-2003" by the European Regions Airline Association (ERA), which placed particular value on Iberia Regional Air Nostrum's role as pioneer in the regional air transport industry in Spain, its rapid growth, and the modernity of its aircraft and facilities.

In 2002 Iberia, L.A.E. formalized several agreements with other airlines. Particularly worthy of mention was the formal notice submitted by Iberia, L.A.E. and British Airways to the European authorities in July 2002 announcing new plans for broadening their commercial relations and working jointly in their U.K., Spanish, Europe-Latin America and Europe-Asia markets. For this purpose, they applied to the European Commission for exemption from Article 81 (3) of the European Treaty. The increased cooperation between the two airlines will create a wider network and benefit our customers considerably.

Noteworthy in connection with the code-sharing agreements was the amplification for the routes envisaged in the agreement entered into by Iberia, L.A.E. and its partner British Airways in 1999. On July 12 routes to Nairobi, Singapore and Budapest (operated by British Airways) and Havana and Santo Domingo (operated by Iberia, L.A.E.) were added, and from October 27 onwards all the two companies' flights between London Heathrow and Madrid and Barcelona were operated under a code-sharing arrangement. Accordingly, Iberia, L.A.E. and British Airways were operating a total of 40 code-sharing flights at the end of 2002. In 2002 new routes were also added to the code sharing agreements with another two fellow **one**world partner airlines, Finnair and Air Lingus.

Furthermore, Iberia, L.A.E. signed new code-sharing agreements with American Falcon, Lithuanian, SN Brussels, SWISS and TAP Air Portugal, the latter being the broadest in terms of the number of routes, since it encompasses 30 different routes, such as the routes between Madrid and Barcelona and Lisbon and Porto (operated by the two companies), and between Madrid and various other European cities.

Iberia, L.A.E. also entered into new passenger bonding agreements in 2002, and the NH Hoteles hotel chain, Iberia Cards, SWISS, TAP Air Portugal and SN Brussels joined the Iberia Plus program (the agreement with the Belgian company came into force on January 1, 2003). As a result of these adhesions, there are now 13 airlines included in the program, in addition to other companies and groups, including the leading hotel and vehicle rental chains in the world. The aim of the Iberia Plus program is to reward and foster the loyalty of customers who fly with Iberia, L.A.E. or use the services of the companies included in the program. At 2002 year-end there were more than 1.3 million registered cardholders, of whom over 200,000 joined the program in 2002.

New technologies

Iberia, L.A.E. is continuing to develop new technologies. In 2002 the sales made through Iberia.com, the Company's Internet website, grew by 35% and amounted to over €100 million. Iberia.com's technological platform was improved and new functions and services were incorporated. The revamped site went live in January 2003, and there has been a large increase in the number of daily hits, with an average of 85,000 daily hits on working days.

In its quest to improve customer service, Iberia, L.A.E. continued to foster the use of the electronic ticket, known as the "cyberticket", which is an electronic file in a database to replace the traditional printed ticket and which, above all, makes life easier for the customer. In 2002 the Company extended the possibility of using this new kind of ticket, which was already being used on all domestic routes, to its major European destinations. In 2002 almost 737,000 "cybertickets" were sold, representing an increase of over 300% with respect to 2001.

In 2002 the Company started to install self-service check-in machines at the main Spanish airports. This way, the Iberia Group's passengers who travel with only hand baggage can reduce their waiting time by quickly and simply obtaining their boarding passes by themselves. In view of the excellent response to this new system, Iberia, L.A.E. is continuing to install these machines both in the check-in and boarding areas in the airports in its network and in the related access routes, such as the Madrid and Barcelona Trade Fair Centers and the Nuevos Ministerios transport interchange in Madrid.

Also with a view to saving customers' time and increasing their comfort, the Company has automated the check-in for the Madrid-Barcelona Shuttle by installing self-service check-in machines at the Barcelona and Madrid airports that are equipped with a radio frequency reader capable of obtaining in only a few seconds all the passenger's particulars contained on an Iberia Madrid-Barcelona Shuttle Visa Card chip, with the concomitant commercial advantages. Accordingly, users of Iberia, L.A.E.'s Shuttle service can quickly and simply obtain their tickets, boarding pass and receipt all in one go.

Fleet renewal plan

In 2002 Iberia, L.A.E. added seven new Airbus aircraft to its fleet under its fleet renewal plan, which enables it to make the aircraft delivery dates more flexible. Therefore, as a result of the upturn in traffic in the Spain-Europe market in the first quarter of the year, the Company decided to bring forward the addition of three new Airbus A-320 aircraft to between April and May; also, due to scheduling needs, it brought forward the arrival of one Airbus A-321 to November. Three new Airbus A-340 aircraft were also added to the long-haul fleet.

The Airbus A-300 aircraft were retired in the first half of the year, thereby completing the medium-haul fleet renewal process, as a result of which the Company now operates only three types of medium-haul plane (A-320-type, MD-87/88 and B-757 aircraft), as compared with the seven being operated when the fleet renewal plan was introduced.

In June 2002 Iberia, L.A.E. entered into a new agreement with Airbus for the acquisition of three new Airbus A-340/600 aircraft, the longest and most modern version of the A-340, on highly beneficial economic terms. In June 2003 these aircraft will join up with the current Airbus A-340/300 aircraft, since they share the same product certification, and they will replace three Boeing B-747 planes, thereby obtaining substantial benefits and initiating the retirement of the Boeing B-747s.

On January 30, 2003, the Board of Directors of Iberia, L.A.E. authorized the purchase of nine A-340/600 aircraft to replace the B-747 aircraft on long-haul routes. Also, the Company reserves the right to purchase a further three aircraft, to be confirmed in the coming years. The related contract terms guarantee flexible growth for Iberia, L.A.E. in order to adapt to demand trends. The nine aircraft purchased will come into operation in the period from 2004 to 2006. Therefore, Iberia, L.A.E. will operate a single class of aircraft on long-haul routes from 2005 onwards.

The aircraft renewal process and the sharp drop in the value of used aircraft made it necessary to take accelerated depreciation on the aircraft amounting to approximately €60 million in 2002. Disregarding this extraordinary expense, the Iberia Group would have posted after-tax income of approximately €200 million.

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 and significantly reducing unit operating costs. The average usage of the aircraft owned by Iberia, L.A.E. was 8.78 block hours per plane per day in 2002, up 3.8% on 2001.

Cost reduction

As part of the Anti-crisis Plan mentioned earlier, at the end of December 2001 the Directorate-General of Employment partially approved the Labor Force Reduction Plan submitted by Iberia, L.A.E., 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 was a success, because the number of applications for inclusion received in 2002 amply exceeded the number expected for all employee groups except the pilots. Therefore, the Directorate-General of Employment authorized the extension of the Labor Force Reduction Plan for a further two years.

By the end of 2002, 2,724 employees (including personnel at the sales offices abroad) had left the Company, representing over 10% of the total headcount as of December 31, 2001. The estimated annual cost saving in this connection amounts to over €120 million.

In 2002 Iberia, L.A.E. reached an agreement with the ground personnel to extend to December 2004 the 15th Collective Labor Agreement with these employees, thereby bringing its term into line with that of the other three collective labor agreements regulating employment relationships at the Company and guaranteeing industrial relations stability for the coming two years.

Iberia, L.A.E. continued to implement its policy of actively managing risks, which include most notably that relating to aircraft fuel prices. The price of crude was highly volatile and increased significantly (by over 45%) in 2002, from US$ 19 per barrel at the beginning of the year to almost US$ 29 per barrel at year-end. The Company hedged the price of approximately 65% of the volume of kerosene used in the first half of the year and of all that used in the second half of the year, in bands of between US$ 21.5 and US$ 26.5 per barrel, as a result of which the Company once again had one of the lowest unit fuel costs of all European airlines (US$ 0.093 per ASK).

The targets set for 2002 in the Investment and Cost Rationalization and Optimization Plan (PRO.ICO) were also surpassed. During the year 940 action plans encompassing all controllable expense areas and investments were implemented, giving rise to a cost saving of over €60 million (as compared with the target of €54 million). The PRO.ICO Plan will remain in force in 2003 with the aim of saving a further €54 million.

The Company continues to give priority to safety and quality in all its activities. On June 1, 2002, the Spanish Directorate-General of Civil Aviation renewed Iberia, L.A.E.'s Air Transport Operator Certificate, as required by JAR-OPS 1. Also, the Company 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.

Iberia, L.A.E. is one of the Spanish companies with the greatest commitment to community work and to environmental protection. The Company has drawn up the Social Action Yearbook for 2002, a specific document that, for the first time, will be presented alongside its financial statements at the Annual Shareholders' Meeting as supplementary information.

Certain changes in the composition of the Iberia Group envisaged in the strategy defined in the Master Plan in force took place in 2002. The contract for the sale of Binter Canarias to a consortium of Canary Islands investors was signed in July 2002. The sale gave rise to a gain of €27.9 million for the Iberia Group and left Iberia, L.A.E. as the only airline in the Group.

Complementary businesses

As part of the ongoing process of developing business that are complementary to the passenger air transport business, April 2002 saw the inauguration of an air cargo transit terminal at Havana International Airport, managed by Empresa Logística de Carga Aérea, S.A. (ELCA, S.A.), which is owned 50% by the Iberia Group and 50% by the Cuban company AeroVaradero, S.A. The objective is for this terminal, which has a capacity of 60,000 tonnes of cargo and is used by Iberia Carga, to become a cargo distribution center, to compete with that in Miami, for shipments between Europe and the Americas, and between North and South America, making use of Cuba's ideal geographical position.

Also, the company Empresa Hispano Cubana de Mantenimiento de Aeronaves IBECA, S.A. was incorporated as a result of cooperation agreements between the Company and Corporación de Aviación Cubana. The Iberia Group owns 50% of the capital stock of IBECA, S.A., which engages in the provision of all manner of technical aircraft maintenance services. This company commenced operations in April 2001, since when it has provided minor maintenance services at José Martí International Airport in Havana, where it is based, and at other Cuban airports.

In the same business development vein, the Company has a holding in Handling Guinea Ecuatorial, S.A. (HANGESA), the purpose of which is to provide handling services at airports in Equatorial Guinea. It currently provides passenger and aircraft handling services for Iberia, L.A.E. at Malabo airport, and its objective is to provide its services to other airlines operating at that airport. Iberia L.A.E. has a 51% ownership interest in this company.

Also, Multiservicios Aeroportuarios, S.A. (MASA), in which Iberia, L.A.E. has a 49% holding, was incorporated in April 2002. Iberia, L.A.E. and MASA, whose corporate purpose is the provision of all manner of ancillary services at Spanish airports, jointly own 51% of the capital stock of ZENIT Servicios Integrales, S.A.

The Iberia Cards company, which was set up by Iberia, L.A.E. and the financial institutions Caja Madrid, BBVA and the Banco Popular Group, started marketing the Iberia Visa card in the third quarter of 2002. This company, in which Iberia, L.A.E. has a 40% stake, has a capital stock of €5.2 million and engages in the issuance and management of credit cards and other means of payment.

2003/2005 Master Plan

In the face of the important challenges lying ahead of it, Iberia, L.A.E. drew up the new 2003/2005 Master Plan in the latter stages of 2002. The basic premises of the Plan are to maintain Iberia, L.A.E.'s position of leadership in terms of profitability and to create shareholder value. To achieve these goals, it will be necessary to rethink certain aspects of the business and to plan hard-hitting measures in relation to service, costs, aircraft utilization and employee productivity that ensure that the Company is in a position to successfully achieve the required growth and stave off the foreseeable competition when the significant increase in the capacity of Madrid and Barcelona airports takes place in 2005.

The Plan established the appropriate strategies for adapting to these circumstances, which can be summarized in the form of ten objectives:

1. To increase the Company's routes and flights in order to maintain and strengthen its leading position at the Madrid and Barcelona hubs (average annual growth of 7.6% is projected for this three-year period).
2. To endow the Company with operational and financial flexibility to enable it to adapt growth to market trends.
3. To improve competitiveness through a substantial reduction of unit costs (by a nominal rate of between 8% and 10% during the term of the Plan).
4. To implement a distribution strategy capable of reducing marketing costs.
5. To implement a new in-flight service model, adapting supply to demand in each customer segment and optimizing price-service ratios.
6. To enhance service quality and strengthen the Company's relationship with high-value customers by improving the level of punctuality.
7. To take a portfolio approach in the management of the businesses.
8. To reduce financing costs by controlling operational and financial risks.
9. To bolster the competitiveness of the Company's human resources.
10. To capitalize on the Group's alliances to sharpen its competitive edge.

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.

2.1.1. Production and Traffic

In terms of available seat-kilometres (ASKs), in 2002 Iberia, L.A.E.'s production fell by 5.2% with respect to 2001. The greatest reduction in supply was on domestic routes (11.5%), and the average haul grew by 2.1% to 1,692 km.

Iberia, L.A.E. responded rapidly to the sharp drop in demand for air transport following the events of September 11. Schedules were adjusted selectively, and the number of ASKs in the worst hit areas was reduced, whereas the Company's strategic markets were protected. Accordingly, in the winter 2001-2002 schedule, the greatest cutbacks, in relative terms, were made on the following routes: North Africa, Middle East, North Atlantic and domestic.

Although the Anti-crisis Plan was implemented from November 2001 onwards, the greatest differences in the number of ASKs in 2002 with respect to 2001 arose in March and October, because the Company had significantly increased supply from March 2001.

In the case of Spain, the main aim of the restructuring of the schedule was to increase operating profitability. Therefore, the reduction in supply had the largest impact on flights between the Spanish mainland and the Balearic and Canary Islands, although the frequency of flights between Barcelona and Madrid and on other mainland routes was also reduced. Furthermore, the connections between Madrid and Almería and Santander were assigned to Iberia Regional Air Nostrum to be operated by smaller aircraft.

Iberia, L.A.E. also acted in a flexible and diligent fashion in tailoring its supply to the trends in the various markets in 2002. The Company progressively increased the number of flights on international medium-haul and North Atlantic routes, but it had to reduce the number of flights to certain Latin American destinations (Venezuela and, above all, Argentina) which were adversely affected by the difficult political and economic situation.

Demand in the Spain-Europe market recovered rather more quickly that had been anticipated. Accordingly, thanks to the availability of resources (aircraft and technical crew), Iberia, L.A.E. added to its commercial schedule two Airbus A-320 aircraft in April and a further three Airbus A-320 aircraft in May (the latter were new aircraft the delivery of which had been put back to 2003), which were principally used to make progress in implementing the strategy of increasing the density of frequencies to European destinations. Thus, in the summer, the Company increased the frequency of flights to various countries (among others, Germany, Belgium, France, Greece, Switzerland and Turkey), and supply was increased to levels above those initially envisaged.

The detail, by sector, of the ASKs is as follows:

SUPPLY				Millions of ASKs
	2002	2001	Variation 02/01	% Variation
MADRID-BARCELONA	1,732	1,967	(235)	(11.9)
MAINLAND CANARIES	5,104	5,967	(863)	(14.5)
MADRID-MAINLAND (*)	2,862	3,057	(195)	(6.4)
OTHER DOMESTIC	3,289	3,690	(401)	(10.9)
DOMESTIC	**12,987**	**14,681**	**(1,694)**	**(11.5)**
AFRICA AND MIDDLE EAST	848	983	(135)	(13.7)
EU	12,666	12,819	(153)	(1.2)
OTHER EUROPEAN COUNTRIES	894	846	48	5.7
MEDIUM-HAUL	**14,408**	**14,648**	**(240)**	**(1.6)**
NORTH AMERICA	7,132	7,729	(597)	(7.7)
CENTRAL AMERICA	12,910	12,256	654	5.3
SOUTH AMERICA	6,945	8,327	(1,382)	(16.6)
SOUTHERN AFRICA AND OTHER	1,023	826	197	23.8
LONG-HAUL	**28,010**	**29,138**	**(1,128)**	**(3.9)**
TOTAL IBERIA, L.A.E.	**55,405**	**58,467**	**(3,062)**	**(5.2)**

(*) All mainland connections except Barcelona.

The reduction in the production capacity from November 2001 was achieved mainly through the retirement from service and return to the related lessors of the aircraft operated under wet lease arrangements (lease of aircraft with crew). Also, two B-767 aircraft were retired from service (before the end of 2001), and the six aircraft making up the A-300 fleet were progressively retired (they made their last flights on June 1, 2002).

Iberia, L.A.E.'s production measured in block hours was 2.2% higher then in 2001.

PRODUCTION				Passengers Aircraft Block Hours
	2002	2001	Variation 02/01	% Variation
IBERIA-OWNED AIRCRAFT	460,588	450,567	10,021	2.2
WET LEASE	-	28,247	(28,247)	n/a
OTHER LEASE TRANSACTIONS	116	-	116	n/a
IBERIA, L.A.E.	**460,704**	**478,814**	**(18,110)**	**(3.8)**

As a whole, Iberia, L.A.E. carried 4.2% fewer passengers in 2002 than in 2001, due mainly to the reduction in supply in the domestic market. However, it carried 2.0% more passengers on international flights, as a result of improved load factors.

8.5% fewer passengers took Iberia, L.A.E.'s domestic flights in 2002, due to the cutback in the number of flights and, to a lesser extent, the somewhat weak domestic demand. However, the Spanish market share of Iberia (including Iberia Regional Air Nostrum) fell by only 0.9 percentage points with respect to 2001 to 58.7%. Excluding the routes between the Spanish mainland and the Balearic and Canary Islands, the Company's market share grew by 1.8 percentage points.

Following the crisis sparked by the events of September 11, the Spain-Europe market recovered rather more quickly that had been anticipated. Over the year, Iberia, L.A.E.'s share of this market (including the flights of Iberia Regional Air Nostrum) increased by a cumulative 1.9 percentage points to 37.2%. Air Nostrum continued to raise its European production by increasing flight frequencies and inaugurating new routes: on July 1 the Barcelona-Porto flight started to operate; and from October 27 Air Nostrum initiated flights between Madrid Barajas and Luxembourg and Pisa-Florence airports.

The Company continued to consolidate its leadership on routes between Europe and Latin America. Its share in this market was 16.5% in 2002, up 0.7 percentage points on 2001. The gap between it and all its competitors widened, and its market share is now more than 50% higher than that of the second ranked airline.

In 2002 Iberia, L.A.E. was successful in increasing the proportion of high-revenue passengers with respect to 2001, both in the domestic market and on long-haul routes. The number of business-class passengers dropped by only 1.7% for the Company's network as a whole, as compared with a 4.5% drop in the number of tourist-class passengers.

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

PASSENGERS CARRIED — Thousands

	2002	2001	Variation 02/01	% Variation
MADRID-BARCELONA	2,503	2,702	(199)	(7.4)
MAINLAND-CANARIES	2,184	2,534	(350)	(13.8)
MADRID-MAINLAND (*)	4,725	4,971	(246)	(4.9)
OTHER DOMESTIC	4,001	4,457	(456)	(10.2)
DOMESTIC	**13,413**	**14,664**	**(1,251)**	**(8.5)**
AFRICA AND MIDDLE EAST	217	287	(70)	(24.4)
EU	6,976	6,796	180	2.6
OTHER EUROPEAN COUNTRIES	471	457	14	3.1
MEDIUM-HAUL	**7,664**	**7,540**	**124**	**1.6**
NORTH AMERICA	895	849	46	5.4
CENTRAL AMERICA	1,298	1,211	87	7.2
SOUTH AMERICA	554	626	(72)	(11.5)
SOUTHERN AFRICA AND OTHER	98	81	17	21.0
LONG-HAUL	**2,845**	**2,767**	**78**	**2.8**
TOTAL IBERIA, L.A.E.	**23,922**	**24,971**	**(1,049)**	**(4.2)**

Passengers Carried

TOTAL 2002 IBERIA, L.A.E.: 23,922

(*) All mainland connections except Barcelona.

Revenue passenger-kilometres (RPKs) fell by 2.2% for Iberia, L.A.E.'s network taken as a whole, although they increased by 0.4% on international flights.

The breakdown of the RPKs is as follows:

REVENUE PASSENGER-KILOMETRES				Millions of RPKs
	2002	2001	Variation 02/01	% Variation
MADRID-BARCELONA	1,206	1,303	(97)	(7.4)
MAINLAND-CANARIES	3,864	4,485	(621)	(13.8)
MADRID-MAINLAND (*)	1,895	1,991	(96)	(4.8)
OTHER DOMESTIC	2,275	2,503	(228)	(9.1)
DOMESTIC	**9,240**	**10,282**	**(1,042)**	**(10.1)**
AFRICA AND MIDDLE EAST	528	595	(67)	(11.3)
EU	8,459	8,228	231	2.8
OTHER EUROPEAN COUNTRIES	544	554	(10)	(1.8)
MEDIUM-HAUL	**9,531**	**9,377**	**154**	**1.6**
NORTH AMERICA	5,596	5,488	108	2.0
CENTRAL AMERICA	10,211	9,562	649	6.8
SOUTH AMERICA	5,096	6,025	(929)	(15.4)
SOUTHERN AFRICA AND OTHER	796	656	140	21.3
LONG-HAUL	**21,699**	**21,731**	**(32)**	**(0.1)**
TOTAL IBERIA, L.A.E.	**40,470**	**41,390**	**(920)**	**(2.2)**

(*) All mainland connections except Barcelona.

Iberia, L.A.E.'s passenger load factor of 73.0% in 2002 was 2.2 percentage points higher than in 2001. The 2.2% decrease in traffic was lower that the 5.2% decrease in supply. The load factor improved in all three markets, the most significant increase being the 2.9 percentage point rise on intercontinental routes, the load factor on which reached 77.5%, the highest load factor ever achieved by the Company in this market.

PASSENGER LOAD FACTOR			%
	2002	2001	Variation 02/01
MADRID-BARCELONA	69.7	66.2	3.5
MAINLAND-CANARIES	75.7	75.2	0.5
MADRID-MAINLAND (*)	66.2	65.1	1.1
OTHER DOMESTIC	69.2	67.8	1.4
DOMESTIC	**71.1**	**70.0**	**1.1**
AFRICA AND MIDDLE EAST	62.2	60.6	1.6
EU	66.8	64.2	2.6
OTHER EUROPEAN COUNTRIES	60.9	65.5	(4.6)
MEDIUM-HAUL	**66.2**	**64.0**	**2.2**
NORTH AMERICA	78.5	71.0	7.5
CENTRAL AMERICA	79.1	78.0	1.1
SOUTH AMERICA	73.4	72.3	1.1
SOUTHERN AFRICA AND OTHER	77.9	79.4	(1.5)
LONG-HAUL	**77.5**	**74.6**	**2.9**
TOTAL IBERIA, L.A.E. (**)	**73.0**	**70.8**	**2.3**

(*) All mainland connections except Barcelona.

(**) The improvement of 2.3 percentage points does not tie-in with the difference because of the rounding-off effect.

2.1.2. Traffic Revenues

The detail, by commercial sector, of the average yield in 2002 and 2001 is as follows:

AVERAGE YIELD PER RPK — € cents

	2002	2001	Variation 02/01	% Variation
MADRID-BARCELONA	18.95	18.30	0.65	3.6
MAINLAND-CANARIES	7.32	6.88	0.44	6.4
MADRID-MAINLAND (*)	20.05	17.97	2.08	11.6
OTHER DOMESTIC	16.34	14.69	1.65	11.2
DOMESTIC	**13.67**	**12.38**	**1.29**	**10.4**
AFRICA AND MIDDLE EAST	8.34	8.76	(0.42)	(4.8)
EU	11.83	11.71	0.12	1.0
OTHER EUROPEAN COUNTRIES	14.98	14.62	0.36	2.5
MEDIUM-HAUL	**11.82**	**11.70**	**0.12**	**1.0**
NORTH AMERICA	5.08	5.40	(0.32)	(5.9)
CENTRAL AMERICA	5.11	5.37	(0.26)	(4.8)
SOUTH AMERICA	4.96	5.28	(0.32)	(6.1)
SOUTHERN AFRICA AND OTHER	4.16	4.06	0.10	2.5
LONG-HAUL	**5.03**	**5.31**	**(0.28)**	**(5.3)**
TOTAL IBERIA, L.A.E.	**8.60**	**8.51**	**0.09**	**1.1**

(*) All mainland connections except Barcelona.

Iberia, L.A.E.'s average yield increased by 1.1% in 2002, although there were notable differences between the results of the various markets. In the domestic market, Iberia, L.A.E. achieved its objective of increasing the unit revenue (which rose by 10.4%). In Europe, despite fierce competition, the Company's yield also improved. However, prices had to be cut in the Atlantic markets in order to defend market share and, in addition, revenues were hit by the depreciation of the U.S. dollar.

In general, the average yield figures were better in the summer. In the last two months of 2002 competition intensified in terms of prices, due to the progressive increase in supply, combined with a weakening of traffic, particularly on flights inside Europe.

The rise in the average yield and the improved load factors combined to increase the average revenue per ASK by 4.1% for the Company's network as a whole, thereby exceeding the budgeted target.

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

UNIT REVENUES PER ASK				€ Cents
	2002	2001	Variation 02/01	% Variation
MADRID-BARCELONA	13.20	12.12	1.08	8.9
MAINLAND-CANARIES	5.54	5.17	0.37	7.2
MADRID-MAINLAND (*)	13.27	11.71	1.56	13.3
OTHER DOMESTIC	11.30	9.97	1.33	13.3
DOMESTIC	**9.72**	**8.67**	**1.05**	**12.1**
AFRICA AND MIDDLE EAST	5.19	5.31	(0.12)	(2.3)
EU	7.90	7.52	0.38	5.1
OTHER EUROPEAN COUNTRIES	9.12	9.57	(0.45)	(4.7)
MEDIUM-HAUL	**7.82**	**7.49**	**0.33**	**4.4**
NORTH AMERICA	3.98	3.83	0.15	3.9
CENTRAL AMERICA	4.04	4.19	(0.15)	(3.6)
SOUTH AMERICA	3.64	3.82	(0.18)	(4.7)
SOUTHERN AFRICA AND OTHER	3.24	3.22	0.02	0.6
LONG-HAUL	**3.90**	**3.96**	**(0.06)**	**(1.5)**
TOTAL IBERIA, L.A.E.	**6.28**	**6.03**	**0.25**	**4.1**

(*) All mainland connections except Barcelona.

Iberia, L.A.E.'s passenger revenues decreased by 1.2% in 2002, due to the decrease in supply. The detail, by sector, of the passenger revenues is as follows:

PASSENGER REVENUES				Millions of €
	2002	2001	Variation 02/01	% Varition
MADRID-BARCELONA	228.5	238.4	(9.9)	(4.2)
MAINLAND-CANARIES	282.7	308.7	(26.0)	(8.4)
MADRID-MAINLAND (*)	379.9	357.9	22.0	6.1
OTHER DOMESTIC	371.6	367.8	3.8	1.0
DOMESTIC	**1,262.7**	**1,272.8**	**(10.1)**	**(0.8)**
AFRICA AND MIDDLE EAST	44.0	52.1	(8.1)	(15.5)
EU.	1,001.0	963.7	37.3	3.9
OTHER EUROPEAN COUNTRIES	81.5	81.0	0.5	0.6
MEDIUM-HAUL	**1,126.5**	**1,096.8**	**29.7**	**2.7**
NORTH AMERICA	284.2	296.1	(11.9)	(4.0)
CENTRAL AMERICA	522.0	513.5	8.5	1.7
SOUTH AMERICA	252.9	318.3	(65.4)	(20.5)
SOUTHERN AFRICA AND OTHER	33.1	26.6	6.5	24.4
LONG-HAUL	**1,092.2**	**1,154.5**	**(62.3)**	**(5.4)**
TOTAL IBERIA, L.A.E.	**3,481.4**	**3,524.1**	**(42.7)**	**(1.2)**

(*) All mainland connections except Barcelona.

2.2. Iberia Cargo

In 2002 Iberia Cargo had to deal with persistent weakness in demand in most of the markets in which it operates: Europe, North Atlantic and, above all, South Atlantic. Despite this, this business unit's contribution to the Company's results (in terms of operating income excluding the internal cargo hold lease expense) surpassed the targets set for the year.

The stagnant nature of the various markets, which were affected by the poor general economic situation, was the main reason behind the 5.4% reduction in activity in terms of TKTs and the concomitant 6.4% fall in traffic revenues with respect to 2001. These relatively poor figures were in line with the lackluster state of the business unit's main markets.

According to information from the Association of European Airlines (AEA), the aggregate TKTs of the European airlines operating South Atlantic routes dropped by 13% in 2002. The crisis in Argentina became evident in December 2001 and persisted throughout 2002. The Brazilian and Chilean markets also fell back sharply.

Traffic also decreased in Europe, above all in the second half of the year. In this region, AEA traffic fell by 11.5% over the year as a whole. Lastly, North Atlantic routes were among the worst hit by the crisis in the industry, with a 5.6% drop in TKTs for the AEA member airlines with respect to 2001.

Mid-Atlantic routes fared better in 2002, since the aggregate TKTs of the AEA member airlines grew by 6.3% from 2001. Iberia Cargo continued to use Havana as a transit platform for flights to other destinations in this area, such as Mexico and Central America.

Another stumbling block for Iberia Cargo was the instability of available supply on long-haul routes, due to commercial scheduling changes, which were made to adjust the level of supply, and the changeover to aircraft with a different capacity.

Unit revenues performed well in the first half of the year. However, from June 2002 onwards the significant depreciation of the U.S. dollar with respect to the euro had a notable effect on the revenues of Iberia Cargo, since around 25% of these revenues were denominated in U.S. dollars. This led to the fall of €3 million in traffic revenues. Also, the increasing amount of surplus cargo capacity placed greater downward pressure on prices.

Noteworthy as regards operating costs was the drop in the number of Iberia Cargo employees, since the labor force reduction plan made it possible for approximately 10% of the labor force to take early retirement. The saving target established in the Investment and Cost Rationalization and Optimization Plan (PRO.ICO) was also met.

In October 2002 Iberia Cargo obtained renewal of its ISO 9002 certification.

The main parameters of this business unit were as follows:

IBERIA CARGO

	2002	2001	Variation 02/01	% Variation
Millions of ATKs	1,307	1,269	38	3.0
In holds	1,200	1,184	16	1.4
In cargo aircraft	107	85	22	25.9
Millions of TKTs	850	899	(49)	(5.5)
In holds	798	856	(58)	(6.8)
In cargo aircraft	52	43	9	20.9
Load factor (%)	65.0	70.8	(5.8)	n/a
In holds	66.5	72.3	(5.8)	n/a
In cargo aircraft	48.6	50.7	(2.1)	n/a
Average yield (€ cents/TKT)	26.81	27.12	(0.3)	(1.1)
Total cargo revenues (millions of €)	228.0	243.7	(15.7)	(6.4)
Equivalent full-time employees	1,104	1,206	(102)	(8.5)

2.3. Iberia Handling

In 2002 total handling activity, measured in terms of weighted planes handled, decreased by 1.9% with respect to 2001. The volume of business fell for Iberia, L.A.E. (by 6.3%) as a result of the cutback in supply, and increased for the franchised airline Air Nostrum (by 19.7%). The number of aircraft handled for third parties (including Binter Canarias) remained practically unchanged from 2001 (it fell by 0.4%), and the proportion of handling services for Spanish companies increased.

Operating revenues (including internal billings to the "Airline" business) exceeded €484 million in 2002, up 0.6% on 2001. The increase in handling services provided to Air Nostrum and Spanish third-party airlines, together with the new "H" tariff introduced by AENA (the Spanish public airports and aviation agency) in January 2002 as a charge for the use of airport space and facilities, which also gave rise to an increase in expenses of around €4.3 million, lie behind this revenue growth, which exceeded initial expectations.

The number of equivalent full-time employees was reduced by 137 in 2001. As a result of the Labor Force Reduction Plan, 720 employees took early retirement and there were 20 voluntary redundancies. In December 2002, based on the agreements entered into in the extension of the 15th collective labor agreement for ground employees, temporary employment contracts started to be converted into fixed contracts, and 359 employees were converted from temporary to fixed employees.

The implementation of the various programs under the PRO.ICO plan led to a saving of €4.4 million.

In 2002 the Company performed a diagnosis of the environmental impact of the passenger and ramp handling services at the Spanish airports. Following the diagnosis, the Company planned the various phases of the work that should culminate, in early 2003, in the obtainment of quality certification pursuant to the UNE-EN ISO 14001 standard.

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

IBERIA HANDLING

	2002	2001	Variation 02/01	% Variation
Weighted planes handled (WPH) (thousands)	431.4	439.9	(8.5)	(1.9)
Third-party handling revenues (millions of €)	232.9	229.5	3.4	1.5
Operating revenues (millions of €)	484.2	481.4	2.8	0.6
Operating revenues/WPH (€)	1,122.5	1,094.4	28.1	2.6
Productivity (hours/WPH)	31.40	31.50	(0.1)	(0.3)
Equivalent full-time employees	7,906	8,043	(137)	(1.7)

2.4. Iberia Maintenance

Iberia Maintenance is responsible for maintaining the Company's aircraft and also provides technical assistance services to third parties, including more than 50 Spanish and foreign airlines.

Iberia Maintenance carried out 110 "C" and "D" overhauls on various aircraft and over 100 engine overhauls in 2002. Together with the periodic overhauls and habitual services, this unit also performed other activities: work relating to the return of leased aircraft; work for the retirement and sale of A-300, B-727, DC-9 and DC-10 aircraft; other work inherent to the addition of new aircraft; and the replacement of the interior panels in the A-320 cargo holds.

The number of equivalent full-time employees of Iberia Maintenance fell by 6.9% with respect to 2001, due to the implementation of the Labor Force Reduction Plan, and indirect labor was reduced by more than direct labor. Accordingly, although the volume of business was somewhat lower than in 2001, productivity remained high.

As regards work performed for Iberia, L.A.E., the improvement in aircraft overhaul time was maintained. The volume of subcontracted work fell, due to the complete retirement of aircraft on which the maintenance work was most outsourced (B-767 and B-737 aircraft) and the greater use of in-house resources.

As regards production for third parties, the Maintenance Division strove in 2002 to compensate for the loss of certain important traditional customers, such as Aerolíneas Argentinas, with other customers in emerging markets, such as China, and through cooperation with certain manufacturers. Overall, the volume of work performed for third parties remained at a level similar to that of the preceding year.

Work in the commercial area focused on consolidating Iberia Maintenance's position in the international market on an ongoing basis, building the loyalty of current customers and improving the level of penetration of new markets. With this aim in mind, the Division improved its image abroad by creating a logo, publicizing itself on the Internet, publishing a commercial dossier and a corporate brochure, running advertising campaigns in the specialist press and participating in professional conferences.

On the international stage, the commercial drive included most notably the signing, in 2002, of contracts with Rolls-Royce for the overhaul of RB211-535E4 engines, and General Electric, for CFM56-5A/5B/5C4 engines. As regards agreements with airlines, in 2002 services were provided, inter alia, to Alitalia, TAP Air Portugal, Meridiana, Olympic Airways, AAR Component Services, Avianca, Iran Air, Onur, Cameroon Airlines, Free Bird, Royal Nepal Airlines and Air Anatolia. Particular regard should be had, due to its huge future potential, to Iberia Maintenance's growing penetration of the Chinese market, where work was performed for China Northwest Airlines, China Southwest Airlines, Xinjang Airlines and Zhejiang Airlines. Also, in Spain overhauls were performed on aircraft, engines and parts for, among other airlines, Spanair, Iberworld, Air Nostrum and LTE International Airways.

In October the Maintenance Division received PECAL 120 quality certification from the Directorate-General of Weapons and Maintenance Industrial Inspections Area of the Spanish Ministry of Defense, which evidences that the quality requirements established by NATO are being met for the maintenance of: military aircraft used in the transportation of VIPs by the Spanish Air Force; military aircraft engines such as Harrier aircraft Pegasus engines; helicopter turbines and aircraft of the Spanish Navy; and aircraft parts; and, lastly, for specialist maintenance services. In addition, JAR 145 certification for the maintenance of the A-310 aircraft (used in the transportation of VIPs) up to "C" overhauls was obtained on a joint basis.

Iberia Maintenance carries out exhaustive quality controls in all its work, which enabled it to receive certification from the European and U.S. Aeronautical Authorities, the JAA (Joint Aviation Authorities) and the FAA (Federal Aviation Administration) respectively. In August 2002 it also received ISO 17025 certification (from ENAC), which evidences the quality of the services of its Metrology laboratory, at which the equipment used in overhauling and maintaining aircraft is calibrated.

The variations in the main operating aggregates were as follows:

IBERIA MAINTENANCE	2002	2001	Variation 02/01	% Variation
Number of overhauls	210	230	(20)	(8.7)
Thousands of production hours of in-house personnel	2,697	2,949	(252)	(8.5)
Indirect/Direct labor (%)	50.2	53.8	(3.6)	(6.7)
Technical assistance revenues (millions of €)	91.3	94.5	(3.2)	(3.4)
External operating revenues (millions of €)	97.5	98.9	(1.4)	(1.4)
Equivalent full-time employees	3,831	4,116	(285)	(6.9)

2.5. Iberia Systems

As regards alliances, in 2002, as part of the joint venture (shared risk) project with British Airways, a system was developed that makes it possible for British Airways passengers to check-in at Iberia, L.A.E. check-in desks. Also, work was completed on the adaptation of systems to enable the passenger loyalty-building agreements with the airlines TAP Air Portugal and SWISS to be implemented.

In the Control and Administration area, the new sales control system was completed. This system, which replaces the external service used to date, detects incorrect sales due to fraud or errors in the issuance of tickets by travel agencies.

In the Human Resources area, on the employee service Intranet portal the employees were given, inter alia, the option of consulting their pay slips (including the tax data relating to tickets used), purchasing meal tickets for restaurants covered by the related scheme, accessing internal job offers and making personal inquiries.

In the Commercial area, the Madrid-Barcelona Shuttle Loyalty Card was launched in December. This product will be key to the shuttle's ability to compete with the future Madrid-Barcelona high-speed train link (AVE). Also, new features were added to the revenue management system in order to optimize revenues per aircraft.

The most notable measure taken as regards Customer Relations was the creation of a new version of Iberia.com, aimed at improving the image of and adding new features to the Company's B2C portal, which has yielded excellent results in terms of hits and sales. The new website was launched at the beginning of 2003.

In the Airports field, the first self-service check-in machines were installed at airports with a view to increasing customer comfort and reducing waiting times.

In the Cargo area, implementation of the branch office Cargo management system was completed, and a third-party handling service billing system and other Revenue Management project modules were brought into operation.

As regards Maintenance, the GRECO project, which makes it possible to record and graphically see damage to planes and the possible repair work, was completed. Work also ended on the technical documentation management project for CIM, which can now be seen on its website. In addition, the SAP program (the Imagina project) is currently being implemented.

2.6. New Projects

Iberia, L.A.E. continued to perform several projects that are responsive to its strategic objective of spearheading the use of new technologies in the industry. In this drive the starring role is being played by the Internet, a tool that makes it possible to increase revenues and enhance relations with customers (B2C), and to reduce costs and rationalize relations with suppliers (B2B).

2.6.1. IBERIA.COM

In 2002 Iberia.com saw a significant increase in its volume of business. Through this in-house developed channel, the Company sold more than 500,000 tickets, and the sales revenues of over €100 million were 35% up on 2001.

In October the new Iberia.com platform was launched, one of the most advanced platforms in the European air transport industry, which is able to offer pages on a wholly customized basis, in line with the individual profile of each of the customers of Iberia, L.A.E. and based on the customer's track record in terms of flights taken. The revamped website, which is much more dynamic and flexible as regards the treatment of content, went live at the beginning of 2003, since when there has been a significant growth in the number of hits.

The new design of Iberia, L.A.E.'s Internet website includes new features and services such as "Iberia Plus Online", where users of the loyalty-building program can consult personalized balances and obtain statements, and a "Catalog of Special Offers", a tourism package called "Fly&Drive.com" (which includes the flight and the rental of a vehicle at the other end), "Flight Search" (with special low-fare offers), or "Adhesion Online Iberia Plus" (for Company customers who have not yet joined the program but wish to do so). It also provides information on the package holidays of Viva Tours and enables bookings to be made.

Customers also continue to have access to the services previously offered by Iberia.com, such as the possibility of seeing departures and arrivals in real time, the weather forecast for the various destinations, seat availability on flights, information on the Iberia Group, a passenger guide and an in-flight shop.

In 2002 the Company continued to extend its Internet network through the inauguration of five new websites in Europe. Accordingly, since July 2002 Belgium, Denmark, the Netherlands, Sweden, Luxembourg and Switzerland have had their own websites, on which seats can be booked and tickets bought for all Iberia, L.A.E.'s network. The aim of this international expansion is to create websites in all the countries in which the Company has a presence. Currently, 14 countries, including Spain, have their own website.

Iberia, L.A.E. continues to be the leader in e-commerce in Spain, with 61,000 website hits each working day in 2002. Its website was awarded the "iBest" prize for the third year running in 2002 for the best Internet website in Spain in the "e-Commerce" and "Transport" categories.

2.6.2. OPODO

In June 2001 nine European airlines (Iberia, L.A.E., 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 leading on-line travel agency, is being introduced gradually. At the end of November 2001 Opodo started to operate in Germany, and it was envisaged to introduce it in the first phase in the U.K. and France in 2002 or 2003. Customers in Spain, the Netherlands, Italy and Sweden are expected to be able to access the travel portal in 2004, and it is planned to make the portal available in the Denmark and Norway in 2005.

2.6.3. CRM

The aim of the CRM ("Customer Relationship Management") project is to implement a new commercial model which, based on the integral management of Iberia, L.A.E.'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.

Iberia, L.A.E.'s Commercial Department introduced this ambitious project in 2001, with the design and definition of the management model, where the customer is the focal point of all the Company's business activity. Work was performed on implementing this project in 2002. The first version of the customer database was brought into operation in the "Customer Intelligence" area. As regards "Customer Experience", the processes for the implementation of CRM functions at the various points of contact are being developed, and implementation is expected to have been completed by June 2003. In the "Relationship Marketing" area, the management of functions by value and the process for planning, executing and monitoring campaigns targeted at specific groups of customers of Iberia Plus have been defined. Two pilot campaigns were carried out and the campaign management tool is at the development phase.

It is estimated that a total investment of approximately €16 million will be required co complete this project in 2003, including both the technological investment (software and hardware) and the expenses incurred in developing business rules.

2.6.4. e-TICKET

Iberia L.A.E. was a pioneer in Spain in the introduction of the e-ticket or "cyberticket", an initiative aimed at increasing customer comfort. This new type of ticket consists of an electronic file in a database which, since there is no hard copy, offers numerous benefits, such as the possibility of making a booking and obtaining the ticket with a single telephone call, the possibility of making changes to flights without having to go anywhere, and the elimination of the risk of losing the ticket. In 2002 the Company increased the number of flights on which it is possible to use e-tickets, and added its main European destinations, such as Germany, Austria, Belgium, Italy, Portugal and the U.K., to the initiative, which had already been in place on all domestic routes since 2001. In 2002 almost 737,000 e-tickets were issued, more than three times the number issued in 2001.

2.6.5. SELF-SERVICE CHECK-IN

In order to improve customer service, in May 2002 Iberia, L.A.E. started installing self-service check-in machines at the main Spanish airports. This way, passengers who travel with only hand baggage can reduce their waiting time by obtaining their boarding passes by themselves, instead of having to wait at the conventional check-in desks. The new system constitutes an autonomous, simple and quick check-in alternative that it particularly attractive for Iberia Plus cardholders, who can check-in for their flights by simply putting their card in the machine. In the initial phase, 39 machines were installed at nine Spanish airports. In view of the excellent response to this new system, the Company has continued to install these machines both at airports and in the related access routes, such as the Madrid and Barcelona Trade Fair Centers, the Nuevos Ministerios transport interchange in Madrid, and even at certain hotels. The only requirements for being able to check in on a self-service basis are that a prior booking must have been made (both printed tickets and cybertickets can be used) and that passengers must fly with only hand baggage to destinations in Iberia network where passports do not have to be checked or other security requirements met.

The self-service check-in machines are valid for all domestic flights in Iberia's network, except for the Madrid-Barcelona shuttle, for which, since bookings do not have to be made, there is a specific check-in system which has also been automated using leading-edge technology. In December 2002 the Company started offering the Iberia Madrid-Barcelona Shuttle Visa Card, which has a "chip" that can be read by simply holding it against the self-service machines installed in the terminals at Madrid and Barcelona airports. This system enables customers to quickly obtain their tickets, boarding passes and receipts all in one go. In addition, the related debit is not made until the customer reaches his destination and boarding is also made more efficient.

2.6.6. e-PROCUREMENT

Work continued in 2002 on implementing the e-Procurement project. The main objective of the project is to progressively reduce purchasing costs. For this purpose, a new purchasing methodology was introduced and new means of buying are being used, such as e-purchasing and auctions, through which a large number of suppliers compete amongst themselves in real time.

Simultaneously, the Company is completing development of transaction management tools in order to computerize processes. To this end, a "Purchaser's Portal" tool is being developed which will computerize and facilitate the work of purchasers within Iberia, L.A.E. Work is also being carried out on the last stage of the design of the "Supplier's Portal" tool, the purpose of which is to facilitate communications and to develop e-billing processes with our suppliers.

At the end of 2002 the investments made and expenses incurred since this project was initiated in January 2001 amounted to €9.6 million. During this period the savings achieved amply exceeded the amount invested.

2.6.7. OTHER B2B PROJECTS

Iberia, L.A.E. has a stake in Cordiem LLC, an aviation "Business to Business" (B2B) company. This portal, which was set up in 2001 as an independently run business headquartered in Washington, is an electronic direct purchasing platform owned by nine airlines (including, inter alia, Air France, British Airways, American Airlines, Delta Airlines and United Airlines) and by three manufacturers in the air transport industry (United Technologies Corp., Honeywell International Inc. and BF Goodrich Co.).

The Cordiem project was adversely affected by the crisis in the air transport industry sparked by the September 11 terrorist attacks, which had a particularly negative effect on the U.S. partners and led to delays in the project with respect to the schedule envisaged in the initial business plan, which forced Cordiem to make significant financial adjustments and to concentrate its available funds on the Aeronautical Supplies area. The fuel portal JetA, in which Cordiem has an ownership interest and which was used to channel fuel trading and supply transactions, ceased operating towards the end of 2002.

In 2002 Iberia, L.A.E.'s involvement in Cordiem focused on e-events through the portal in various different areas (fuel, in-flight services, aeronautical supplies), with a volume of trading of €3 million and a saving of €750,000 (25%).

In July 2001 Iberia, L.A.E. and four other important Spanish companies (Telefónica de España, TPI Páginas Amarillas, BBVA e-commerce and Repsol YPF) definitively set up Adquira, a horizontal portal for the purchase of indirect goods and services between companies on the Internet.

In 2002 Adquira continued to contribute purchasing and trading solutions to all segments and companies, from large corporations to small enterprises. Although the volume of business forecast at the beginning of 2002 was not achieved, operating expenses were cut sharply and EBITDA increased significantly. In 2002 €385.5 million of products and services of various types, such as Market Products, Information Projects and Systems, etc., were traded over Adquira.

Overall, the performance of Adquira was positive. Iberia, L.A.E. carried out 38 e-transactions on Adquira in 2002 for a total amount of €30 million. In 2003 Iberia, L.A.E. will cooperate more closely with the other partners in the platform in order to strengthen this project.

2.7. Social Action

2.7.1. COMMUNITY WORK

Iberia, L.A.E.'s community work focuses on supporting social, cultural and sports entities, either directly or through its operating infrastructure, voluntary work by its employees and access of handicapped persons to employment.

The following initiatives are worthy of special mention:

- Mano a Mano (Hand in Hand), an association created by Iberia employees in 1994, has more than 2,000 members and 150 permanent volunteers. It works towards facilitating transport of humanitarian aid to developing countries, making use of empty spaces on board or in the cargo holds of the Company's scheduled flights. In 2002 more than 152 tonnes of food, clothing, footwear, medicines and health supplies, learning materials and toys were delivered, with more than 1,000 tonnes of supplies having been transported since the association was set up. In addition to providing support with its operating infrastructure, Iberia, L.A.E. has chartered more than 30 special flights in the last five years.

- Asociación de Empleados de Iberia Padres de Minusválidos (APMIB) (Iberia Parents of Handicapped Children Employees' Association) is also an employee-led initiative. It has six occupational and special employment centers where 1,800 handicapped persons work in activities such as packaging items for passengers and printing. 90% of the association's revenues are obtained from services commissioned by Iberia, L.A.E.

- Fundación Tutelar APMIB (APMIB Guardian Foundation) promotes and manages residences and refuges for the handicapped, orphans and the needy. In 2002, in cooperation with Iberia, L.A.E., an integral socio-employment care center was set up for the handicapped (IMHOTEP project) and construction work commenced on a residence in Motril, Granada.

- The Company also endeavors to facilitate charitable actions by its customers. The main activities include most notably the campaign to collect coins from passengers on international flights to support the Special Olympics, under which €63,500 were collected in 2002; and the possibility of donating the points accumulated with the Iberia Plus card to the Codespa Foundation, which made it possible to inaugurate in 2002 the Nemocón integral training center for the rehabilitation and teaching of homeless Colombian children.

- For over ten years Iberia, L.A.E. has been cooperating with the Spanish National Transplant Organization, carrying an average of 150 organs for transplants each year.

- The Company has entered into agreements with the Spanish Ministry of Employment and Social Affairs and the Spanish International Aid Agency whereby it offers special prices on its flights to more than 128 NGOs, foundations and associations working in the aid sector in Spain and abroad.

- Also, Iberia, L.A.E. acts in situations of emergency. For example, it made 50,000 aircraft seats available to the Galicia Aid Commissioner after the oil tanker "Prestige" sank.

The Company's Intranet includes a special section on community work. Furthermore, its 2002 Annual Report is accompanied for the first time by a supplementary document containing relevant information on the Company's social action work.

Iberia, L.A.E. received several accolades for its community work in 2002, including most notably the Business and Society Prize for 2002 for the best community work in cooperation with employees, received from H.R.H. the Prince of Asturias in February 2002.

It should also be noted that Iberia, L.A.E. was ranked top in 2002 among the companies best regarded for community work in cooperation with employees, and fourth for its community work in general. The list is drawn up on the basis of the evaluation of 150 experts from backgrounds such as welfare organizations, companies, business schools, consultants and opinion leaders, coordinated by Fundación Empresa y Sociedad (Business and Society Foundation).

2.7.2. ENVIRONMENTAL POLICY

Iberia, L.A.E., in line with its environmental policy, has been undertaking various activities and projects relating to environmental management matters.

Pursuant to a Spanish Accounting and Audit Institute (ICAC) Resolution dated March 25, 2002, approving rules for the recognition, valuation and reporting of environmental matters in the financial statements, the Company has certain environmental accounts in its general accounting system so that the various areas can budget for environmental expenses, which are deemed to be those incurred in any operation the main purpose of which is to prevent, reduce or redress damage to the environment. In this regard, at the end of 2001 the Company started to implement an environmental accounting system in order to improve the available environmental information.

In 2002 the Company incurred environmental expenses totaling €895,297.31, and this amount is recorded in account nos. 62, 63, 65 and 67 in the statement of income and balance sheet.

Iberia, L.A.E. is strongly committed to protecting the environment. Organizationally, environmental protection is the responsibility of the Environmental Unit, which forms part of the General Technical Secretariat, whose mission is to coordinate environmental measures and programs and to heighten the environmental awareness of all the Company's employees. Also, Iberia, L.A.E. has environmental managers in each of the business units that might have environmental repercussions, and these managers form an internal environmental management group coordinated by the Environmental Unit.

In 2002 the Company published the Environmental Yearbook for 2001-2002, which reflects the activities carried out and the environmental management objectives met by the Company in 2001 and the first quarter of 2002. In addition, Iberia, L.A.E. prepared the Social Action Yearbook for 2002, which includes all the information on the environment, following the guidelines established in the methodology contained in the document entitled "Sustainability Reporting Guidelines 2002" of the "Global Reporting Initiative" (GRI) organization.

As regards the systems currently in place at the Company aimed at reducing the environmental impact of its facilities, Iberia, L.A.E. has an Environmental Management System based on the international UNE-EN ISO 14001:1996 standard, which has been implemented in the Passenger and Ramp Handling area at the 39 Spanish airports. Certification for this System is expected to be received from an accredited entity in 2003. Also, the Company is preparing and implementing new operating procedures for managing waste, emissions and effluents in areas such as the Maintenance Department, the Cargo Department and the General Technical Secretariat's Sub-Directorate of Industrial Infrastructure.

In addition, in recent years significant amounts have been invested in Iberia, L.A.E.'s industrial zones in Madrid to improve the treatment of waste water and the management of hazardous waste. An analytical control procedure is also periodically carried out on the pollution parameters of the waste and on atmospheric emissions.

In connection with its aircraft, the Company continued to implement an efficient environmental policy. Having completed in 2001 the replacement of aircraft that consumed most fuel and, accordingly, that generated the highest air emissions, the acquisition of aircraft such as the A-320 and A-340, which are equipped with new technologies capable of reducing consumption by 20% continued in 2002. Also, in 2002 a technical analysis was carried out for the replacement of the oldest long-haul aircraft which were still in service (B-747-200). The final decision regarding this replacement was adopted by the Board of Directors in January 2003.

As a result of the technical requirements envisaged in the Fleet Renewal Plan of Iberia, L.A.E., the noise levels of the new aircraft are within the limits established in the acoustic regulations recently approved by the International Civil Aviation Organization (ICAO), which will come into force in January 2006.

3 Resources

3.1. Fleet

The detail of the passenger aircraft operated by Iberia, L.A.E. as of December 31, 2002, is as follows:

FLEET

Aircraft Type	Owned	Aircraft under Financial Lease	Aircraft under Operating Lease	Aircraft under Wet Lease	Total Operated
B-747 (a)	6	-	2	-	8
B-757	-	1	18	-	19
A-300	-	-	-	-	-
A-319	-	-	4	-	4
A-320	10	10	35	-	55
A-321	-	2	3	-	5
A-340	-	-	18	-	18
MD-87	19	-	5	-	24
MD-88	13	-	-	-	13
TOTAL(b)	**48**	**13**	**85**	**-**	**146**

(a) Excluding one aircraft operated under an operating lease which as of December 31, 2002, was being repaired prior to its return to the lessor.

(b) Excluding grounded aircraft.

As of December 31, 2001, there were 144 available passenger aircraft. The following list shows the additions and retirements in 2002, explaining the net increase of 2 aircraft in service:

Additions

- 3 A-320 aircraft under financial lease
- 1 A-321 aircraft under operating lease
- 3 A-340 aircraft under operating lease
- 1 B-757 aircraft under operating lease

Retirements

- 5 A-300 aircraft owned outright
- 1 B-747 aircraft under operating lease that was not available at the end of 2002 and was pending return to the lessor.

In 2002 the Company carried out sale and leaseback transactions (one A-320 and two A-321 aircraft), and exercised the purchase option on two A-320 that had been operated under a financial lease.

At the end of 2001, due to the crisis in the air transport industry, Iberia, L.A.E. had decided to postpone the arrival of new short- and medium-haul Airbus aircraft. However, as a result of the gradual recovery of air traffic in 2002, it leased three new Airbus A-320 aircraft under financial lease (in April and May), and a new Airbus A-321 aircraft under an operating lease (in November). These two types of aircraft are of the same family, but the layout of their passenger cabins is different, and they have 150 and 187 seats, respectively.

Under the Fleet Renewal Plan introduced in 1988, in 2002 Iberia, L.A.E. added three Airbus A-340 aircraft to its long-haul fleet.

In October a new Boeing B-757 aircraft was added under an operating lease. Due to scheduling needs, the Company kept until year-end the B-757 aircraft that was initially going to be replaced with this new aircraft.

Also, Iberia, L.A.E. retired the five last Airbus A-300 aircraft. Accordingly, further progress was made towards endowing the Company with a modern uniform fleet with more comfort for passengers and lower fuel, operating and maintenance costs.

Once again, in 2002 the average usage of Iberia, L.A.E.'s aircraft increased overall with respect to 2001. Usage of the short- and medium-haul aircraft increased by more than 5% in 2002; however, the reduced activity on Atlantic routes led to a decrease in the usage of the long-haul aircraft.

USAGE AIRCRAFT — Block Hours/Aircraft/Day

Aircraft Type	2002	2001
B-727	-	5.2
B-747	11.6	13.2
B-747M	-	10.7
B-757	8.6	7.9
B-767	-	11.5
DC-9	-	3.7
MD-87	7.5	7.4
MD-88	7.8	7.6
A-300	7.8	7.8
A-319	6.9	6.8
A-320	7.9	7.8
A-321	8.4	8.5
A-340	13.6	14.2
Average short-and medium-haul aircraft use	7.9	7.5
Average long-haul aircraft use	12.9	13.6
Total average aircraft use	**8.8**	**8.5**

3.2. Personnel

3.2.1. HEADCOUNT

The detail of Iberia, L.A.E.'s average headcount in 2002 and 2001 is as follows:

AVERAGE ANNUAL HEADCOUNT

	Ground		Flight		Total	
	2002	2001	2002	2001	2002	2001
AIRLINE	3,507	3,507	6,369	6,626	9,876	10,133
CARGO	1,104	1,206	-	-	1,104	1,206
HANDLING	7,906	8,043	-	-	7,906	8,043
MAINTENANCE	3,831	4,116	-	-	3,831	4,116
SYSTEMS	528	541	-	-	528	541
CENTRAL SERVICES	799	1,269	-	-	799	1,269
IBERIA, L.A.E.	**17,675**	**18,682**	**6,369**	**6,626**	**24,044**	**25,308**
Variation 2002/2001 (%)	(5.4) %		(3.9) %		(5.0) %	

In 2002 the Company's average headcount fell by 5.0%, due mainly to the implementation of the labor force reduction plan. The purpose of the Labor Force Reduction Plan, which was approved by the labor authorities in December 2001, was to secure the voluntary redundancy of 2,515 Iberia, L.A.E. employees, encompassing all the flight and ground personnel categories, who could choose one of 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 could rejoin the labor force thereafter) and novation of contract to a stable employment contract (i.e. a temporary reduction of working hours).

Since the number of applications exceeded the targets set in the labor force reduction plan for all employee groups except the pilots, the Directorate-General of Employment authorized Iberia, L.A.E. to extend the Labor Force Reduction Plan for a further two years so that these employees can voluntarily avail themselves of the plan.

In addition to the Labor Force Reduction Plan which is being applied in Spain, the Company implemented a plan to reduce the number of employees at the sales offices abroad, with the objective of reducing the headcount by 201.

By the end of 2002, 2,724 employees (including personnel at the sales offices abroad) had left the Company. In general, the Company met the economic and labor targets set.

3.2.2. PRODUCTIVITY

The productivity of Iberia, L.A.E.'s labor force in 2002 was similar to that in 2001 at 2.3 million ASKs per employee. Productivity in terms of block hours (BH) per crew member increased by 4.2% in the case of the pilots and by 2.9% in the case of cabin crew.

PRODUCTIVITY OF IBERIA, L.A.E. EMPLOYEES

	2002	2001	% Variation
Total labor force (thousands of ASKs per employee)	2,304	2,310	(0.3)
Ground personnel (thousands of ASKs per employee)	3,135	3,130	0.2
Technical crew (BH per crew member) (*)	250.6	240.5	4.2
Cabin crew (BH per crew member) (*)	106.9	103.9	2.9

(*)From 2002 a more accurate means of calculating productivity is being used. In order to make the figures for the two years comparable, the data for 2001 were recalculated.

4 Financial Performance

4.1. Operating Income

The detail of Iberia, L.A.E.'s 2002 and 2001 operating income statements for management accounting purposes, which differ from the audited statements of income because the revenue and expense items are aggregated using management accounting criteria, is as follows:

OPERATING INCOME				Millions of Euros
	2002	2001	Variation 02/01	% Variation
OPERATING REVENUES				
Passenger revenues	3,728.5	3,673.3	55.2	1.5
Cargo revenues	237.4	249.6	(12.2)	(4.9)
Handling revenues	233.9	230.7	3.2	1.4
Maintenance revenues	91.3	94.5	(3.2)	(3.4)
Sales commissions	108.5	116.6	(8.1)	(6.9)
Catering sales	15.1	16.2	(1.1)	(6.8)
Other operating revenues	218.4	200.9	17.5	8.7
	4,633.1	**4,581.8**	**51.3**	**1.1**
OPERATING EXPENSES				
Personnel expenses	1,310.6	1,294.3	16.3	1.3
Fuel	553.2	629.1	(75.9)	(12.1)
Commissions	463.9	514.0	(50.1)	(9.7)
Aircraft lease expenses	395.8	471.5	(75.7)	(16.1)
Traffic services	385.0	416.4	(31.4)	(7.5)
Aircraft maintenance	239.6	263.2	(23.6)	(9.0)
Navigation charges	226.6	214.1	12.5	5.8
Depreciation and amortization expense	164.1	163.5	0.6	0.4
Booking systems	126.3	133.3	(7.0)	(5.3)
In-flight services	104.9	111.8	(6.9)	(6.2)
Insurance	75.8	25.2	50.6	200.8
Other operating expenses	358.6	370.2	(11.6)	(3.1)
	4,404.4	**4,606.6**	**(202.2)**	**(4.4)**
OPERATING INCOME (LOSS)	**228.7**	**(24.8)**	**253.5**	**n.m.**

In 2002 the operating income of Iberia, L.A.E. amounted to €228.7 million, one of the highest figures ever reported by the Company and more than €253 million up on the result for 2001.

4.1.1. OPERATING REVENUES

Iberia, L.A.E.'s operating revenues increased by €51.3 million (1.1%) in 2002 with respect to 2001, due mainly to the rise in passenger revenues, which were €55.2 million higher than in 2001. The other operating revenues totaled €904.6 million in 2002, slightly down (by €3.9 million) from 2001.

The unit operating revenues (by ASK) increased by 6.6% with respect to 2001.

Passenger revenues

The passenger revenues of €3,728.5 million in 2002 were 1.5% higher than in 2001. The difference between this figure and that shown in the "Main Aggregates" and "Traffic Revenues" (section 2.1.2.) tables 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 detail of the €55.2 million increase in passenger revenues in 2002 is as follows:

PASSENGER REVENUES — Millions of Euros

	Variation in Passenger Revenues 02/01	Reasons for Variation			Other	Variation in Revenues per Books 02/01
		Price	Volume	Parity		
DOMESTIC	(10.1)	115.3	(123.6)	(1.8)		
MEDIUM-HAUL	29.7	13.7	18.7	(2.7)		
LONG-HAUL	(62.3)	(38.3)	(2.7)	(21.3)		
IBERIA, L.A.E.	**(42.7)**	**90.7**	**(107.6)**	**(25.8)**	**97.9**	**55.2**

The aggregate balance of "Other Passenger Revenues" was €97.9 million higher than in 2001, due mainly to the larger volume of monthly unused ticket recoveries. This increase is much higher than the €42.7 drop in passenger revenues for reasons of volume, which fell by only 1.2%, as compared with the 5.2% decrease in supply, due to the good performance of the unit passenger revenues, which increased by 4.1% with respect to 2001. The reason for the difference in volume was the 2.2% fall in demand, although this decrease was lower than that in capacity, which led to improved load factors in the three markets.

The €90.7 million increase in revenues due to price was the result of the rise in the average yield in the international medium-haul (1.0%) and, above all, domestic (10.4%) markets. However, the average yield in the long-haul market fell as a result of fare reductions and the depreciation of the U.S. dollar with respect to the euro (the average value of the U.S. dollar fell by more than 4% against the euro in 2002).

Cargo Revenues

Cargo revenues decreased by €12.2 million (4.9%) with respect to 2001, the detail of the variation being as follows:

CARGO REVENUES — Millions of Euros

	Variation in Cargo Revenues 02/01	Reasons for Variation			Other	Variation in Revenues per Books 02/01
		Price	Volume	Parity		
IBERIA, L.A.E.	(15.7)	(0.2)	(12.8)	(2.7)	3.5	(12.2)

The main reason for this drop was the weakness of cargo traffic in most of the markets in which Iberia, L.A.E. operates: Europe, North Atlantic and, above all, South Atlantic. From June 2002, the depreciation of the U.S. dollar with respect to the euro also exerted downward pressure on these revenues.

Handling Revenues

Airport handling revenues were €3.2 million (1.4%) higher in 2002 than in 2001, mainly as a result of the increase in the handling services provided to Air Nostrum and other Spanish airlines.

Maintenance Revenues

Revenues from maintenance services fell by €3.2 million (3.4%) with respect to 2001, due mainly to a change in the method used to record aircraft spare part warranties, since through 2001 they were recorded simultaneously as a revenue and an expense and, accordingly, this drop in revenues in 2002 was offset by an equal decrease in expenses. Also, the loss of revenues from habitual customers in the summer of 2001, mainly Aerolíneas Argentinas and Air Liberté, was offset by the obtainment of contracts with other airlines such as, inter alia, China Northwest Airlines, Iberworld and LTE International Airways, and with engine manufacturers.

Sales Commissions

Revenues from sales commissions fell by €8.1 million in 2002, due to the decrease in ticket sales linked to package tours, particularly those of Mundicolor and Viva Tours.

Other Operating Revenues

Aggregate catering sales revenues and "Other Operating Revenues" totaled €233.5 million in 2002, €16.4 million up on 2001. These revenues included most notably "Other Traffic Revenues" (derived mainly from commercial agreements), which amounted to over €58 million in 2002; revenues from the use of booking systems (more than €30 million); and cargo handling revenues, which amounted to almost €21 million in 2002.

"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 €47.5 million in 2002 and €17.0 million in 2001. The balance of the "Other Traffic Revenues" account increased by more than €27 million with respect to the preceding year, due to the inclusion of passenger security charges at certain airports in 2002 and to the revenue growth derived from commercial agreements with other airlines, most of which belong to the **one**world alliance.

Also, the "Other Operating Revenues" caption includes the balance of the "Adjustment of Traffic Revenues Not Allocable to Cargo Routes" account, which in the notes to financial statements are included under "Cargo Revenues" and which totaled -€3.3 million in 2002 and €0.3 million in 2001.

4.1.2. OPERATING EXPENSES

Operating expenses were €202.2 million (4.4%) lower than in 2002. The measures contained in the Anti-crisis Plan implemented by the Company since the end of 2001 were to be thanked for a significant portion of this expense reduction. The factors that contributed most to this drop were: the reduction in supply of 5.2%, coupled with the termination of aircraft wet lease contracts and the return of the two Boeing B-767; the change in the system used to remunerate travel agencies; the reduction of the labor force; the progressive application of the expense saving programs included in the Investment and Cost Rationalization and Optimization Plan (PRO.ICO); and the positive impact of U.S. dollar parity on fuel, aircraft lease and maintenance costs, among other items.

However, certain nonmanageable expense items rose steeply, such as navigation charges, security expenses and, above all, flight insurance costs.

As a result of all the foregoing, Iberia, L.A.E. managed to limit the increase in unit operating costs to 0.9% with respect to 2001. The unit operating cost in 2002 was €c7.95 per ASK.

Personnel Expenses

In 2002 personnel expenses (wages, salaries, etc. and employee welfare expenses) increased by a moderate 1.3% with respect to 2001. The expense was reduced by the 5% fall in the equivalent number of employees at Iberia, L.A.E., as a result of the Labor Force Reduction Plan and the plan to terminate employees at the sales offices abroad. Also, this made it possible to improve the salary mix of the ground personnel. The expense increased as a result of the increase of 4.0% (equal to the actual rise in the CPI) in salaries and, in addition, of the profit-sharing bonus for improved earnings (2.7%) agreed on in the collective labor agreements.

Fuel

The fuel expense was 12.1% (€75.9 million) lower in 2002 than in 2001 due to the lower volume of production, more depreciation of the U.S. dollar, lower unit consumption as a result of the use of new aircraft and, to a lesser extent, the lower average dollars per barrel crude oil price in 2002. The following table shows the variations in fuel costs:

VARIATION IN FUEL COSTS — Millions of Euros

	Reasons for Variation				Variation in Fuel Expense 02/01
	Price	Volume	Parity	Consumption	
IBERIA, L.A.E.	(4.7)	(30.5)	(27.0)	(13.7)	(75.9)

In 2002 the price of crude oil rose by more than 45% in the period from January to December. Iberia, L.A.E. continued to implement its price hedging policy in order to reduce risk exposure. Accordingly, it hedged the price of around 65% of the kerosene consumed in the first half of the year and of all the kerosene consumed in the second half of the year, in bands of between US$ 21.5 and US$ 26.5 per barrel. In 2002 the unit cost per ASK was €c1.0 per barrel, down by more than 7% from 2001.

Commercial Expenses (commissions, overcommissions and advertising)

In 2002 commercial expenses amounted to €463.9 million, down 9.7% from 2001.

Approximately 93% of the aforementioned amount related to the sum of the sales commissions and incentives and other development and promotion expenses, which were almost €40 million (8.4%) lower than in 2001. This reduction, which contrasts with the 1.1% increase in traffic revenues (for passenger and cargo traffic taken as a whole), was made possible by the adoption of various commercial measures by the Company and, more specifically, the application of new agreements for remuneration of travel agencies, both in Spain, the agreement for which came into force in June 2002, and abroad, with specific measures taken in each country, which, in general, reduced the basic commission and optimized the system of incentives. The extension of the system of fares net of commissions and the increased use of new direct selling systems such as Iberia.com, Serviberia and Serviberia Europa also contributed to this reduction in costs.

Advertising and promotion expenses decreased by €10.6 million (almost 25%) with respect to 2001, due to the expense containment measures implemented since the end of the preceding year. Most of the advertising expenditure was targeted at the international market rather than the Spanish market. The advertising agreements include most notably for its importance that between Iberia, L.A.E. and the Salamanca Tourism Consortium aimed at promoting Salamanca as the European Capital of Culture in 2002.

The Company's net commercial costs (commercial expenses net of commercial revenues) fell by 10.6% in 2002. Net commercial costs as a percentage of traffic revenues at Iberia, L.A.E. continued to improve and decreased from 11% in 2000 to 10.1% in 2001 and to 9.0% in 2002, thereby meeting one of the strategic objectives in the 2000/2003 Master Plan.

Aircraft Lease Expenses

Aircraft lease expenses, which include operating and wet leases (lease of aircraft with crew) expenses and the expenses incurred in the lease of cargo holds, decreased by €75.7 million (16.1%) with respect to 2001. The decrease was due mainly to the termination of passenger aircraft wet lease contracts, the expense relating to which had totaled €91.3 million in 2001. The cost of the operating leases increased by €13.0 million as a result of the new passenger aircraft additions, although the depreciation of the U.S. dollar and the drop in interest rates in 2002 tempered the increase in this expense.

The expense relating to cargo aircraft lease contracts totaled €17.2 million in 2002, up €3.0 million on the previous year, whereas the cost of leasing cargo holds fell by €0.4 million to €4.8 million for 2002 as a whole. The expense incurred in leasing cargo capacity in 2002 is recorded in full under the "Other Rent" caption in the notes to financial statements.

Traffic Services Costs

Traffic services costs totaled €385 million in 2002, down 7.5% from 2001. The main reason for the decrease was the Company's reduced level of activity, which fell by 5.2% in terms of ASKs and by 4.2% in terms of take-offs. Other contributing factors were the replacement of aircraft, with the addition to the fleet of new aircraft with a lower unit landing cost (e.g. the A-320 as compared with the B-727), price reductions as a result of the renegotiation of various contracts and improved crew scheduling.

The items that made the greatest contribution to the expense reduction with respect to 2001 were the cost of passenger boarding bridges and apron parking and other airport services (€8.6 million); flight personnel accommodation costs (€6.2 million); aircraft dispatching (€5.8 million); and landing charges (€4.6 million).

Aircraft Maintenance

Aircraft maintenance expenses (including outsourced maintenance, spare parts used and the provisions for major repairs) fell by €23.6 million in 2002, as a result of the lower operating costs of the new aircraft, the adjustment made to warranties, the favorable impact of U.S. dollar parity, the drop 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 (Airbus A-300 and Boeing aircraft leased from Air Europa under a wet lease arrangement).

The unit cost of the aforementioned aircraft maintenance work fell by 3.9% from the previous year to €c0.43 per ASK.

Navigation Charges

There was an increase in air traffic control expenses (in-flight navigation aid services and approach charges) of 5.8% (€12.5 million) in 2002, due to the sharp increase in the prices charged by Eurocontrol from April 2002, since the 2001 prices were maintained in the first quarter of the year. This agency, which operates in 30 countries, increased its reference unit prices by around 25.5% for the Spain-Continental and Spain-Canary Islands flight regions, although the price rises were lower in other European regions. The average unit cost increase with respect to 2001 in this connection was 11.7%.

Depreciation and Amortization Expense

The depreciation and amortization expense for 2002 amounted to €164.1 million, similar to that recorded in 2001.

Booking System and In-Flight Service Costs

Booking system expenses fell by €7.0 million (5.3%) in 2002, due mainly to the smaller number of bookings billed; improved audit and commercial logistics control procedures; and to a lesser extent, the depreciation of the U.S. dollar. The various price increases in the various distribution systems gave rise to variations of opposite sign. Accordingly, the average net cost per booking made only increased by €c1 with respect to 2001 to €3.69 in 2002.

In-flight service costs, which also depend on the volume of passenger traffic, decreased by €6.9 million (6.2%) in 2002. The unit cost per passenger also dropped as a result of the various expense reduction initiatives, including most notably the drop in prices and the loading of food at source on European flights.

Insurance and other Operating Expenses

Following the terrorist attacks of September 11, 2001, insurance costs soared, particularly in relation to flight insurance (covering aircraft and passengers). In 2002 the overall insurance expense (including flight and other insurance policies) amounted to €75.8 million, three times the cost of the preceding year, in which the cost had already risen sharply in the last quarter.

The aggregate balance of the "Other Operating Expenses" decreased by €11.6 million (3.1%) in 2002. There was a drop in the balance of most of the items under this caption, although the most significant related to the consumption of catering and in-flight sales materials, travel expenses, utilities, other communication costs, publications and ancillary services. Conversely, safety and security expenses increased by more than 15%.

4.2. Financial and Extraordinary Results

Iberia, L.A.E. reported income after taxes of €143.2 million in 2002, almost €114 million higher than the income obtained in 2001.

FINANCIAL AND EXTRAORDINARY RESULTS				Millions of Euros
	2002	2001	Variation 02/01	% Variation
OPERATING INCOME	**228.7**	**(24.8)**	**253.5**	**n.m.**
Financial revenues	64.1	87.8	(23.7)	(27.0)
Financial expenses	(38.9)	(49.7)	10.8	(21.7)
Exchange gains (losses)	(33.4)	(6.3)	(27.1)	n.m.
FINANCIAL INCOME (LOSS)	**(8.2)**	**31.8**	**(40.0)**	**(125.8)**
Extraordinary revenues	65.7	61.4	4.3	7.0
Extraordinary expenses	(117.4)	(187.9)	70.5	(37.5)
EXTRAORDINARY LOSS	**(51.7)**	**(126.5)**	**74.8**	**(59.1)**
NET INCOME (LOSS) BEFORE TAXES	**168.8**	**(119.5)**	**288.3**	**(241.3)**
TAXES	(25.6)	148.9	(174.5)	(117.2)
INCOME AFTER TAXES	**143.2**	**29.4**	**113.8**	**n.m.**

Financial revenues decreased by €23.7 million from 2001, mainly because the figure for 2001 included the gain of almost €16 million obtained on the sale of the shares of Equant and because of the drop in dividends received from Group companies, which amounted to €14.7 million in 2002, as compared with €20.6 million in 2001. The financial expenses, which include the provision for the interest on pension allowances, fell by €10.8 million, due to the lower average indebtedness and the gradual drop in interest rates. The net result of the exchange differences dropped by €27.1 million, mainly as a result of the devaluation of the Argentine peso and the situation in Argentina (the so-called "corralito" effect), the negative impact of which amounted to approximately €16 million.

The extraordinary loss of €51.7 million in 2002 was almost €75 million lower than the loss of €126.5% incurred in 2001. The extraordinary revenues included the gain of €27.9 million on the sale of Binter Canarias, gains obtained on other fixed asset sales and the release of allowances recorded in prior years.

The extraordinary expenses recorded in 2002 include provisions of €60 million relating to the replacement of the Company's aircraft. Specifically, a provision of €38.1 million was recorded in connection with the early depreciation of the B-747 aircraft, and another of €21.6 million was recorded to write-down the carrying value of inactive aircraft earmarked for sale (DC-9, DC-10 and B-727 aircraft). The Company also recorded the necessary provisions for the extension of the labor force reduction plan and for sundry probable third-party liabilities, relating to all the risks that the Company's directors consider should be covered.

Iberia, L.A.E. posted net income before taxes of €143.2 million in 2002, an increase of €113.8 million with respect to the figure for the preceding year.

4.3. Investments

Following the guidelines set out in the Anti-crisis Plan, which was drawn up to address the negative effects for the air transport industry of the September 11 terrorist attacks, Iberia, L.A.E. controlled its investments very strictly in 2002. Accordingly, the cumulative net investment (net of divestments) in 2002 was a negative balance of approximately €50 million.

The most significant expenditure on property, plant and equipment and intangible assets related to the Company's fleet renewal plan. The investments included most notably the lease of three new Airbus A-320 aircraft under financial lease contracts, and the divestments related principally to the sale of inactive aircraft such as eight DC-9, seven B-727 and six A-300 aircraft, and the sale and leaseback of two A-321 and one A-320 aircraft by Iberia, L.A.E. in the first quarter of 2002.

Other transactions relating to the aircraft included the payment and recovery of advances on aircraft and the capitalization of exchange differences. Certain modifications were made to the B-747, B-757, A-320 and MD-87/88 aircraft and other investments were made in spare parts for the Airbus aircraft. In addition, the Company made other investments, such as the replacement of computer hardware and software, purchases of aircraft spare parts, airport machinery and equipment and the acquisition of flight simulators, since Iberia, L.A.E. received its first Airbus A-340 aircraft simulator for crew training in 2002.

Net long-term investments increased in 2002, due mainly to the long-term guarantees and deposits given. It should also be noted that Iberia, L.A.E. and the financial institutions Caja Madrid, BBVA and the Banco Popular Group incorporated the Iberia Cards company in April 2002. Iberia, L.A.E. has a 40% stake in this company's capital stock of €5.2 million.

The financial divestments included most notably the sale of Binter Canarias.

4.4. Balance Sheet

As of December 31, 2002, Iberia, L.A.E.'s shareholders' equity amounted to €1,157.7 million, an increase of €134.3 million with respect to 2001 year-end, as a result of the increase in income and reserves. In 2002 the Company paid a gross dividend of €0.01 per share out of 2001 income, signifying that a total amount of €9.13 million was allocated to shareholder remuneration.

The balance of the provisions for contingencies and expenses amounted to €1,260.0 million at 2002 year-end. This figure includes: €109.8 million of provisions for major aircraft repairs; €493.5 million of provisions for pensions and other obligations to employees; and €656.7 million of provisions for third-party liability. The balance decreased by €19.6 million in 2002, since close to €175 million were used and period provisions of over €155 million were recorded, of which almost €72 million related to provisions for pensions and other obligations to employees.

The long-term debt increased by €102.0 million in 2002, due, in part, to the issuance of debentures tied to the employees' stock option plan, but mainly to the increase in accounts payable to credit institutions. However, the balance of the current liabilities decreased by €165.8 million as a result of the reduction in short-term interest-bearing debt.

Current assets increased by €323.6 with respect to 2001 year-end, due principally to the Company's higher volume of short-term investments.

The net debt of Iberia, L.A.E. decreased significantly from -€317.1 million as of 2001 year-end to -€710.2 million as of December 31, 2002. In both years the short-term financial receivables exceeded the accounts payable to credit institutions (excluding the interest on financial lease transactions).

4.5. Outlook

There is a high degree of uncertainty regarding the outlook for the air transport industry in 2003. The consequences of war in Iraq and, above all, the cooling of the world economy are exerting downward pressure on air transport demand, a phenomenon that started to emerge in the last few months of 2002. Forecasts also point towards a progressive increase in surplus supply over the coming months which, combined with the growth of the no-frills airlines, will foreseeably lead to tougher competition in terms of prices. Consequently, the air transport industry is far from optimistic as regards short-term revenue trends.

Also, the unease in the Middle East and the instability in Venezuela have pushed up fuel prices, to which must be added the significant increase in other external costs such as the flight insurance, security services, airport charges and in-flight navigation costs that airlines have to bear. Therefore, in 2003 it will be difficult to achieve the profit levels seen in 2002.

In any case, the Iberia Group places great confidence in its strength and considers that it could ultimately benefit from a possible worsening of the situation in the industry, for various reasons:

- Firstly, its sound financial position and competitive cost structure are the best weapons with which to fight in possible price wars.
- The Company's natural markets (Spain-Europe and Europe-Latin America) would be less affected by a possible war than other regions where we have a notably smaller presence.
- In addition, Iberia, L.A.E. has sufficient flexibility to be able to reduce resources without incurring higher costs, since it is possible to delay the addition to the fleet of certain of the Airbus aircraft that it is planned to receive in the coming months.
- Continuing to implement its operating risk reduction policy, to date Iberia, L.A.E. has hedged the price of approximately 80% and 40% of the fuel that it expects to consume in the first and second halves of 2003, respectively, at a maximum price of US$ 26.

The main objectives set by the Iberia Group for 2003 are to improve customer service, where punctuality is a key factor, to reinforce its cost containment policies and to increase productivity.

At medium and long term the Iberia Group is confident that it will be able to consolidate its position as one of the biggest and most profitable network operators in the world, since it has two essential strengths on which to base and defend its competitiveness, namely lower unit costs than the other network operators (with potential to reduce them further) and its current position of leadership on routes between Europe and Latin America, which places it in a privileged position from which to harness the huge growth potential in that region.

5 Iberia Shares

5.1. Share Performance

SHARE PERFORMANCE	In Euros
Market price on December 30, 2002	1.40
Average annual market price	1.59
High	2.02
Low	1.09
Average daily trading volume (no. of shares)	3,591,045

In 2002, the first full year in which the shares were traded on the stock market, the Iberia, L.A.E. share price appreciated by more than 27% and performed better than the average for the Spanish market and the shares of other European airlines.

The performance of the Company's shares was very positive in the first eight months of 2002. The events of September 11, 2001, had triggered a stock market crash throughout the world, and the air transport industry was one of the worst hit. The rapid and opportune measures taken by Iberia, L.A.E. with the implementation of its Anti-crisis Plan, together with the sound results posted in its annual and quarterly financial statements, lent the Company credibility. The positive recommendations of analysts and investor confidence drove up the price of the shares and led to a huge increase in trading volume.

Therefore, Iberia, L.A.E. shares were included in the Ibex-35 index (the Spanish market's benchmark index) on July 1. Two months later, the shares were included in the Stoxx 600 index, which groups together the 600 leading European companies in terms of stock market capitalization, and in the prestigious Morgan Stanley MSCI index.

From September onwards, the uncertainty regarding a possible U.S.-led attack on Iraq and the rise in crude oil prices led to a sharp drop in share prices and significant volatility in the price of Iberia, L.A.E. shares, which closed the year at €1.40 euros. However, Iberia, L.A.E.'s shares fared better than those of its European competitors and, within the air transport industry, are among those most recommended by analysts.

5.2. Treasury Stock

On June 6, 2002, the Shareholders' Meeting authorized the Company's Board of Directors to derivatively acquire Company shares, in accordance with Article 75 of the Spanish Corporations Law.

As of December 31, 2002, Iberia, L.A.E. held 24,593,140 shares of treasury stock, representing 2.69% of its capital stock, with an overall par value of €19.2 million and an acquisition cost of €1.30 per share.

The Company recorded the mandatory reserve for treasury stock in its balance sheet as of December 31, 2002.