



**LEGAL
INFORMATION**

ANNUAL REPORT 2002

IBERIA 

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the consolidated financial statements of **IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.** and **SUBSIDIARIES** comprising the consolidated balance sheet as of December 31, 2002, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

For comparison purposes the Parent Company's directors present, in addition to the 2002 figures for each item in the consolidated balance sheet and consolidated statement of income, the figures for 2001. Our opinion refers only to the 2002 consolidated financial statements. Our auditors' report dated April 18, 2002, on the 2001 consolidated financial statements contained an unqualified opinion.

In our opinion, the 2002 consolidated financial statements referred to above present, in all material respects, a true and fair view of the net worth and financial position of Iberia, Líneas Aéreas de España, S.A. and Subsidiaries as of December 31, 2002, and of the results of their operations in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

The accompanying consolidated management report for 2002 contains the explanations which the directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated management report is consistent with that contained in the consolidated financial statements for 2002. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the companies' accounting records.

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


Luis de la Mora
April 7, 2003



**CONSOLIDATED
FINANCIAL
STATEMENTS**

ANNUAL REPORT 2002

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

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

The accompanying Notes 1 to 24 are an integral part of the consolidated balance sheet as of December 31, 2002.

ASSETS	Thousands of Euros	
	2002	2001
FIXED AND OTHER NONCURRENT ASSETS:		
Start-up expenses (Note 6-b)	303	583
Intangible assets (Note 7)	465,281	397,561
Property, plant and equipment (Note 8)	1,168,015	1,548,342
Aircraft:		
Cost	1,972,126	2,517,225
Accumulated depreciation and allowances	(1,196,616)	(1,391,586)
	775,510	1,125,639
Other tangible fixed assets:		
Cost	1,058,651	1,070,415
Accumulated depreciation and allowances	(666,146)	(647,712)
	392,505	422,703
Long-term investments (Note 9)	474,999	427,354
Investments in companies accounted for by the equity method	114,289	94,608
Loans to companies accounted for by the equity method	-	25,623
Long-term investment securities	207,045	112,523
Other loans	226,508	236,755
Long-term deposits and guarantees given	86,578	28,820
Allowances	(159,421)	(70,975)
Long-term receivables (Note 19)	351,731	377,434
Total fixed and other noncurrent assets	2,460,329	2,751,274
CONSOLIDATION GOODWILL (Note 6-a)	104,711	111,324
DEFERRED CHARGES (Note 7)	122,229	94,738
CURRENT ASSETS:		
Shares of the Parent Company (Note 10)	31,896	15,070
Inventories (Note 11)	89,964	95,052
Accounts receivable	587,622	562,480
Short-term investments (Note 12)	1,204,683	938,953
Cash	11,957	20,584
Accrual accounts	36,089	42,714
Total current assets	1,962,211	1,674,853
TOTAL ASSETS	4,649,480	4,632,189

SHAREHOLDERS' EQUITY AND LIABILITIES		Thousands of Euros	
	2002	2001	
SHAREHOLDERS' EQUITY (Note 13):			
Capital stock	712,110	712,110	
Additional paid-in capital	96,454	96,454	
Differences due to the adjustment of capital to euros	1,201	1,201	
Reserves of the Parent Company	204,778	184,333	
Legal reserve	61,352	58,415	
Merger reserve	165	165	
Revaluation reserve	38	38	
Reserve for treasury stock	31,896	15,070	
Voluntary reserves	111,327	110,645	
Reserves at fully consolidated companies	75,721	69,409	
Reserves at companies accounted for by the equity method	70,476	55,970	
Translation differences	(123)	-	
Income attributable to the Parent Company (Note 21)	157,120	50,189	
Consolidated income for the year	159,825	53,138	
Income attributed to minority interests (Notes 14 y 21)	(2,705)	(2,949)	
Total shareholder's equity	1,317,737	1,169,666	
MINORITY INTERESTS (Note 14)	9,242	9,095	
NEGATIVE CONSOLIDATION DIFFERENCE	1,494	-	
DEFERRED REVENUES (Note 6-i)	70,475	69,259	
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 15)	1,261,455	1,298,072	
LONG-TERM DEBT:			
Convertible debentures (Note 17)	22,573	-	
Payable to credit institutions (Note 16)	480,105	415,616	
Other payables (Note 19)	23,297	24,607	
	525,975	440,223	
CURRENT LIABILITIES:			
Convertible debentures (Note 17)	7,524	-	
Payable to credit institutions (Note 16)	102,011	300,898	
Customer advances	423,845	396,737	
Accounts payable for purchases and services	616,218	653,308	
Other nontrade payables (Note 19)	148,817	178,295	
Compensation payable	163,970	111,756	
Accrual accounts	717	4,880	
Total current liabilities	1,463,102	1,645,874	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,649,480	4,632,189	

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

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

The accompanying Notes 1 to 24 are an integral part of the consolidated statement of income for 2002.

DEBIT	Thousands of Euros	
	2002	2001
EXPENSES:		
Procurements (Note 20)	762,132	847,296
Personnel expenses (Note 20)	1,353,734	1,361,188
Depreciation and amortization expense (Notes 7 and 8)	164,702	173,365
Variation in operating allowances	13,333	8,885
Other operating expenses (Note 20)	2,156,523	2,342,634
	4,450,424	4,733,368
Operating income	249,109	4,880
Financial and similar expenses (Note 16)	39,345	52,054
Variation in investment valuation allowances	15	-
Exchange losses	119,528	73,876
	158,888	125,930
Financial income	-	10,382
Share in losses of companies accounted for by the equity method	715	2,708
Amortization of consolidation goodwill (Note 6-a)	6,613	6,613
Income from ordinary activities	240,671	31,464
Losses on fixed assets (Note 8)	10,777	10,981
Variation in fixed assets allowances	55	119
Extraordinary expenses (Note 20)	103,407	169,366
Prior years' expenses and losses	5,342	4,938
	119,581	185,404
Extraordinary income	-	-
Consolidated income before taxes	194,081	-
Corporate income tax (Note 19)	34,256	(138,370)
Consolidated income for the year	159,825	53,138
Income attributed to minority interests (Notes 14 and 21)	2,705	2,949
Income for the year attributed to the Parent Company	157,120	50,189

CREDIT	Thousands of Euros	
REVENUES:		
Net sales (Note 20)	4,485,716	4,515,063
Other operating revenues (Note 20)	213,817	223,185
	4,699,533	4,738,248
Revenues from equity investments	1,608	28
Revenues from other marketable securities	855	16,236
Other interest and similar revenues (Note 12)	48,772	52,221
Exchange gains	86,134	67,827
	137,369	136,312
Share in the income of companies accounted for by the equity method	20,409	24,928
Reversal of negative consolidation goodwill	-	595
Gains on fixed asset disposals (Notes 4-b and 8)	47,821	27,345
Gains on transactions involving shares of the Parent Company (Note 10)	1,982	-
Extraordinary revenues (Note 20)	13,134	32,781
Prior years' revenues and income	10,054	8,582
	72,991	68,708
Extraordinary loss	46,590	116,696
Consolidated loss before taxes	-	85,232

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