CONSOLIDATED MANAGEMENT REPORT

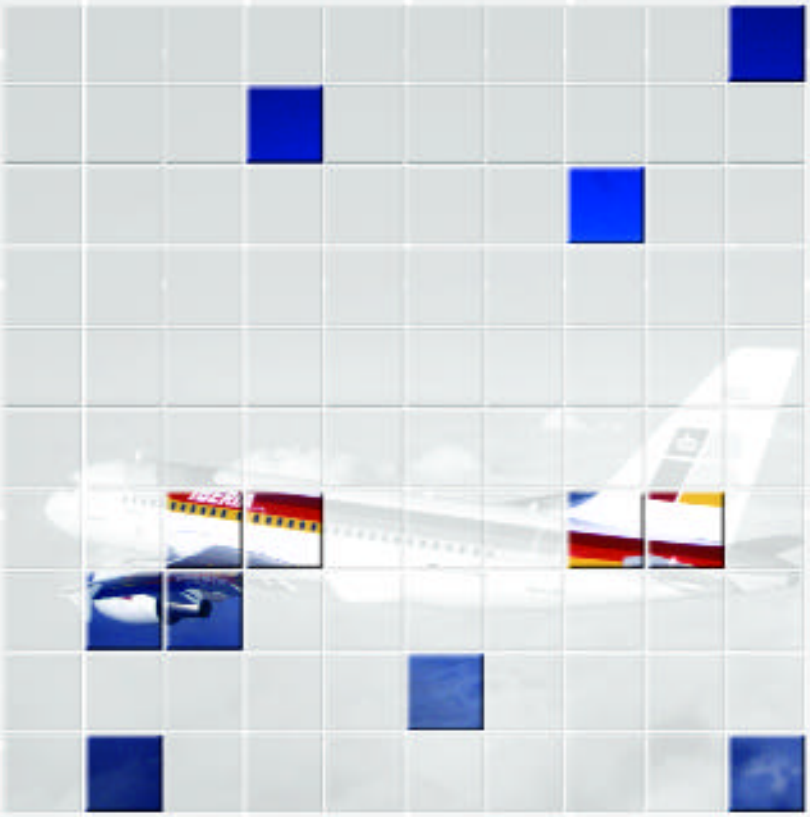
DUE TO ITS LENGTH, THIS PUBLICATION INCLUDES ONLY A SUMMARY OF THE MANAGEMENT REPORT. THE COMPLETE TEXT HAS BEEN DEPOSITED WITH THE MERCANTILE REGISTER.

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

ANNUAL REPORT 2002

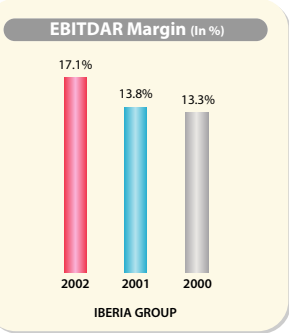
IBERIA

IBERIA GROUP



0 Main Aggregates

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
Net earnings per share (€ cents) (1)	17.21	5.50	212.9
Dividend per share (€ cents) (1)	4.0	1.0	300.0
Passenger traffic: production and revenues (2)			
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 €)	1,317.7	1,169.7	12.7
Net debt (millions of €) (3)	(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.
ROE (%) (4)	12.0	4.5	7.5 p.
Resources			
Equivalent average no. of full-time employees (5)	25,754	27,067	(4.9)
Operating aircraft at December 31	146	157	(7.0)
Usage of Group aircraft (B.H. per aircraft per day)	8.68	8.24	5.3



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

(2) Data relating to Iberia, L.A.E. for 2002 and 2001.

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

(4) Return on equity: Consolidated income / (Shareholders' equity + Minority interests).

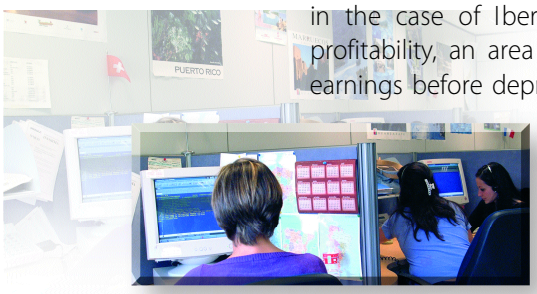
(5) Excluding Binter Canarias, Binter Mediteráneo and VIVA employees so that the figures for the two years are comparable.

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 to 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 oneworld partner airlines, Finnair and Aer 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 a 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 BUSINESS PERFORMANCE

2.1. IBERIA GROUP PASSENGER TRANSPORT

Set forth below are the Iberia Group's statistics on supply, traffic and passenger revenues, broken down by company and by commercial sector (the sectors were defined by grouping legs together geographically).

The figures relating to Binter Canarias were only consolidated in those of the Iberia Group through June 2002, because the sale of this subsidiary was formalized in July 2002. Also, Binter Mediterráneo was sold in the summer of 2001 and, accordingly, its figures were only consolidated in those of the Iberia Group through July 2001. Therefore, when analyzing the variations in the figures relating to the Iberia Group's operations and revenues, it should be taken into account that the scope of consolidation in 2002 differs from that in 2001. This distorts any comparison relating to the domestic market, in which both these regional airlines operate.

Section "2.1. Airline" in the management report of Iberia, L.A.E. provides more detailed and significant information on the variations in operating aggregates.

2.1.1. PRODUCTION AND TRAFFIC

In terms of ASKs, in 2002 the Iberia Group's supply decreased by 5.7% with respect to 2001, due mainly to the adjustment and restructuring of Iberia, L.A.E.'s flight schedules in November 2001 in response to the sharp drop in demand for air transport following the terrorist attacks of September 11. In addition to the Parent Company's reduced activity, the sale of the two regional airline subsidiaries also contributed to the drop in supply. The detail, by company, of the Iberia Group's ASKs is as follows:

SUPPLY BY COMPANY — Millions of ASKs

	2002	2001	Variation 02/01	% Variation
IBERIA, L.A.E.	55,405	58,467	(3,062)	(5.2)
BINTER CANARIAS	228	496	(268)	(54.0)
BINTER MEDITERRÁNEO	-	51	(51)	n/a
IBERIA GROUP	**55,633**	**59,014**	**(3,381)**	**(5.7)**

Iberia, L.A.E. made the biggest cutbacks in the number of seats on offer in the domestic market, where the overriding objective was to increase the operating unit margin. To this end, the Company reduced production on the least profitable routes, such as those connecting the Spanish mainland with the Balearic and Canary Islands. However, the Iberia Group continued to consolidate its transversal and radial network in Spain through the growth of the franchised airline Iberia Regional Air Nostrum, which also increased the number of destinations and the frequency of its flights on its short- and medium-haul routes between Spain and other parts of Europe.

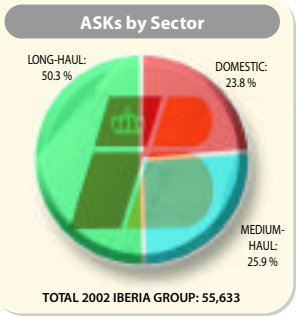
The selective adjustment in winter 2001-2002 of the number of international flights focused on the markets worst hit by the impact of the events of September 11, 2001, namely North Atlantic, the Middle East and North Africa. Later, in 2002 Iberia, L.A.E. once again reacted with great speed and flexibility by tailoring its production to the different trends in each international market.

Traffic in the Spain-Europe market recovered rather more quickly that had been anticipated. Accordingly, from April 2002 Iberia, L.A.E. started to increase the resources assigned to the international medium-haul network to levels above those originally envisaged, initially to establish a greater density of frequencies to the main EU destinations and, later, to restore part of the production to other destinations in Europe, Africa and the Middle East that had earlier been retired. Therefore, in 2002 as a whole, supply on medium-haul routes fell by 1.6% with respect to 2001.

Iberia, L.A.E. also had to make adjustments to its intercontinental flight schedules in 2002 by switching flights to certain destinations where demand was weaker then expected (such as Venezuela and, above all, Argentina) to other routes. Overall, in 2002 supply on long-haul routes dropped by 3.9% with respect to 2001.

SUPPLY BY SECTOR — Millions of ASKs

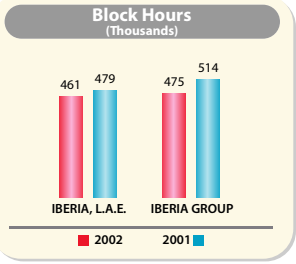
	2002	2001	Variation 02/01	% Variation
DOMESTIC	13,215	15,225	(2,010)	(13.2)
MEDIUM-HAUL	14,408	14,648	(240)	(1.6)
LONG-HAUL	28,010	29,138	(1,128)	(3.9)
SCHEDULED TRAFFIC	**55,633**	**59,011**	**(3,378)**	**(5.7)**
CHARTER TRAFFIC	-	3	(3)	n/a
IBERIA GROUP	**55,633**	**59,014**	**(3,381)**	**(5.7)**



Group production in terms of block hours was 7.6% lower than in 2001, due to the cutback in the production of Iberia, L.A.E. and to the sale of the two airline subsidiaries, whose production carried greater weight in terms of block hours than in ASKs, due to the short distance of their average haul.

PRODUCTION — Block Hours

	2002	2001	Variation 02/01	% Variation
IBERIA, L.A.E.	460,704	478,814	(18,110)	(3.8)
BINTER CANARIAS	14,151	30,970	(16,819)	(54.3)
BINTER MEDITERRÁNEO	-	4,260	(4,260)	n/a
IBERIA GROUP	**474,855**	**514,044**	**(39,189)**	**(7.6)**

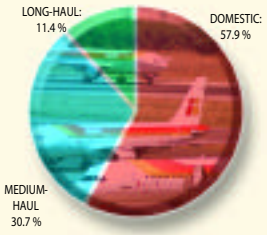


The Iberia Group carried 8.6% fewer passengers in 2002 than in 2001. Although traffic increased by almost 2% on international routes, thanks to improved load factors, the number of passengers carried on domestic flights dropped by 15%, as a result of two factors, namely the sale by the Group of the two regional airlines, which operated in the domestic market, and the reduction of Iberia, L.A.E.'s supply, which was greater on these routes.

The following two tables show the breakdown of the Iberia Group's passengers by company and by sector:

PASSENGERS BY COMPANY				Thousands
	2002	2001	Variation 02/01	% Variation
IBERIA, L.A.E.	23,922	24,971	(1,049)	(4.2)
BINTER CANARIAS	1,034	2,183	(1,149)	(52.6)
BINTER MEDITERRÁNEO	-	144	(144)	n/a
IBERIA GROUP	**24,956**	**27,298**	**(2,342)**	**(8.6)**

Passengers by Sector



TOTAL 2002 IBERIA GROUP: 24,956

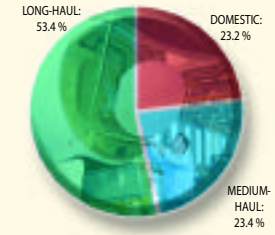
PASSENGERS BY SECTOR				Thousands
	2002	2001	Variation 02/01	% Variation
DOMESTIC	14,447	16,989	(2,542)	(15.0)
MEDIUM-HAUL	7,664	7,540	124	1.6
LONG-HAUL	2,845	2,767	78	2.8
SCHEDULED TRAFFIC	**24,956**	**27,296**	**(2,340)**	**(8.6)**
CHARTER TRAFFIC	-	2	(2)	n/a
IBERIA GROUP	**24,956**	**27,298**	**(2,342)**	**(8.6)**

The Iberia Group's traffic, measured in revenue passenger-kilometres (RPKs), decreased by 2.8% in 2002, less than half the drop in supply. The RPKs increased by 1.6% on medium-haul flights and the levels attained in 2001 on long-haul flights were almost achieved once again in 2002, giving an average increase of 0.4% for international traffic taken as a whole. International traffic accounted for 76.8% of the Group's total RPKs and domestic traffic for 23.2%.

The following two tables show the breakdown of the Iberia Group's RPKs by company and by sector:

TRAFFIC BY COMPANY				Millions of RPKs
	2002	2001	Variation 02/01	% Variation
IBERIA, L.A.E.	40,470	41,390	(920)	(2.2)
BINTER CANARIAS	177	384	(207)	(53.9)
BINTER MEDITERRÁNEO	-	36	(36)	n/a
IBERIA GROUP	**40,647**	**41,810**	**(1,163)**	**(2.8)**

RPKs by Sector



TOTAL 2002 IBERIA GROUP: 40,647

TRAFFIC BY SECTOR				Millions of RPKs
	2002	2001	Variation 02/01	% Variation
DOMESTIC	9,417	10,700	(1,283)	(12.0)
MEDIUM-HAUL	9,531	9,377	154	1.6
LONG-HAUL	21,699	21,731	(32)	(0.1)
SCHEDULED TRAFFIC	**40,647**	**41,808**	**(1,161)**	**(2.8)**
CHARTER TRAFFIC	-	2	(2)	n/a
IBERIA GROUP	**40,647**	**41,810**	**(1,163)**	**(2.8)**

The Iberia Group's passenger load factor of 73.1% in 2002 was 2.3 percentage points higher than in 2001. The load factor in Iberia, L.A.E.'s network also rose by 2.3%, where the load factor improved in all markets, although the greatest increase arose on long-haul routes.

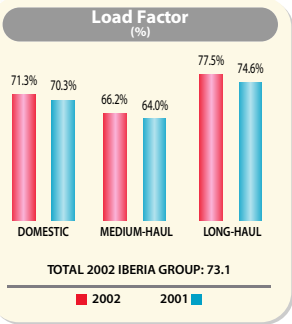
LOAD FACTOR BY COMPANY %

	2002	2001	Variation 02/01
IBERIA, L.A.E.	73.0	70.8	2.3
BINTER CANARIAS	77.8	77.5	0.3
BINTER MEDITERRÁNEO	-	69.1	n/a
IBERIA GROUP	**73.1**	**70.8**	**2.3**

The detail, by sector, of the load factor in 2002 and 2001 is as follows:

LOAD FACTOR BY SECTOR %

	2002	2001	Variation 02/01
DOMESTIC	71.3	70.3	1.0
MEDIUM-HAUL	66.2	64.0	2.2
LONG-HAUL	77.5	74.6	2.9
SCHEDULED TRAFFIC	**73.1**	**70.8**	**2.3**
CHARTER TRAFFIC	-	55.9	n/a
IBERIA GROUP	**73.1**	**70.8**	**2.3**

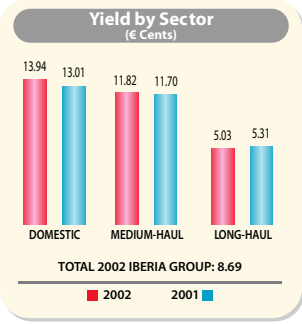


2.1.2. TRAFFIC REVENUES

The Iberia Group's yield (average revenue per RPK) in 2002 remained practically unchanged with respect to 2001, despite the increase of over 6% in the average haul. The 1.1% increase in Iberia, L.A.E.'s yield was largely attributable to the domestic market. Long-haul routes were affected by the depreciation of the U.S. dollar. The following two tables show the variations in the Iberia Group's yield, by company and sector:

AVERAGE REVENUE PER RPK BY COMPANY — € Cents

	2002	2001	Variation 02/01	% Variation
IBERIA, L.A.E.	8.60	8.51	0.09	1.1
BINTER CANARIAS	28.28	27.94	0.34	1.2
BINTER MEDITERRÁNEO	-	33.40	n/a	n/a
IBERIA GROUP	**8.69**	**8.71**	**(0.02)**	**(0.2)**



AVERAGE REVENUE PER RPK BY SECTOR — € Cents

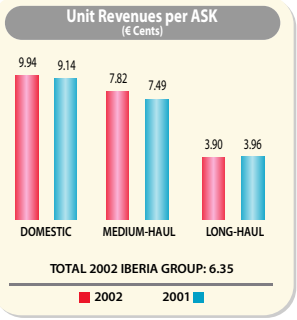
	2002	2001	Variation 02/01	% Variation
DOMESTIC	13.94	13.01	0.93	7.1
MEDIUM-HAUL	11.82	11.70	0.12	1.0
LONG-HAUL	5.03	5.31	(0.28)	(5.3)
SCHEDULED TRAFFIC	**8.69**	**8.71**	**(0.02)**	**(0.2)**
CHARTER TRAFFIC	-	24.62	n/a	n/a
IBERIA GROUP	**8.69**	**8.71**	**(0.02)**	**(0.2)**

In 2002 the average revenue per ASK increased by 2.9% for the Iberia Group's production as a whole, although the increase was 4.1% in the case of the Parent Company. The domestic sector experienced the highest growth, where the improved load factor was augmented by the aforementioned increase in the yield.

The following two tables show the variations in the average revenues per ASK, by company and market:

UNIT REVENUES PER ASK BY COMPANY				€ Cents
	2002	2001	Variation 02/01	% Variation
IBERIA, L.A.E.	6.28	6.03	0.25	4.1
BINTER CANARIAS	21.99	21.64	0.35	1.6
BINTER MEDITERRÁNEO	-	23.10	n/a	n/a
IBERIA GROUP	**6.35**	**6.17**	**0.18**	**2.9**

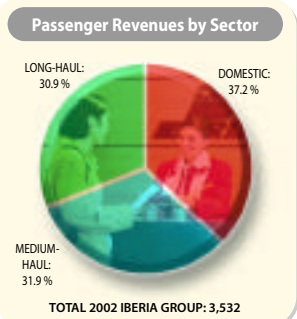
UNIT REVENUES PER ASK BY SECTOR				€ Cents
	2002	2001	Variation 02/01	% Variation
DOMESTIC	9.94	9.14	0.80	8.8
MEDIUM-HAUL	7.82	7.49	0.33	4.4
LONG-HAUL	3.90	3.96	(0.06)	(1.5)
SCHEDULED TRAFFIC	**6.35**	**6.17**	**0.18**	**2.9**
CHARTER TRAFFIC	-	13.77	n/a	n/a
IBERIA GROUP	**6.35**	**6.17**	**0.18**	**2.9**



The Iberia Group's passenger revenues amounted to almost €3,532 million in 2002, the breakdown by market being as follows: 37% domestic, 32% international medium-haul, and around 31% long-haul routes. Revenues fell by 3.1% with respect to 2001, due largely to the reduced supply. The detail of the passenger revenues by company and market is as follows:

PASSENGER REVENUES BY COMPANY				Millions of Euros
	2002	2001	Variation 02/01	% Variation
IBERIA, L.A.E.	3,481.4	3,524.1	(42.7)	(1.2)
BINTER CANARIAS	50.3	107.3	(57.0)	(53.1)
BINTER MEDITERRÁNEO	-	11.9	(11.9)	n/a
IBERIA GROUP	**3,531.7**	**3,643.3**	**(111.6)**	**(3.1)**

PASSENGER REVENUES BY SECTOR				Millions of Euros
	2002	2001	Variation 02/01	% Variation
DOMESTIC	1,313.0	1,391.6	(78.6)	(5.6)
MEDIUM-HAUL	1,126.5	1,096.8	29.7	2.7
LONG-HAUL	1,092.2	1,154.5	(62.3)	(5.4)
SCHEDULED TRAFFIC	**3,531.7**	**3,642.9**	**(111.2)**	**(3.1)**
CHARTER TRAFFIC	-	0.4	(0.4)	n/a
IBERIA GROUP	**3,531.7**	**3,643.3**	**(111.6)**	**(3.1)**



2.2. BINTER CANARIAS

On July 26, 2002, Iberia, L.A.E. sold this company to a consortium of Canary Islands investors (Hesperia de Inversiones Aéreas) for €52.6 million, giving rise to a net gain of €27.9 million.

2.3. SAVIA

Sistemas Automatizados Agencias de Viaje, S.A. (SAVIA) continued to implement its technological renewal policy with a view to being able to offer better service to travel agencies. Noteworthy in this regard in 2002 was the migration of its customers' communications network to ADSL technology. This investment, which was financed by SAVIA and Telefónica, increased bandwidth availability, thereby improving the speed and quality of communications. Also, SAVIA continued to replace computers and to install ticket printers using ATB technology.

SAVIA continued to increase its presence in Spain and Portugal in 2002. In the Spanish market, 400 new agencies were connected to the system, as a result of which the total number connected increased by 6.2% to stand at 6,878 in December 2002; the number of terminals installed at Spanish travel agencies increased by 1,391 (7.2%) to 20,784 at year-end. In the Portuguese market, there were 145 agencies connected at 2002 year-end, an increase of 7.4% with respect to the end of 2001; the number of terminals installed increased by 8.4% from 451 to 489 in 2002.

Bookings made over the system totaled 28,096,275 in 2002, down 0.8% from 2001, as a result of the weak demand in the air transport industry and the reduction in the airlines' production.

SAVIA reported net income after taxes of €6.9 million in 2002.

The detail of this company's main aggregates is as follows:

SAVIA

	2002	2001	Variation 02/01	% Variation
Operating revenues (millions of €)	58.9	61.3	(2.4)	(3.9)
Operating income (millions of €)	9.7	11.4	(1.7)	(14.9)
Net income after taxes (millions of €)	6.9	7.7	(0.8)	(10.4)
Equivalent full-time employees	113	99	14	14.1

2.4. IBER-SWISS CATERING

In 2002 Iber-Swiss Catering, S.A. continued to provide food and catering services to Iberia, L.A.E. and other airlines at its three work centers, located at Madrid, Barcelona and Málaga airports. This company's volume of business in 2002, in terms of the number of trays, decreased by 6.6% with respect to 2001, due to the general slump in air transport as a result of the events of September 11 and to the bankruptcy of Swissair, which was one of the company's major customers. However, it should be noted that there was a progressive and constant upturn in business from spring 2002 onwards. In addition, the reduction in Iberia, L.A.E. flights was offset by the gradual inclusion of meals on return legs of European flights, which enabled Iberia to cut its costs significantly.

As regards new customers, Iber-Swiss has had two new customers since April 2002, Air Canada and the company SWISS, which took over Swissair's flights in Spain. Also, the company's customer roster will foreseeably grow in 2003 with the inclusion of Delta Airlines, Northwest and KLM.

Operating revenues amounted to €66.8 million in 2002, down 2.9% from 2001. The adaptation of resources to prevailing market conditions and the ongoing rationalization and improvement of processes made it possible to reduce operating expenses by 4.5% with respect to 2001, and the average headcount was cut by 5.6%. The operating income of €4.8 million reported in 2002 was €0.9 million higher than in 2001.

In 2002 the company completed the sale of Gate Gourmet International, the second shareholder of Iber-Swiss, to the U.S. investment company Texas Pacific Group. Another noteworthy event was the posting of an Iber-Swiss Catering web page on the Internet.

The Madrid location received GSE 2000 certification following a stringent evaluation conducted by Gate Gourmet International within the framework of the "Global Service Excellence" program being implemented by this international catering services company, which focuses on excellence in the management of personnel and customers and sustained cost leadership. Also, the Iber-Swiss laboratory in Madrid obtained ISO 9001:2000 certification for all its processes from the Asociación Española de Normalización y Certificación (AENOR).

This company's main aggregates are summarized as follows:

IBER-SWISS CATERING

	2002	2001	Variation 02/01	% Variation
Production of food-trays (thousands)	13,602	14,562	(960)	(6.6)
Planes served (units)	130,588	139,619	(9,031)	(6.5)
Equivalent full-time employees	1,438	1,523	(85)	(5.6)
Food-trays per employee	9,458	9,562	(104)	(1.1)
Operating revenues (millions of €)	66.8	68.8	(2.0)	(2.9)
Operating income (millions of €)	4.8	3.9	0.9	23.1
Net income after taxes (millions of €)	2.1	2.2	(0.1)	(4.5)

2.5. CACESA

The operating revenues of Compañía Auxiliar al Cargo Expres, S.A. (CACESA) increased by 3.5% to €37.8 million in 2002.

Sales of the Ibexpress product (a same-day door-to-door urgent courier service) amounted to €15.8 million in 2002, up 5.3% on 2001. This increase was based on the consolidation of the cargo service to the Canary Islands and, above all, on the surge in sales of the international product, which definitively started to take off in 2002, thanks to the reliability of an already-consolidated U.S. network and to greater integration of the information systems.

Sales of the Ibertras transit product amounted to €16.6 million in 2002, a decrease of 4.3% with respect to 2001. The downturn in exports and, to a lesser extent, in domestic traffic, was cushioned by the increase in traffic to and from the Canary Islands and, above all, by the increase in imports. The company continued to develop its international network, and promoted direct sales initiatives in Latin America.

Sales of ancillary services increased by around 37% with respect to 2001, as a result of growth in certain activities, such as the operation of cargo terminals and services provided to the Iberia, L.A.E. Maintenance Division. It should be noted that it is planned to group together all the ancillary services in Auxiliar Logística Aeroportuaria, S.A. (ALAER), a wholly-owned investee of CACESA incorporated in June 2002.

In 2002 CACESA intensified its expense containment program, which enabled it to significantly reduce both procurements and general expenses. The company's net income after taxes amounted to €0.7 million in 2002, slightly higher than in 2001.

Having obtained ISO 9001:2000 quality certification for its Madrid and Barcelona centers from AENOR in January 2002, CACESA is now working towards extending this certification to its other centers, the related audit for which will be carried out in the first quarter of 2003.

The detail of this company's main aggregates is as follows:

CACESA

	2002	2001	Variation 02/01	% Variation
Ibexpress revenues (millions of €)	15.8	15.0	0.8	5.3
Ibertras Aéreo revenues (millions of €)	16.6	17.3	(0.7)	(4.1)
Ibertras Marítimo revenues (millions of €)	0.5	0.7	(0.2)	(28.6)
Operating income (millions of €)	1.0	1.0	0.0	0.0
Net income after taxes (millions of €)	0.7	0.7	0.0	0.0
Equivalent full-time employees	159	137	22	16.1

2.6. VIVA TOURS

In 2002 Touroperador Viva Tours, S.A. completed and improved on the measures taken in 2001, which were fulfilled satisfactorily. The targets met include most notably strict cost control, a significant improvement in the image of Viva Tours in the travel distribution industry, and a notable proportion of sales made through e-business systems.

As regards the corporate organization, the Operations, Procurements and Sales areas were strengthened in order to consolidate the management optimization process. As regards its product, both the end customer and the distribution industry perceived an improvement in the quality of the package tours sold by Viva Tours. The company achieved this by broadening the range of products on offer and improving the quality of the service provided at the various destinations. In the Distribution area, the commission system was rationalized and investments were made aimed at equipping the distribution network with simple tools to facilitate sales and reduce communication costs, such as the use of the websites that Viva Tours has made available to the network. Also, end customers can also access the products told by this tour operator through Iberia.com, which now contains a section devoted to Viva Tours, and other electronic systems. Consequently, Internet sales increased significantly in 2002.

Gross sales fell by 22.5% in 2002, partially as a result of the fallback in demand brought about by economic uncertainty and partly because of the high number of special offers in the industry as a whole in an attempt to stimulate demand.

Despite the fall in sales, the cost control and profitability enhancement policies adopted made it possible to report a profit in 2002, as compared with the significant losses incurred in 2001.

3 RESOURCES

3.1. FLEET

The detail of the passenger aircraft operated by the Iberia Group 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
BEECH	-	-	-	-	-
ATR-72	-	-	-	-	-
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 157 available passenger aircraft. The following list shows the additions and retirements in 2002, explaining this reduction of 11 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
- 11 ATR 72 composing the fleet of Binter Canarias
- 2 BEECH operated under wet lease by Binter Canarias
- 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 Iberia, L.A.E. 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 share the same certification, but the layout of their passenger cabins is different, and they have 150 and 187 seats, respectively.

Also, in 2002 Iberia, L.A.E. retired and sold its five last Airbus A-300 aircraft. Therefore, since June 2002 the Company has been operating only three types of short- and medium-haul aircraft (A-320-type, B-757 and MD-87/88 aircraft) and, since it introduced its Fleet Renewal and Expansion Plan in 1998, it has ceased operating another four types of aircraft. Accordingly, the Company now has a modern uniform fleet with more comforts for passengers and lower operating costs.

Under the aforementioned Fleet Renewal Plan, in 2002 the Company added three Airbus A-340 aircraft (in February, May and December) to its long-haul fleet.

The average usage of the Iberia Group's aircraft increased by more than 5% in 2002 to 8.68 block hours per aircraft per day. This increase was mainly attributable to the short-and medium-haul aircraft.

AVERAGE AIRCRAFT USE		Block Hours/Aircraft/Day
	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
CN-235 (Binter Mediterráneo)	-	4.0
ATR-72 (Binter Canarias)	6.1	6.5
Average short- and medium-haul aircraft use	7.8	7.3
Average long-haul aircraft use	12.9	13.6
Total average aircraft use	**8.7**	**8.2**

3.2. Personnel

3.2.1. HEADCOUNT

The table below shows the Iberia Group's average headcounts in 2002 and 2001. In order to make the figures comparable, the employees of Binter Canarias and Binter Mediterráneo, which did not form part of the Iberia Group at 2002 year-end, and of VIVA, which discontinued operations in 2001, were excluded:

AVERAGE ANNUAL HEADCOUNT

	Ground		Flight		Total	
	2002	2001	2002	2001	2002	2001
IBERIA, L.A.E.	17,675	18,682	6,369	6,626	24,044	25,308
CACESA	159	137	-	-	159	137
IBER-SWISS	1,438	1,523	-	-	1,438	1,523
SAVIA	113	99	-	-	113	99
IBERIA GROUP	**19,385**	**20,441**	**6,369**	**6,626**	**25,754**	**27,067**
Variation 2002 / 2001 (%)	(5.2) %		(3.9) %		(4.9) %	

In 2002 the Iberia Group's average headcount fell by 4.9%, due to the reduction of the labor force at Iberia, L.A.E., since the implementation of the labor force reduction plan and the plan to reduce the headcount at the sales offices abroad gave rise to a total of 2,724 terminations. In general, the economic and labor targets were met.

3.2.2. PRODUCTIVITY

Following the sale of Binter Canarias in July 2002, the variations in the productivity of the crews (in terms of block hours) and of the ground personnel and the labor force as a whole (measured in terms of ASKs per employee) are only meaningful in the case of Iberia, L.A.E., since this is now the only Group company engaging in the air transport business.

PRODUCTIVITY OF THE IBERIA, L.A.E. EMPLOYEES

	2002	2001	% Variation
Total labor force (thousands of ASK per employee)	2,304	2,310	(0.3)
Ground personnel (thousands of ASK 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.

The productivity of the total labor force of Iberia, L.A.E. was similar to that of 2001 at 2.3 million ASKs per employee. As regards the ground personnel, the labor force reduction offset the drop in the Company's supply.

4 FINANCIAL PERFORMANCE

4.1. OPERATING INCOME

The Iberia Group's operating income for 2002 amounted to €249.1 million, the detail by company being as follows:

BY COMPANY		Millions of Euros
	2002	2001
IBERIA, L.A.E.	228.7	(24.8)
SAVIA	9.7	11.4
IBER-SWISS	4.8	3.9
CACESA	1.0	1.0
CAMPOS VELÁZQUEZ	(0.0)	(0.0)
CARGOSUR	(0.0)	(0.0)
BINTER CANARIAS	-	9.6
BINTER MEDITERRÁNEO	-	(1.1)
VIVA	-	(2.2)
IBERIA GROUP (*)	**249.1**	**4.9**

(*) The total figures for the Iberia Group include consolidation adjustments.

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

OPERATING INCOME				Millions of Euros
	2002	2001	Variation 02/01	% Variation
OPERATING REVENUES				
Passenger revenues	3,728.5	3,781.5	(53.0)	(1.4)
Cargo revenues	256.7	270.5	(13.8)	(5.1)
Handling revenues	234.8	220.7	14.1	6.4
Maintenance revenues	91.3	94.8	(3.5)	(3.7)
Sales commissions	108.5	105.8	2.7	2.6
Catering sales	16.0	22.2	(6.2)	(27.9)
Other operating revenues	263.7	242.7	21.0	8.7
	4,699.5	**4,738.2**	**(38.7)**	**(0.8)**
OPERATING EXPENSES				
Personnel expenses	1,353.7	1,361.2	(7.5)	(0.6)
Fuel	553.2	634.7	(81.5)	(12.8)
Commissions	464.3	514.1	(49.8)	(9.7)
Aircraft lease expenses	395.8	482.2	(86.4)	(17.9)
Traffic services	362.7	393.1	(30.4)	(7.7)
Aircraft maintenance	239.6	275.2	(35.6)	(12.9)
Navigation charges	226.6	218.4	8.2	3.8
Depreciation and amortization expenses	164.7	173.4	(8.7)	(5.0)
Booking systems	126.3	133.3	(7.0)	(5.3)
In-flight services	64.4	75.3	(10.9)	(14.5)
Insurance	76.0	27.2	48.8	179.4
Other operating expenses	423.0	445.2	(22.2)	(5.0)
	4,450.4	**4,733.4**	**(283.0)**	**(6.0)**
OPERATING INCOME	**249.1**	**4.9**	**244.2**	**n.m.**

The consolidated operating income for 2002 was €244.2 million higher than the €4.9 million obtained in 2001. The operating margin on revenues increased to 5.3% in 2002. EBITDAR (earnings before interest, taxes, depreciation, amortization and aircraft lease expenses) amounted to €804.8 million in 2002, representing a 17.1% margin on revenues, 3.3 percentage points above that for the previous year.

4.1.1. OPERATING REVENUES

The Iberia Group's operating revenues of almost €4,700 million in 2002 were €38.7 million lower than in 2001. The effect of the 5.7% reduction of the Group's supply in terms of ASKs was partially offset by the increase in unit passenger revenues (4.1% in the case of Iberia, L.A.E.) and by the increased recovery of unused tickets in 2002, which confined the decrease in consolidated passenger revenues to €53.0 million, a drop of 1.4% with respect to 2001. The other operating revenues totaled €971.0 million in 2002, up €14.3 million on 2001.

PASSENGER REVENUES

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

The Iberia Group's passenger revenues amounted to €3,728.5 million in 2002, down €53.0 from 2001, due mainly to the reduction in the supply of Iberia, L.A.E. and to the sale of Binter Canarias, the detail being as follows:

VARIATION IN PASSENGER REVENUES — Millions of Euros

	Variation in Passenger Revenues 02/01	Cause of the Variation				Variation in Revenues per Books 02/01
		Price	Volume	Parity	Other	
IBERIA, L.A.E.	(42.7)	90.7	(107.6)	(25.8)	97.9	55.2
BINTER CANARIAS (a)	(57.0)	-	(57.0)	-	(51.2)	(108.2)
BINTER MEDITERRÁNEO (a)	(11.9)	-	(11.9)	-	11.9	0.0
IBERIA GROUP	**(111.6)**	**90.7**	**(176.5)**	**(25.8)**	**58.6**	**(53.0)**

(a) Binter Canarias and Binter Mediterráneo were excluded from consolidation because they were sold in 2002 and 2001, respectively.

The adjustments made by Iberia, L.A.E. to its flight schedules in 2002 led to a reduction in production of 5.2% with respect to the prior year's ASKs, the adverse effect of which on revenues was partially offset by the improved load factor (2.3 percentage points with respect to 2001) and by the 1.1% rise in the average yield, as a result of which the Parent Company's passenger revenues fell by only €42.7 million in 2002.

Also, Iberia, L.A.E.'s "Other Passenger Revenues" were €97.9 million higher than in 2001, due mainly to the larger volume of monthly unused ticket recoveries. This increase is included in the variation in passenger revenues per books, which also reflects the effect of the write-off of balances as a result of the sales of Binter Canarias and Binter Mediterráneo in 2002 and 2001, respectively.

Cargo revenues

Cargo revenues fell by €13.8 million (5.1%) with respect to 2001. In 2002 Iberia, L.A.E. carried a lower volume of cargo than in the preceding year, 5.4% less in terms of TKTs, due mainly to the weakness of cargo traffic in most of the markets in which the Company 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 €14.1 million (6.4%) higher in 2002 than in 2001, as a result of the increase in the handling services provided to Air Nostrum and other Spanish airlines, which included Binter Canarias following its sale in 2002.

Maintenance revenues

Revenues from maintenance services fell by €3.5 million 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

These amounted to €108.5 million in 2002, up €2.7 million on 2002, because the increase in passenger ticket commissions, largely due to the fact that Binter Canarias left the Group, exceeded the drop in commissions on the sale of package tours, particularly in relation to Mundicolor and Viva Tours.

Other operating revenues and catering sales

The other operating revenues totaled €279.7 million in 2002, €14.8 million up on 2001. These revenues included most notably in 2002: billings for the use of the Amadeus and other booking systems, totaling more than €67 million; other traffic revenues, amounting to around €58 million; and revenues from handling and cargo services, which exceeded €21 million. 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 in 2002 and to the revenue growth derived from commercial agreements with other airlines, most of which belong to the **one**world alliance.

"Other Operating Revenues" include "Adjustment of Traffic Revenues Not Allocable to Passenger Routes" and "Other Traffic Revenues", which are included under "Passenger Revenues" in the notes to consolidated financial statements. The aggregate balances of these accounts were €47.5 million in 2002 and €17.0 million in 2001. 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 consolidated financial statements is included under "Cargo Revenues" and which totaled €3.3 million in 2002 and €0.3 million in 2001.

4.1.2. OPERATING EXPENSES

Consolidated operating expenses amounted to over €4,450 million in 2002, but were €283 million (6.0%) lower than in 2001. The measures contained in the Anti-crisis Plan implemented by Iberia, L.A.E. since the end of 2001 were to be thanked for a significant portion of this expense reduction. The following items can be highlighted in this connection: the reduction in the supply of Iberia, L.A.E., of 5.2% in terms of ASKs, coupled with the termination of wet lease contracts and the return of the two Boeing B-767 being leased by the Company; the reduction of the labor force; the change in the system used to remunerate travel agencies; and the progressive application of the expense saving programs included in the Investment and Cost Rationalization and Optimization Plan (PRO.ICO).

Other factors that contributed to the reduction in expenses were the positive impact of the depreciation of the U.S. dollar, particularly on fuel costs and aircraft lease and maintenance expenses, the drop in the unit consumption of the aircraft; lower interest rates; and the sale of Binter Canarias by the Iberia Group. However, certain uncontrollable expense items rose steeply, such as navigation charges, security expenses and, above all, flight insurance costs.

PERSONNEL EXPENSES

Personnel expenses amounted to €1,353.7 million in 2002, and, as is habitual in the industry, constituted the largest expense item, although they were €7.5 million (0.6%) lower than in 2001. The main factors behind this decrease were as follows: the reduction 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, which gave rise to a 5.0% reduction; the sale of Binter Canarias, whose personnel expenses accounted for around 1.7% of the consolidated expense; the salary rise in line with the actual CPI (4.0%) and the payment for improved earnings (2.7%) agreed on in the collective labor agreements of Iberia, L.A.E.; the remainder related to a decrease in the average salary cost.

The aggregate expense for wages, salaries and similar expenses amounted to slightly more than €1,022 million in 2002, down €11.9 million from 2001, whereas the cost of employee welfare benefits totaled €331.6 million, an increase of €4.4 million with respect to the preceding year.

FUEL

The fuel expense of €553.2 million in 2002 was 12.8% (€81.5 million) lower than in 2001 due to the lower volume of production, more favorable U.S. dollar parity, lower unit consumption as a result of the use of new aircraft and, to a lesser extent, lower average kerosene prices.

In 2002 the price of crude oil rose by more than 45% in the period from January to December. The Company 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.

Commercial expenses (commissions, overcommissions and advertising)

In 2002 commercial expenses amounted to €464.3 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 more than €39 million (8.3%) lower than in 2001.

This reduction in the cost of commissions 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 significantly (by €10.7 million) with respect to 2001, due to the expense containment measures implemented since the end of the preceding year. 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 Iberia Group's net commercial costs (commercial expenses net of commercial revenues) fell by €52.5 million (12.9%) in 2002. Net commercial costs as a percentage of traffic revenues at Iberia, L.A.E. continued to improve and decreased from 10.1% in 2001 to 9.0% in 2002. Using the figures in the Group's consolidated statement of income, this percentage fell by 1.2 percentage points with respect to 2001, thereby meeting another of the objectives in the Master Plan.

Aircraft lease expenses

Aircraft lease expenses, which include aircraft operating and wet lease (lease of aircraft with crew) expenses and the expenses incurred in the lease of cargo holds, decreased by €86.4 million (close to 18.0%) with respect to 2001.

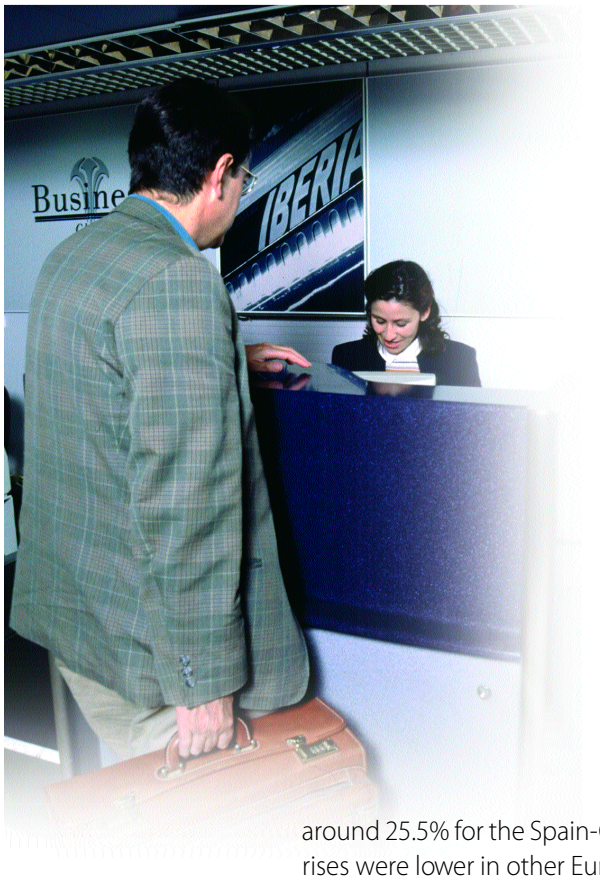
The expense relating to the lease of passenger aircraft amounted to €373.8 million in 2002, down €89.0 million from 2001. The decrease was due mainly to the termination of aircraft wet lease contracts by Iberia, L.A.E., the expense relating to which had totaled €91.3 million in 2001. Other factors behind the reduction were the sale of Binter Canarias, the appreciation of the euro with respect to the U.S. dollar and the drop in interest rates. However, the changes in the structure of Iberia, L.A.E.'s fleet increased the aggregate cost of operating lease transactions.

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 is recorded in full under the "Other Rent" caption in the notes to consolidated financial statements.

Traffic service costs

Traffic services costs (including, inter alia, landing charges, other airport services, aircraft dispatching, aircraft cleaning and catering equipment, stopover charges and incident costs) totaled €362.7 million in 2002, down €30.4 million (7.7%) from 2001. The main reason for the decrease was the reduced air transport activity of the Group, which fell by 5.7% in terms of ASKs and by 13.3% in terms of take-offs. Other contributing factors were the renewal of Iberia, L.A.E.'s aircraft, with the addition to the fleet of new aircraft with a lower unit landing cost, price reductions as a result of the renegotiation of various contracts and improved crew scheduling.

In 2002 expenses included in "Traffic Service Costs" and "In-Flight Services" were reclassified. In order to make the figures for 2002 and 2001 comparable, the new (improved) method was also applied to the 2001 expenses. As regards the figures presented in the annual report for 2001, the consolidated expense relating to traffic services was increased by €31 million, and the cost of the in-flight services was reduced by the same amount.



Aircraft maintenance

Aircraft maintenance expenses (including outsourced maintenance, spare parts used and the provisions for major repairs) fell by €35.6 million in 2002, as a result of the lower operating costs of Iberia, L.A.E.'s new aircraft, the adjustment made to warranties (as described in the section on revenues), 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) and the effect of the exclusion of Binter Canarias from the Group.

Navigation charges

There was an increase in air traffic control expenses of 3.8% (€8.2 million) in 2002, due to the sharp increase in the prices charged by Eurocontrol in 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 for the Iberia Group in this connection exceeded 10%.

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.

Also, in-flight service costs, which also depend on the volume of passenger traffic, decreased by €10.9 million (14.5%) 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 in new contracts 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 €76.0 million, an increase of €48.8 million with respect to 2001.

The "Other Operating Expenses" include various minor items, such as, inter alia, rent and repair and upkeep services (other than those relating to aircraft); catering materials and other consumables; the variation in operating allowances; utilities and other communication costs; ancillary services; etc. The aggregate balance of these expenses decreased by €22.2 million (5.0%) in 2002. The main decreases were in the consumption of catering and in-flight sales materials, other consumables, travel expenses, utilities, other communication costs, publications and ancillary services. Conversely, safety and security expenses increased by more than 15% (€2.6 million) with respect to 2001.

4.2.FINANCIAL AND EXTRAORDINARY RESULTS

The Iberia Group reported income after taxes and before minority interests of €159.8 million 2002, three times higher than the income obtained in 2001.

FINANCIAL AND EXTRAORDINARY RESULTS				Millions of Euros
	2002	2001	Variation 02/01	% Variation
OPERATING INCOME	**249.1**	**4.9**	**244.2**	**n.m.**
Financial revenues	51.2	68.5	(17.3)	(25.3)
Financial expenses	(39.3)	(52.0)	12.7	(24.4)
Exchange gains (losses)	(33.4)	(6.1)	(27.3)	n.m.
FINANCIAL INCOME (LOSS)	**(21.5)**	**10.4**	**(31.9)**	**n.m.**
SHARE IN THE INCOME OF COMPANIES CARRIED BY THE EQUITY METHOD	19.7	22.2	(2.5)	(11.3)
REVERSAL OF NEGATIVE CONSOLIDATION GOODWILL	0.0	0.6	(0.6)	(100.0)
AMORTIZATION OF CONSOLIDATION GODDWILL	(6.6)	(6.6)	0.0	0.0
INCOME FROM ORDINARY ACTIVITIES	**240.7**	**31.5**	**209.2**	**n.m.**
Extraordinary revenues	73.0	68.7	4.3	6.3
Extraordinary expenses	(119.6)	(185.4)	65.8	(35.5)
EXTRAORDINARY INCOME (LOSS)	**(46.6)**	**(116.7)**	**70.1**	**(60.1)**
NET INCOME (LOSS) BEFORE TAXES	**194.1**	**(85.2)**	**279.3**	**n.m.**
TAXES	(34.3)	138.3	(172.6)	(124.8)
CONSOLIDATED INCOME	**159.8**	**53.1**	**106.7**	**200.9**
INCOME ATTRIBUTABLE TO MINORITY INTEREST	2.7	2.9	(0.2)	(6.9)
INCOME OF THE PARENT COMPANY	**157.1**	**50.2**	**106.9**	**212.9**

The Iberia Group's financial income decreased by €31.9 million from 2001, since it was hit by the net result of the exchange differences, which dropped by €27.3 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 main factor behind the drop in financial revenues was the gain of almost €16 million obtained in 2001 on the sale of the shares of Equant. The financial expenses, which include the provision for the interest on pension allowances, fell by €12.7 million, due to the significant decrease in indebtedness and the gradual drop in interest rates.

The share in the income of companies accounted for by the equity method amounted to €19.7 million and related mainly to the holding in Amadeus, whose earnings fell back in 2002.

The extraordinary loss of €46.6 million in 2002 was €70.1 million lower than the loss incurred in 2001.

The extraordinary revenues of €73.0 million in 2002 included most notably the gain of €27.9 million on the sale of Binter Canarias, other gains obtained from the sale of nonoperating aircraft, engines and other fixed assets, which amounted to around €20 million, and allowances released.

Extraordinary expenses totaled €119.6 million in 2002 and included most notably the provision of €38.1 million recorded in connection with the early depreciation of the B-747 aircraft, which are being replaced. Provisions of €21.6 million were also 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 liability, relating to all the risks that the Company's directors consider should be covered.

The income attributed to the Parent Company amounted to €157.1 million in 2002, representing an increase of €106.9 million with respect to the income reported in 2001.

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, the Iberia Group controlled its investments very strictly in 2002. Accordingly, the cumulative net investment (net of divestments) as of December 31, 2002, was a negative balance of approximately €32 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 Iberia Group made other investments, such as the replacement of computer hardware and communication networks, the development of computer software, purchases of aircraft spare parts, machinery and airport equipment and the acquisition of flight simulators.

The net investment in 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 company Iberia Cards 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 recovery of loans to associated companies.

4.4. Balance Sheets

As of December 31, 2002, the Iberia Group's shareholders' equity amounted to €1,317.7 million, an increase of €148.1 million with respect to 2001 year-end, as a result of the significant improvement in the income generated in the year and the increase in reserves, both of the Parent Company and at the consolidated companies.

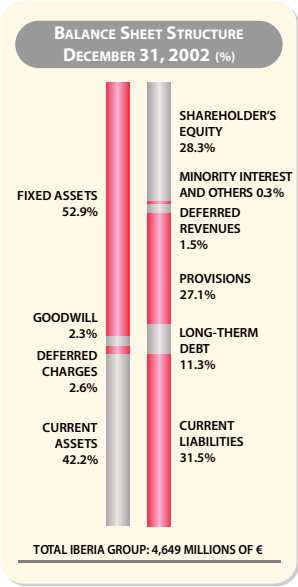
The balance of the long-term provisions for contingencies and expenses fell by €36.6 million to €1,261.5 million at 2002 year-end. This amount includes €109.9 million of provisions for major aircraft repairs; €493.8 million of provisions for pensions and other commitments to employees of Iberia, L.A.E. and €657.8 million of provisions for third-party liability. In 2002 provisions of €176.6 million were transferred and used, and provisions of €77.2 million were recorded for pension and other obligations to Company employees. Also, provisions of €156.4 million were recorded, of which €71.7 million related to provisions for the aforementioned pensions and other obligations to employees.

The long-term debt increased by €85.8 million in 2002 to €526.0 million at year-end. The increase arose as a result of the increase in accounts payable to credit institutions, due largely to aircraft financial lease transactions, and, to a lesser extent, to the issuance of debentures tied to the employees' stock option plan. However, the balance of the current liabilities decreased by €182.8 million as a result of the significant reduction in short-term interest-bearing debt.

The Iberia Group's net fixed and other noncurrent assets amounted to €2,460.3 million at 2002 year-end, of which €1,168.0 million related to net property, plant and equipment, which decreased by €380.3 million in 2002. Net intangible assets increased by €67.7 million, due mainly to the changes in the composition of the fleet. Net long-term investments rose by €47.7 million, thanks largely to the increase in the balance of the long-term guarantees and deposits given.

Current assets increased by €287.4 million with respect to 2001 year-end to €1,962.2 million at the end of 2002, as a result of the Iberia Group's higher volume of short-term investments.

The net debt in the consolidated balance sheet fell significantly in 2002 and amounted to €714.8 million as of December 31, 2002, as compared with €331.4 million at 2001 year-end. 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 threat 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.

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