

*Annual Corporate
Governance Report*

Annual Corporate Governance Report

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Introduction

The preparation and publication of the Annual Corporate Governance Report is a legal obligation imposed on all listed companies by Act 26/2003 of 17 July, known as the "*Transparency Act*", the structure and contents of which are developed in the Order of the Ministry of Economy 3722/2003 of 26 December. The National Securities Market Commission (CNMV), authorised for the subsequent, detailed development of these provisions, passed a single standard model on 17 March 2004 for preparing the Annual Corporate Governance Report, which has recently been modified by Circular 4/2007 of the CNMV of 27 December.

Although the governance rules and practice of IBERIA, S.A.E., S.A. comply with the latest rules and recommendations approved on good governance of companies, in an effort to improve the transparency of its corporate governance, the Board resolved back in 2004 to make the Annual on Corporate Governance Report for 2003 available to shareholders and investors. It was one of the first companies to adjust the structure and contents of its Annual Report to the first model passed by the CNMV.

Along the same lines, the Board of IBERIA, L.A.E., S.A. publishes this 2007 Annual Corporate Governance Report of IBERIA for shareholders and investors, with the following structure:

- A) Ownership structure of the company
- B) Management structure of the company
- C) Related party transactions
- D) Risk control systems
- E) General meeting
- F) Degree of compliance with the corporate governance recommendations

The Report contains all the explanations required by the CNMV, together with any other information considered expedient to give a complete picture of the company's governance structure, decision-making processes, directors' obligations and emoluments and, in general, any aspect that shareholders and investors might consider important in respect of company management. The Report is supplemented with information published on the company's web site (www.iberia.com), in the section "*Investor Relations*", where shareholders and investors can view the company's rules and regulations and any other material information on company management.

The Board has maintained its responsible attitude and efficiency throughout 2007, striving to protect the corporate interests and making whatever decisions have been considered necessary to guarantee IBERIA's feasibility and competitiveness.

*Ownership structure
of the company*

A.1. Capital stock

Capital stock at year-end

At 31 December 2007, the capital stock of IBERIA, L.A.E., S.A., fully subscribed and paid up, divided into shares issued in book-entry form with a par value of 0.78€ each, was as follows:

Date of the last modification in 2007	Capital stock	Number of shares	Number of voting rights
27-09-2007	743,268,875.70 €	952,908,815	952,908,815

The Board approved two capital increases in 2007 under the authorisation granted at the General Meeting on 6 June 2002 under the Executives Stock Option Plan.

Classes of shares

There are no different classes of shares with different associated rights.

A.2. Significant interests at year-end, excluding directors

The ownership structure of the Company at year-end is indicated below, highlighting the significant interests, as broadly defined in Royal Decree 1362/2007 of 19 October. The following table includes, therefore, both stakes equal to or greater than 3% in the capital and those held by shareholders who, although holding less than that percentage, have signed shareholding agreements undertaking to act in concert.

(at 31 December 2007)

Holders of significant shareholding interests	No. direct voting rights	No. indirect voting rights*	% total voting rights
Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid)	219,097,719	800 ⁽¹⁾	22.99
British Airways PLC.	–	94,309,090 ⁽²⁾	9.90
El Corte Inglés, S.A.	27,387,215	–	2.87
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	3,231,693	26,000 ⁽³⁾	0.34
Caja de Ahorros y Monte de Ronda, Cádiz, Almería, Málaga y Antequera (Unicaja)	991,763	–	0.10
Sociedad Estatal de Participaciones Industriales (SEPI)	49,212,526	–	5.16
State Street Bank	43,512,185	–	4.57
TOTAL HOLDERS SIGNIFICANT SHAREHOLDING INTERESTS	437,768,991		45.94
OTHERS (SHAREHOLDERS AND TREASURY STOCK)	515,139,824		54.06
TOTAL SHARES IBERIA	952,908,815		100.00

*Through:

Direct holder of the significant interest	Number of direct voting rights	% total voting rights
⁽¹⁾ Valoración y Control, S.L.	400	0.000042
⁽¹⁾ Inmogestión y Patrimonios, S.A.	400	0.000042
⁽²⁾ British Airways Holdings B.V.	94,309,090	9.90
⁽³⁾ Ibercaja Gestión	26,000	0.002728

The most significant changes in the shareholding structure during the period are set out below:

Holder of significant interest	Date of transaction	Description of transaction
Caja Madrid	03-12-2007	Purchase of the interests held by BBVA and Logista in IBERIA, representing 13.41% of the capital
BBVA	03-12-2007	Sale of its 6.99% interest in IBERIA
Logista	03-12-2007	Sale of its 6.41% interest in IBERIA

A.3. Directors' shareholding interests

IBERIA shares held by members of the Board

According to the company's records, directors directly or indirectly held the following shares in IBERIA L.A.E., S.A. at 31 December 2007:

(at 31 December 2007)

Directors	No. direct voting rights	No. indirect voting rights*	% total voting rights
Mr. Fernando Conte García	205,520	–	0.021568
Mr. Miguel Blesa de la Parra	8,400	–	0.000882
Mr. Felipe Benjumea Llorente	400	24,600 ⁽¹⁾	0.002624
Mr. José M. Fernández Norniella	800	–	0.000084
Lord Garel Jones	401	–	0.000042
Inmogestión y Patrimonios, S.A. ⁽¹⁾	400	–	0.000042
Mr. Antonio Masa Godoy	5,250	–	0.000551
Mr. Roger Paul Maynard	401	–	0.000042
Mr. José Pedro Pérez-Llorca	400	–	0.000042
Mr. Jorge Pont Sánchez	401	–	0.000042
Mr. José B. Terceiro Lomba	400	–	0.000042
Valoración y Control, S.L. ⁽²⁾	400	–	0.000042

⁽¹⁾ Represented by Mr. Alberto Recarte García-Andrade.

⁽²⁾ Represented by Mr. Rafael Sánchez-Lozano Turmo.

*Through:

Direct holder of the interest	Number of direct voting rights	% total voting rights
⁽¹⁾ Ardachon, S.L.	24,600	0.002582
% total voting rights held by Directors		0.026002

Directors' options over shares in the company

At 31 December 2007, none of the directors had any options over shares in the company. Only the Executive Chairman, as CEO, had options over shares in the company by virtue of a resolution adopted by the General Meeting on 24 June 2004, but he exercised those options in March 2007.

A.4. Family, commercial, contractual or corporate relationships between significant shareholders, as far as the company is aware, unless they are insignificant or deriving from ordinary business activities

Apart from the Shareholders' Agreement signed when the company was privatised, described below, the company has not been informed and is not aware of any relationships between significant shareholders other than those deriving from the ordinary business of the companies.

A.5. Commercial, contractual or corporate relations between significant shareholders and the company, unless they are insignificant or deriving from ordinary business activities

The most important commercial, contractual and corporate relations between significant shareholders and the company are described in the section on related party transactions.

IBERIA and British Airways, its major shareholder and industrial partner through British Airways and American Airlines, Holdings B.V., are determined to reach a level of cooperation that will benefit the operations of both companies and enable them to improve their competitive positions on the market, coordinating and possibly integrating their commercial and marketing strategies and their distribution practices and procedures. On 19 July 2002, British Airways, IBERIA and GB Airways notified the European Commission of several cooperation agreements and applied for an exemption under Article 81(3) of the EC Treaty. On 10 December 2003, the European Commission approved the alliance for a period of six years, during which time the airlines may make specific agreements to complement one another through their respective networks, essentially in pricing, scheduling and capacity. Under this alliance, IBERIA and British Airways signed an agreement on 16 December 2004 to jointly operate their routes between London

Heathrow, Madrid and Barcelona as from 1 January 2005. This agreement contemplates the joint management of the routes, sharing costs and profits.

A.6. Shareholders' agreements of which the company has been notified

The company is only aware of the Shareholders' Agreement signed on 15 December 1999 between the shareholders of the Stable Core, as described below.

Shareholders' Agreement of 15 December 1999

With regard to the controlling shareholders, and as indicated in the Prospectus checked and recorded in the Official Register kept by the Spanish Securities Exchange Committee (CNMV) on 16 March 2001 in respect of the sale of the IBERIA shares held by SEPI, Caja Madrid, BBVA, El Corte Inglés, Logista, Participaciones Aeronáuticas and BA & AA Holdings Limited executed a deed on 17 March 2000 evidencing a private stock purchase agreement, whereby they acquired 40% of the capital of IBERIA. These are the "shareholders of the Stable Core", who have undertaken to SEPI to remain in the capital of the company for the following lengths of time:

- Caja Madrid: at least six years,
- BBVA: at least five years,
- Logista: at least five years,
- El Corte Inglés: at least five years,
- Participaciones Aeronáuticas: at least three years, and
- BA & AA Holdings Limited: at least three years

During these times, the core shareholders undertake not to assign, sell or transfer the shares to any third party, except companies in their respective groups.

Participaciones Aeronáuticas, S.A. sold its shares in the capital of IBERIA to the following entities, which are, consequently, bound by the commitments undertaken by Participaciones Aeronáuticas in the purchase agreement and act jointly, all being members of the Ahorro Corporación Group.

- Corporación Financiera de Galicia, S.A.
- Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (IBERCAJA)
- Caja de España de Inversiones (CAMP)
- Caja Castilla-La Mancha
- Caja de Ahorros y Monte de Piedad de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)
- Caja de Ahorros de Murcia
- Caja de Ahorros y Monte de Piedad de Huelva y Sevilla

BA & AA Holdings Limited sold the shares it held in IBERIA to British Airways and American Airlines Holdings BV, which is now bound by the commitments undertaken by the vendor.

The Stable Core shareholders signed an agreement regulating their relations on 15 December 1999, with a view to creating a stable core of IBERIA shareholders committed to corporate management, in order to ensure coherent management criteria and make the company stable in the medium and long term, in defence of corporate interests. Accordingly, a pool of shareholders was formed, including the shares of the industrial partner (British Airways and American Airlines Holdings B.V.) and the institutional investors.

The pooled shares are those shares held by the Stable Core shareholders at the date of the Agreement, representing 40% of the capital stock. The agreement is not applicable to any additional IBERIA shares those shareholders may acquire after that date, unless they are acquired through exercise of their preferential subscription right or by virtue of the right of pre-emption established in the shareholders' agreement.

The shares held by the Stable Core shareholders covered by the Agreement were:

(at 15 December 1999)

Parties to the shareholders' agreement	No. shares pooled	% of the capital stock affected
Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid)	91,290,716	10.00%
British Airways and American Airlines Holdings B.V.	91,290,716	10.00%
Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)	66,642,223	7.30%
Compañía de Distribución Integral, S.A. (Logista)	61,164,780	6.70%
El Corte Inglés, S.A.	27,387,215	3.00%
Corporación Financiera de Galicia, S.A.	18,457,254	2.02%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	2,480,772	0.27%
Caja de España de Inversiones (CAMP)	1,984,891	0.22%
Caja Castilla-la Mancha	1,489,009	0.16%
Caja de Ahorros y Monte de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)	991,763	0.11%
Caja de Ahorros de Murcia	991,763	0.11%
Caja de Ahorros y Monte de Piedad de Huelva y Sevilla	991,763	0.11%
Total shares pooled	365,162,865	40.00 %

The shareholders also undertake to act in concert if a takeover bid has to be made as a result of the purchasing of new shares. The agreement will be deemed immediately terminated and void if:

- (a) British Airways and American Airlines Holdings B.V. reduce their stake in the capital of IBERIA to below 7%, or such other percentage as may coincide with the arithmetic mean of the shareholding percentages held by the other shareholders bound by the agreement, or
- (b) all the parties to the agreement so agree in writing.

The pooled shareholders meet to discuss the business to be transacted by the Board, the Board committees and the General Meeting. They undertake to block vote within the competent bodies of IBERIA as decided at the corresponding meeting of the pool.

If a shareholder wishes to sell its shares after the first three years of the shareholders' agreement, the other members of the pool will have a right of pre-emption, such that the shares can only be sold to a third party if that right of pre-emption is not exercised. This pre-emption is also applicable to sales between members of the pool and to any other transaction whereby a third party may acquire the voting rights of the pooled shares.

If a person or entity buys or plans to buy (directly or indirectly or in concert with a third party) from a shareholder a block of shares representing at least 3.5% of the capital (in one or several tranches over a period of twelve months) or if any of the other shareholders acquires all or part of the shares (with no minimum limit), the buyer must accept all the terms and conditions of this agreement, in the legal position of the vendor in respect of the shares offered.

The shareholders' agreement of the Stable Core of IBERIA establishes a number of guarantees to avoid possible conflicts of interest. If one or several of the shareholders are considered to have a conflict of interest, those shareholders must abstain in the vote on the corresponding matter.

There is public access to the other terms of the agreement, since the Full Prospectus of the 2001 IPO is recorded in the Official Register of the Stock Exchange Commission and in the Trade Register.

Situation of the shareholders' agreement at year-end

On 15 November 2006, British Airways bought the stake held by American Airlines in British Airways and American Airlines Holdings, B.V., thereafter wholly owned by British Airways, changing its name to British Airways Holdings B.V.

During 2007, CAJA CASTILLA-LA MANCHA and CAJA DE AHORROS Y MONTE DE PIEDAD DE HUELVA Y SEVILLA shed their interests in IBERIA.

CAJA MADRID purchased the shareholding interests held by BBVA and LOGISTA, exercising the preferential subscription right established in the Shareholders' Agreement, thereby raising its interest in IBERIA to 22.99%.

At 31 December 2007, the Stable Core shareholders held the following shares subject to the Shareholders' Agreement (pooled shares):

(at 31 December 2007)

Parties to the shareholders' agreement	No. shares pooled	% of the capital stock affected
Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid)	219,097,719	22.99
British Airways Holdings B.V.	94,303,602	9.90
El Corte Inglés, S.A.	27,387,215	2.87
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	2,480,772	0.26
Caja de Ahorros y Monte de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)	991,763	0.10
Total shares pooled	344,261,071	36.13

The company is not aware of any shareholders' agreements or pooling of shares other than as described above.

A.7. Control over the company

Apart from the Shareholders' Agreement described above, no persons or entities exercise or are able to exercise control over the company in pursuance of section 4 of the Securities Exchange Act.

A.8. Treasury Stock

Treasury Stock at year-end

At year-end, the company held the following own shares:

(at 31 December 2007)

No. direct shares	No. indirect shares*	% capital stock
13,388,628	–	1.41

Significant variations in treasury stock

The following significant variations under Royal Decree 1362/2007 took place in 2007:

Date of communication	Total direct shares acquired	Total indirect shares acquired	% total capital
17-09-2007	9,486,056	–	1.0008

Income from treasury stock

The following income was obtained during the year on transactions involving treasury stock:

Gain on own shares sold during the period	697,616.47
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A.9. Term and conditions of the current authorisation granted by the General Meeting to the Board of Directors for dealings involving treasury stock

At the AGM held on 30 May 2007, the Board of Directors was authorised to buy back shares in IBERIA, L.A.E., S.A., directly or through controlled companies, over the following 18 months, rendering void the authorisation granted at the AGM of 30 May 2006. In pursuance of the Corporations Act s. 75 et seq., the General Meeting authorised the Board to acquire such shares within the following 18 months, through a purchase transaction or under whatsoever other title permitted by law, provided that the total number of shares bought back, together with the par value of any shares held by the company and/or its subsidiaries from time to time, does not exceed 5% of the capital of IBERIA, L.A.E., S.A., for a price between 50% of the par value of the shares and the equivalent of 110% of their market value, which is, for this purpose, the highest value recorded on the market on the business day immediately preceding the date of purchase, subject to the limits and requirements stipulated in law.

The AGM also expressly authorised use of the treasury stock, inter alia, to acquire shares to be delivered to employees, executives and executive directors of the company, or deriving from exercise of the options they hold over IBERIA shares.

On 30 May 2007, using this authorisation and the powers vested in it under the Regulations of the Board of Directors, the Board approved a Plan for Acquisition of IBERIA, L.A.E., S.A. Treasury Stock, establishing the conditions for buy-back and a treasury stock cap of 3% of the capital stock.

A.10. Restrictions on voting and the acquisition or transfer of shares

Restrictions established in law or the bylaws on the exercise of voting rights

According to the Bylaws all shareholders may attend and vote at General Meetings provided that they hold, individually or pooled, at least 400 shares and have recorded them in the corresponding register five days before the relevant General Meeting.

Legal restrictions on the acquisition or disposal of shares in the capital

The Bylaws do not establish any restrictions on the acquisition or disposal of shares in the capital, so the shares are freely transferable by law and the bylaws, subject only to the obligation to notify the company of any acquisitions or disposals that directly or indirectly result in the acquisition of a holding of more than 0.5% in the capital stock, expressly stating the nationality of the transferor and transferee, and the establishment of any encumbrances over the shares affecting exercise of the corresponding rights.

Finally, the limitations regarding the nationality of shareholders must be borne in mind, since in pursuance of the Air Navigation Act and the Council Regulation (EEC) No. 2407/1992, Spanish air carriers holding an operating licence must be under majority Spanish ownership.

Restrictions are also established for exercising the traffic rights deriving from bilateral air traffic agreements signed by Spain whenever these agreements stipulate that the appointed carrier must be under Spanish ownership and/or effective control.

With regard to this requirement, section 86 of the Fiscal, Administrative and Social Measures Act 14/2000 of 29 December 2000, on, provides that:

"When adopting the legal form of a company, the capital stock of Spanish air carriers holding an operating licence granted in pursuance of the Council Regulation (EEC) No. 2407/92 of 23 July shall be represented by registered shares, expressly stating the nationality of the shareholder.

When an air carrier with a valid operating licence becomes aware, through the share registers to which it has access, that owing to percentages of capital directly or indirectly held by foreign persons or companies, there is a risk for maintaining the operating licences or exercising the traffic rights deriving from bilateral air traffic agreements signed by Spain, it shall notify the Stock Exchange Councils and the Stock Exchange Commission, to guarantee due publicity. Those institutions shall notify the investment service undertakings and credit entities authorised to provide investment services of the circumstance detected. The Ministry of Development shall also be notified, through the Directorate General for Civil Aviation. Once due notification has been given of this circumstance, no further shares may be purchased or transferred by foreign persons or entities, unless accompanied by a certificate issued by the Board of Directors of the air carrier indicating that the acquisition or transfer in question does not exceed the limits stipulated in Community laws and regulations or bilateral air traffic agreements signed by Spain, to prove that the air carrier is Spanish.

Should the air carrier become aware of any acquisition or disposal of shares made in breach of the previous paragraph which could jeopardise fulfilment of the legal requirements and the above-mentioned agreements, the Board of the company may acquire the relevant shares for redemption. This acquisition shall be made at the market price on the date of undue acquisition of the shares in question or the theoretical book value of those shares according to the latest audited balance sheet of the company published in compliance with the legislation applicable to listed companies, whichever shall be lower. In the latter case, the Board may suspend the voting rights corresponding to those shares until they have been physically transferred to the company”.

A.11. Breakthrough rule for takeover bids

No takeover bids have been made in 2007, hence the breakthrough rule has not been applied.

*Management structure
of the company*

B.1. Board of directors

B.1.1. Size of the Board of directors

Maximum number of Directors according to Bylaws	14
Minimum number of Directors according to Bylaws	10

According to the bylaws, the Board of Directors of IBERIA, L.A.E., S.A. must have a minimum of ten and a maximum of fourteen members.

Accordingly, there were eleven board members up to 30 May 2007, when the twelfth director was appointed. At present, the Board consists of 12 directors, all experienced persons with a proven track record. The number of directors stipulated in the bylaws is considered proportionate to the size of the company and number of shareholders and adequate to allow efficient functioning. It also conforms to the Unified Good Governance Code, which recommend a Board of no fewer than five nor more than fifteen members. The Board is assisted by the non-director Secretary of the Board, who is also legal adviser to the Board and responsible for overseeing the formal and material legality of its resolutions and ensuring that it heeds the rules of good governance.

B.1.2. Members of the Board

Members of the Board of Directors at 31 December 2007

The members of the Board are named below, indicating the position held, the dates of their first and latest appointment as Board members and the type of directorship.

Name	Position	Date of first appointment	Date of last appointment	Nature
Mr. Fernando Conte García ⁽¹⁾ Tax no.: 2.644.336-A	Chairman	31.03.01	30.05.07	Executive
Mr. Miguel Blesa de la Parra ⁽²⁾ Tax no.: 26.166.340-E	Vice-Chairman	23.03.00	30.05.06	Proprietary
Mr. Felipe Benjumea Llorente Tax no.: 28.526.035-D	Member	30.05.07	–	Independent
Mr. J. M. Fernández Norriella Tax no.: 1.158.700-Y	Member	12.06.03	30.05.07	Independent
Lord Garel-Jones Passport no. 500.244.546	Member	23.03.00	30.05.06	Proprietary
Mr. Antonio Masa Godoy Tax no.: 8.414.129-Q	Member	31.03.01	30.05.07	Independent
Mr. Roger Paul Maynard Passport no. 500.163.204	Member	23.03.00	30.05.06	Proprietary
Mr. José Pedro Pérez-Llorca Tax no.: 31.128.825-G	Member	31.03.01	30.05.07	Independent
Mr. Jorge Pont Sánchez Tax no.: 36.817.268-H	Member	23.03.00	30.05.06	Proprietary
Mr. Alberto Recarte García-Andrade ⁽³⁾ Tax no.: 50.268.912-C	Member	20.12.07	–	Proprietary
Mr. Rafael Sánchez-Lozano Turmo ⁽⁴⁾ Tax no.: 05.219.151-Z	Member	20.12.07	–	Proprietary
Mr. José B. Terceiro Lomba Tax no.: 35.203.147-Z	Member	31.03.01	30.05.07	Independent
Mrs. Lourdes Máiz Carro Tax no.: 51.340.955-X	Non-Director Secretary	10.05.01		

⁽¹⁾ Appointed Chairman of the Board at the Board meeting held after the AGM on 12.06.03.

⁽²⁾ Appointed Vice-Chairman of the Board on 26.04.00.

⁽³⁾ Representing INMOGESTIÓN Y PATRIMONIOS, S.A.

⁽⁴⁾ Representing VALORACIÓN Y CONTROL, S.L.

Election procedure

All the directors have been re-elected by the General Meeting on expiry of their term of office and they are, consequently, in their second term, except Felipe Benjumea Llorente, who was appointed for the first time at the AGM on 30 May 2007, and Alberto Recarte García-Andrade and Rafael Sánchez-Lozano Turmo, who were appointed by the Board on 20 December 2007, representing *INMOGESTIÓN Y PATRIMONIOS, S.A.* and *VALORACIÓN Y CONTROL, S.L.*, respectively.

Retirements during the year

The following Directors stepped down from office during 2007:

Name of Director	Status at time of retirement	Date of retirement
Mr. Antonio Vázquez Romero	Proprietary	20/12/07
Mr. Gregorio Villalabeitia Galarraga	Proprietary	20/12/07

Antonio Vázquez Romero and Gregorio Villalabeitia Galárraga stepped down from the board as of 20 December 2007, following disposal of the shares held by Logista and BBVA, respectively, in IBERIA.

The directors resigned in pursuance of Article 15.2 g) of the Regulations of the Board, according to which Proprietary Directors shall resign from the Board when the shareholder they represent disposes of its shares in the company.

Professional profile of the members of the Board

A brief description of the professional profile of each member of the Board is set out below.



Chairman

Fernando Conte García, born in Mérida (Mexico) on 28 February 1950, with national identity/tax number: 2.644.336-A, appointed member of the Board at a General Meeting held on 31 March 2001. Appointed Chairman of the Board at the Board meeting held on 12 June 2003 after the General Meeting at which the former chairman retired, and reappointed director at the AGM on 30 May 2007 and as Chairman of the Board at the ensuing Board meeting.

BSc in Electromechanical Engineering, Catholic Institute of Art and Industry (ICAI) and MBA, Madrid Business Institute. Professional ties since 1974 with the Asea Brown Boveri Group (ABB), first in ASEA S.A. in Spain and then in Central America and Venezuela as Regional Manager and Division Manager up to 1984. Since then, he has held senior positions in ASEA and the ABB Group. From 1992 to 1994, he was General Manager of ABB Trafo, S.A. In 1994 he was Vice-Chairman of the Electricity Transmission and Distribution Segment of ABB. In 1996 he was appointed Managing Director of the ABB Group in Spain, until he was appointed Chairman of IBERIA. Also former Director of ADTRANZ and Independent Director of AMADEUS. Chairman of the oneworld Alliance 2005-2006. In 2007 he was Chairman of the Association of European Airlines (AEA). Currently member of the Board and Chairman of the Audit Committee of IATA.



Vice-Chairman

Miguel Blesa de la Parra, born in Linares (Jaén) on 8 August 1947, with national identity card/tax number: 26.166.340-E, appointed member of the Board at a Board meeting held on 23 March 2000, ratified at the Extraordinary General Meeting of 26 April 2000. Appointed Vice-Chairman at a Board meeting held on 26 April 2000 and re-elected at the AGM of 6 June 2002 and at the AGM of 30 May 2006. **Non-Executive Proprietary Director proposed by Caja Madrid.**

BA in Law, Granada University. State Finance and Tax Inspector. Between 1978 and 1986 he worked at the Ministry of Economy and Finance, and then up to 1996 he worked freelance as a lawyer specialising in Tax Law. Former board member of ENDESA, Antena 3 TV, Telemadrid and the General Foundation of the Complutense University of Madrid. Chairman of the Board of Caja Madrid, Corporación Financiera Caja Madrid and Altae Banco, S.A. Vice-Chairman of the Board of CECA and member of the board of FCC.



Member

Felipe Benjumea Llorente, born in Seville on 14 September 1957, with national identity/tax number 28.526.035-D, appointed at the AGM on 30 May 2007. **Non-Executive Independent Director.**

BA in Law, Deusto University. Currently executive chairman of Abengoa and the Focus-Abengoa Foundation. Director of Compañía Operadora del Mercado Español de la Electricidad (OMEL), the Spanish Energy Club -Club Español de la Energía- and member of the Science and Technology Advisory Council of the Ministry of Science and Education. Trustee of the Spain-United States Council Foundation, Foundation of Studies and Applied Economy (FEDEA) and on the Board of Governors of the Pontifical University of Salamanca. Former board member of Sociedad General de Cablevisión (1993-1996), La Papelera Española (1987-1995), Thyssen Industrie (1989-1993), Hispano Inmobiliaria de Gestión (1989-1998) and Banco Santander Central Hispano (1990-2002).



Member

José Manuel Fernández Norniella, born in Oviedo on 9 October 1945, with national identity/tax number 1.158.700-Y. Appointed member of the Board of Directors of IBERIA at the AGM held on 12 June 2003 and re-elected at the AGM on 30 May 2007. **Non-Executive Independent Director.**

BSc in Energy Techniques Engineering, Polytechnic University of Madrid. Diplomas in Foreign Trade, Logistics & Procurements and Project Management. Held several positions as business agent: between 1970 and 1979 in ELECTROMECHANIQUE, ALFA-LAVAL and BLACKTONE; then several management positions from 1979 to 1993 first in the BROWN BOVERI Group, as Supplies Manager, and subsequently in AESA BROWN BOVERI (ABB) as General Affairs Manager and General Manager Administration. Former Vice-Chairman of ALDEASA and Chairman of EBRO PULEVA from 2000 to 2005. Formerly on the Boards of: RTVE, ARGENTARIA, ALDEASA, CHILECTRA, ENDESA and ENAGAS. Elected national MP for Madrid in the IV and V terms of the Spanish government, Secretary of State for Trade, Tourism and SMEs, Alternate Representative for Spain in the World Bank, Representative for Spain in the International Development Bank and Alternate Representative for Spain in the EBRD. Member of the International Chamber of Commerce and Chairman of the Council of Spanish Chambers of Commerce (1996-2005). Vice-Chairman of the W.S.R. Currently board member of Caja Madrid and TELVENT.



Member

Tristan Garell-Jones, born in Gorseinon (Wales-Great Britain) on 28 February 1941, passport no.: 500.244.546 (valid), appointed member of the Board at a Board meeting on 23 March 2000, ratified at the Extraordinary General Meeting of 26 April 2000. Reappointed at the AGM of 6 June 2002 and at the AGM of 30 May 2006. **Non-Executive Proprietary Director proposed by British Airways.**

Former MP for the British Conservative Party (1979-1997), with several ministry offices in the UK during the governments of Margaret Thatcher and John Major. Former Lord Commissioner of the Exchequer, Treasurer of the Royal Household and Minister of State for Europe. Member of the British Privy Council. Director of VODAFONE and ACCIONA and Managing Director of UBS.



Member

Antonio Masa Godoy, born in Badajoz on 14 January 1942, with national identity/tax number: 8.414.129-Q. Appointed member of the Board at the General Meeting held on 31 March 2001. Reappointed at the AGM of 12 June 2003 and the AGM of 30 May 2007.

Non-Executive Independent Director.

Economist and Auditor. University Lecturer in Applied Economics. Among other positions, former Chairman of the insurance company Hércules Hispano and the holding company Cartex, S.A. Former Vice-Chairman of CEOE (Spanish Confederation of Business Organisations). Currently Chairman of Inversiones Varias Extremeñas, S.L. (property company); Director of Corporación Empresarial de Extremadura, S.A., Técnicas Urbanas y Rústicas, S.L., Proyectos y Promociones del Tormes, S.L., the IEE (Institute of Economic Studies) and Refinería Balboa, S.A. and Vice-Chairman of the Institute of Pharmaceutical Studies.



Member

Roger Paul Maynard, born in Birkhamstead (England-Great Britain) on 10 February 1943, with passport no.: 500.163.204 (valid), appointed at the Board meeting of 23 March 2000 and ratified at the Extraordinary General Meeting of 26 April 2000. Reappointed at the AGM of 6 June 2002 and AGM of 30 May 2006. **Non-Executive Proprietary Director proposed by British Airways.**

BSc in Economics, Queens College, Cambridge, 1965. UK Civil Servant from 1965-1987 in the Department of Trade, Industry and Transport. Transferred to the Diplomatic Corps in Geneva between 1968 and 1972 and in Washington between 1982 and 1987, Councillor for Aviation. Subsequently hired by British Airways as Director Government Affairs North America. Then Executive Director North America, before returning to the UK as Director of Investor Relations. In 1991 he was appointed Director of Corporate Strategy before taking up his present position. Former Director of Qantas Airways and Opodo Limited. Director of Investments and Joint Ventures of British Airways and Director of British Airways City Flyer Ltd. and British Airways European Ltd.



Member

José Pedro Pérez-Llorca Rodrigo, born in Cádiz on 30 November 1940, with national identity/tax number: 31.128.825-G, appointed at the General Meeting of 31 March 2001. Reappointed at AGM of 12 June 2003 and AGM of 30 May 2007. **Non-Executive Independent Director.**

BA in Law. Member of the Diplomatic Corps and Parliamentary Counsel. One of the authors of the Spanish Constitution. Former Minister of The Presidency, Parliamentary Relations, Regional Government and Foreign Affairs. Several former positions on the boards of different companies, particularly in the credit sector. Among other offices, former Chairman of Urquijo Leasing and AEG Ibérica and member of the Madrid Stock Exchange Council. Founding partner and general manager of the Pérez-Llorca Law Office.



Member

Jorge Pont Sánchez, born in Premia De Dalt (Barcelona) on 22 January 1938, with national identity/tax number: 36.817.268-H, appointed at the Board meeting of 23 March 2000, ratified at the Extraordinary General Meeting of 26 April 2000. Reappointed at the AGM of 6 June 2002 and the AGM of 30 May 2006. **Non-Executive Proprietary Director proposed by El Corte Inglés.**

BA in Law. Junior Lecturer of Mercantile Law in the Faculties of Law and Economics of Barcelona University from 1960 to 1964. In 1965, he joined El Corte Inglés, where he is currently Deputy to the Chairman and Director International Affairs. Director of the Ramón Areces Foundation. Chairman of Sephora Cosméticos de España, Director of Parque Temático de Madrid, President of The Harris Company (U.S.A.), Director of Gottschalks Inc. (U.S.A.) and Agentrix LLC (U.S.A.).



Member

Alberto Recarte García-Andrade, born in Madrid on 14 March 1947, with national identity/tax number 50.268.912-C, appointed Board member representing INMOGESTIÓN Y PATRIMONIOS, S.A. at the Board meeting of 20 December 2007. **INMOGESTIÓN Y PATRIMONIOS, S.A. is Non-Executive Proprietary Director proposed by Caja Madrid.**

BA in Law and Economics, Complutense University of Madrid and Commercial Expert and Economist of the State. Between 1974 and 1982 he was Commercial Advisor to the Spanish Embassy in La Habana, Director General for Organisation of the Cabinet of the President of the Government, Economic Adviser to the President of the Government, Managing Director of the Post Office Savings Bank, Vice-Chairman of Círculo de Empresarios (Circle of Entrepreneurs) and Club de Exportadores (Exporters Club), and director of FENOSA and ENDESA, S.A. From March 1982 to the present, Executive Vice-Chairman and CEO of CENTUNION, Española de Coordinación Técnica Financiera, S.A. Currently Director of CAJA MADRID, Director of the CAJA MADRID Corporation, member of the Executive Committee of CAJA MADRID, Director of Endesa Europa, S.L., Chairman of Libertal Digital, S.A. and Chairman of Inversiones Loarga.



Member

Rafael Sánchez-Lozano Turmo, born in Madrid on 20 February 1957, with national identity/tax number 5.219.151-Z, appointed Board member representing VALORACIÓN Y CONTROL, S.L. at the Board meeting of 20 December 2007. **VALORACIÓN Y CONTROL, S.L. is Non-Executive Proprietary Director proposed by Caja Madrid.**

BA in Law, ICADE, and BA Business Studies. Between 1980 and 1984 held several positions in Citibank, S.A. (Deputy to Controller, Accounts Manager in the Capital Goods, Energy and Construction Division). 1984-1989 several positions in Manufacturers Hanover Trust Co. (Director Credits Department, Manager of Corporate Finance and Manager of Relations with Multinationals). 1989-1991 Manager of the Mergers and Acquisitions Department in companies of Asfin, S.A. 1991-1998 several positions in J.P. Morgan (Accounts Manager responsible for relations with undertakings, Manager of Credits for Spain and Member of the Management Committee of J.P. Morgan in Spain). From September 1999 to the present, has held the following positions in CAJA MADRID: Manager Corporate Risks Management of the Business Banking Unit, Manager Special Investments, Manager Mergers and Acquisitions, Manager International Development and Special Investments, and former Board member of several subsidiaries of CAJA MADRID.



Member

José B. Terceiro Lomba, born in Santiago de Compostela (La Coruña) on 14 July 1943, with national identity/tax number: 35.203.147-Z, appointed Board member at the General Meeting held on 31 March 2001. Reappointed at the AGM of 12 June 2003 and AGM of 30 May 2007. **Non-Executive Independent Director.**

Professor of Applied Economics at Complutense University in Madrid. Chairman of BIOETANOL GALICIA and of the Advisory Board of ABENGOA; Director of the PRISA GROUP; Executive Vice-Chairman of ABENGOA, S.A. and Director of TELVENT and UNIÓN FENOSA.



Non-Director Secretary

Lourdes Máiz Carro, born in Santiago de Compostela (La Coruña) on 26 April 1959, with national identity/tax number: 51.340.955-X, appointed at the Board meeting on 10 May 2001.

BA in Law and in Philosophy and Education Science. From 1982 to 1988 she taught Metaphysics and Theory of Knowledge at the Faculty of Philosophy of the Complutense University in Madrid, included in the Research Staff Programme of the Ministry of Education, obtaining a PhD in Philosophy. State Attorney since 1992. Since 1993 she has held successive positions as Director of the Office of the Under Secretary for Public Administrations, Director of the Office of the Under Secretary for Education, Director General for Administrative Organisation (Ministry of Public Administrations), Director General of Sociedad Estatal de Participaciones Patrimoniales (Ministry of Economy and Finance) and Technical Secretary General of the Ministry of Food, Agriculture and Fisheries. Formerly on the Boards of RENFE, Gerencia de Infraestructuras Ferroviarias (G.I.F.), Instituto de Crédito Oficial (I.C.O.), INISAS, Aldeasa, Almacenaje y Distribución, S.A. (ALDEASA), and Banco Hipotecario (ARGENTARIA).

B.1.3. Types of Directors

The Regulations of the Board of Directors classify directors into three groups –Executive, Proprietary and Independent–, following the classification proposed by the Olivencia Code –largely maintained in the Aldama Report– and the composition of the Board maintains a balance between the representatives of the largest possible percentage of capital (proprietary directors) and a sufficient number of independent directors to counterbalance the executive and proprietary directors.

By virtue of this classification, of the twelve members currently making up the Board of Directors, one is executive director –the Chairman of the Board, also Executive Chairman– and the other eleven are non-executive directors. Of the latter, five are independent, since they are not and do not represent shareholders able to exert any influence in the control of the company. The remaining six are proprietary directors, having been proposed by the holders of sufficiently significant stable interests in the capital of the company.

The different conditions of the Board members are indicated below. Since 2001, when the Nomination and Remuneration Committee was set up, all the directors have been proposed by that Committee to the Board.

Executive Directors

Name of Director	Position
Mr. Fernando Conte García	Chairman
Total number of executive directors	1
% total of Board	8.33%

Non-executive proprietary Directors

Name of Director	Significant Shareholder that proposed appointment
Mr. Miguel Blesa de la Parra	Caja Madrid
Lord Garel Jones	British Airways
Mr. Roger Paul Maynard	British Airways
Mr. Jorge Pont Sánchez	El Corte Inglés, S.A.
Mr. Alberto Recarte García-Andrade	Caja Madrid
Mr. Rafael Sánchez-Lozano Turmo	Caja Madrid
Total number of proprietary directors	6
% total of Board	50%

Non-executive independent Directors

Name of Director	Position
Mr. José Manuel Fernández Norniella	Member
Mr. Antonio Masa Godoy	Member
Mr. José Pedro Pérez-Llorca	Member
Mr. José B. Terceiro Lomba	Member
Mr. Felipe Benjumea Llorente	Member
Total number of independent directors	5
% total of Board	41.66%

B.1.4. Appointment of Proprietary Directors at the proposal of shareholders with interest of less than 5% in the capital

Name of shareholder	Justification
El Corte Inglés	By virtue of Shareholders' Agreement

B.1.5. Retirement of Directors before the end of their term of office

As explained in point B.1.2., the directors Antonio Vázquez Romero and Gregorio Villalabeitia Galárraga stepped down from the Board as of 20 December 2007, following disposal of the shares held by Logista and BBVA, respectively, in the capital of IBERIA.

These directors resigned in pursuance of Article 15.2.g) of the Regulations of the Board, which provides that Proprietary Directors shall tender their resignations to the Board when the shareholders they represent on the Board dispose of their shares in the company.

B.1.6. Powers delegated to directors

The Chairman, as highest executive of the company is permanently vested with all the powers of the Board, save those duties that the Board must, by law or the bylaws, perform directly.

B.1.7. Company directors who are directors or executives of other Group companies

During 2007, none of the IBERIA directors have held office as directors or executives of any other companies in the Group.

B.1.8. Company directors on the Boards of non-group companies listed on Spanish stock exchanges, of which the company has been notified

Details on the company directors who are also directors of other companies listed on Spanish stock exchanges at 31 December 2007, are set out in the following table:

(at 31 December 2007)

Name of IBERIA Director	Company listed on spanish market	Position
Mr. Miguel Blesa de la Parra	FCC	Board member
Mr. Felipe Benjumea Llorente	Abengoa	Executive Chairman
Lord Garel-Jones	Acciona	Board member
Mr. José B. Terceiro Lomba	Grupo Prisa	Board member
	Unión Fenosa	Board member
	Abengoa	Executive Vice-Chairman

B.1.9 Limit on number of directorships of Board members

The company has not established any rules regarding the number of directorships its directors may hold.

B.1.10. Policy and general strategies of the company reserved for approval by the Board

The Board focuses mainly on overseeing and controlling the ordinary management of the company, undertaking in particular to **directly exercise the following responsibilities**, as stipulated in the Regulations of the Board:

- approval of the general strategies, plans and policies of the Company;
- appointment, remuneration and, if necessary, removal of senior officers; oversight and assessment of their management;
- approval of treasury stock policies;
- pinpointing of the main risks of the company, especially implementing and monitoring adequate internal control and reporting systems;
- definition of policies regarding information and communication with shareholders, markets and the public opinion;
- in general, any operations involving the disposal of substantial assets of the company and major corporate transactions, and any specifically contemplated in the Regulations of the Board.

In particular, the Board analyses every month the evolution of accounts and activity of the company, as well as sector trends, evolution of the company's share on the stock exchange and treasury stock. During this period, it has approved the Annual Budget for 2008 and regularly monitors fulfilment. The Board also approves the most significant investments and divestments.

B.1.11. Directors' emoluments earned during the period

The emoluments earned during 2007 according to the system of remuneration approved by the General Meeting are described below:

a) Directors' remuneration in IBERIA, L.A.E., S.A.

The total remuneration earned by directors during 2007 as members of the Board of Directors of IBERIA, L.A.E., S.A., are indicated below:

(2007)

Type of remuneration	Remuneration earned (thousands of euro)	Maximum remuneration authorised by AGM (thousands of euro)
Fixed Remuneration	753	–
Attendance Fees (Per Diems)	703	–
Payment in kind	85	–
Total remuneration of Board	1,541	1,800

Directors' remuneration for 2007 is 14.39% less than the overall amount approved by the General Meeting for the year. The fixed remuneration and attendance fees for Board and Committee meetings increased in respect of the previous year.

(2007)

Other benefits	(thousands of euro)
Advances	–
Loans granted	–
Pension Funds and Schemes: contributions	–
Pension Funds and Schemes: obligations contracted	–
Life insurance premiums	0.159
Guarantees furnished by the company for directors	–

The previous tables include the remuneration and other benefits received by the Executive Chairman as Board member. The expenses incurred by the entire Board in the performance of directors' duties in 2007 totalled **8,006 euro**.

b) Remuneration received by directors as Board members and/or senior officers of other Group companies

Apart from the remuneration received by the Executive Chairman for his top management position in the company mentioned in e) of this section, the directors have not received any additional remuneration during 2007 for belonging to any other Group company.

c) Emoluments earned by types of directors

The following table shows the emoluments earned by the directors according to their classification as Executive, Proprietary or Independent. The emoluments of the executive directors include those payable to the Executive Chairman as member of the Board.

(2007)

Types of directors	Total remuneration by IBERIA, L.A.E., S.A. (thousands of euro)	Total remuneration by the Group (thousands of euro)
Executive	130	–
Non-Executive Proprietary	801	–
Non-Executive Independent	610	–
Total	1,541	1,541

d) Share received by members of the Board in the profit of the parent company

Considering an income after tax attributed to the parent company of **€327,340 thousand**, the directors, as such, have received the following share:

(2007)

Total remuneration directors (thousands of euro)	1,541
Percentage of attributed income	0.47%

e) Remuneration of executive directors for their top management relationship with the Company

As regards the executive directors, the Bylaws approved at the AGM of 6 June 2002 stipulate that the emoluments payable to members of the board are compatible with and independent of any salaries, remunerations, indemnities, pensions or compensations of any nature established generally or individually for any board members who have an employment relationship, whether ordinary or top management, or services contract with the company.

At present there is only one Executive Director in the Company, the Chairman. The total remuneration earned by the Chairman in 2007 by virtue of his contractual relationship with the company is **€1,396 thousand**, while the expenditure in social security, insurance, and contributions to welfare schemes totalled **€155 thousand**.

Only the Chairman, as executive director, has participated in a stock option plan; no other director has any options over shares in the company. The Chairman participated in the Stock Option Plan approved at the AGM on 24 June 2004, which authorised the Board to grant him one million stock options covered by the treasury stock, the dates of exercise and purchase price of the shares coinciding with those of the executives Stock Option Plan of 2002. The Chairman has now exercised all his stock options.

The following table gives a breakdown of the different types of remuneration earned by the Chairman during 2007 by virtue of his contractual relationship with the Company:

(2007)

Remuneration Executive Director	(Thousands of euro)
Fixed remuneration	630
Variable remuneration	448
Payment in kind	8
Payment in kind deriving from options exercised	310
Total	1,396

B.1.12. Remuneration of the senior officers of the Company, excluding Executive Directors

The Executive Committee was confirmed during 2007 as the highest management body of the company.

The senior officers of the company, excluding executive directors, received a total of **€3,744 thousand** in 2007, including the remuneration obtained on exercising options granted in the Stock Option Plan approved at the 2002 AGM.

This group includes the Executive Committee and the Internal Audit and Quality Manager, following the recommendations of the CNMV Circular 4/2007.

The senior officers of the company are listed below:

Name	Position
Mr. Enrique Donaire Rodríguez	General Manager of the Airline
Mr. Manuel López Aguilar	General Manager Maintenance and Engineering
Mr. José Luis Freire Santos	General Manager Airports
Mrs. Lourdes Máiz Carro	Manager Legal Department and Secretary of the Board
Mr. Martín Cuesta Vivar	Internal Audit and Quality Manager
Mr. Enrique Dupuy de Lôme Chávarri	CFO & Corporate Strategy Manager
Mr. José M ^a Fariza Batanero	Control & Administration Manager
Mr. Sergio Turrión Barbado	Human Resources Manager
Mr. Manuel López Colmenarejo	Commercial Manager

B.1.13. Golden handshake clauses for members of the Management Committee of the Company or its Group, including the Executive Directors, in the event of redundancy or change of ownership

The contracts of company executives include a golden handshake clause. For the above-named senior officers, pay-off would be equivalent to between nine months' and three and a half year's pay.

For executive directors, on 9 January 2002 the Board of Directors passed a proposal submitted by the Nomination and Remuneration Committee for severance pay in certain cases of termination of contracts of employment of up to two and a half years' fixed remuneration. The Board also approved a compensation for the clause stipulating no competition with the company after termination of the top management relationship, equivalent to eighteen months' fixed remuneration. These sums are covered by an insurance policy, the cost of the insurance premium being recorded on the Statements of Income each year.

B.1.14. Determination of the remuneration of Board members and relevant clauses of the bylaws, where appropriate

The AGM/EGM held on 6 June 2002 approved an amendment to Article 47 of the company bylaws on directors' emoluments. The remuneration was made more specific and transparent, combining different systems (fixed annual assignment, payment for attendance of Board and committee meetings and variable payment in kind), and the General Shareholders' Meeting reserved the right to set the maximum overall amount for all these items. Once the General Meeting has established the maximum overall amount, the Board may freely distribute that sum among the different items and directors, as and when it may deem fit.

The same AGM approved the maximum overall amount payable to directors for 2002, setting it at one million, five hundred thousand euro (1,500,000€) for the fixed assignment, attendance fees for Board and committee meetings and payment in kind.

At the AGM in 2003, 2004, 2005 and 2006, the shareholders resolved to maintain the same maximum overall amount of annual remuneration of directors for the respective years.

At the AGM 2007, the shareholders resolved to raise the maximum overall amount of the annual directors' emolument for 2007 to one million, eight hundred thousand euro (1,800,000€).

At the proposal of the Nomination and Remuneration Committee, the Board resolved on 28 June 2007 to distribute this sum established for 2007 as follows:

- A) A fixed sum for each director of 65,000 euro/year.
- B) A sum of 2,500 euro for each Board meeting actually attended.
- C) A sum of 2,000 euro for each committee meeting actually attended.
- D) A variable remuneration payable in tickets with the airline or its franchisee of up to 140,000 euro maximum for all the directors.

B.1.15. Pay Policy

The Board approved a detailed pay policy combining the following aspects:

- Internal distribution of the maximum overall amount established by the General Shareholders' Meeting among the following items:
 - Fixed annual remuneration for each director.
 - Payment for attendance of Board and committee meetings.
 - Payment in kind, consisting of airline tickets.
- Executive pay policy.
- Welfare systems, estimating the amount or equivalent annual cost.
- Conditions to be respected in the contracts of those with top management duties.

B.1.16. Voting at General Meetings on a Report on the Directors' Pay Policy

The maximum overall amount of directors' emoluments is submitted to the General Shareholders' Meeting for approval. Within the limits approved by the General Meeting, the Board then distributes that maximum overall amount internally among the different items.

B.1.17. Members of the Board who are board members or executives of companies holding significant interests in IBERIA L.A.E., S.A. and/or in companies in the same Group

(at 31 December 2007)

Name of Director	Name of significant shareholder	Position
Mr. Miguel Blesa de la Parra	Caja Madrid	Chairman
Mr. Roger P. Maynard	British Airways	Director Investments & Joint Ventures BA
Mr. Jorge Pont Sánchez	El Corte Inglés	Deputy to Chairman
Mr. Albero Recarte García-Andrade	Caja Madrid	Board member
Mr. José Manuel Fernández Norriella	Caja Madrid	Board member
Mr. Rafael Sánchez-Lozano Turmo	Caja Madrid	Executive

B.1.18. Modifications to the Regulations of Board made during 2007

On 22 February 2007, the Board approved a proposal by the Nomination and Remuneration Committee to amend Articles 13 and 14 of the Regulations of the Board, regarding the term of office of independent directors. Considering it of interest for the company

to make the convenience of limiting the re-appointment of Independent Directors compatible with making the most of their experience, the Board resolved to adapt the Regulations of the Board to Recommendation 28 of the Unified Good Governance Code and limit the term of office of Independent Directors to a maximum of two renewals.

B.1.19. Procedures for the appointment, re-election, assessment and removal of directors

The persons nominated by the Board to the General Meeting for appointment as directors and the appointments by cooptation made by the Board must, in addition to meeting the requirements established in law and the bylaws for this appointment, have recognised prestige and adequate professional experience and expertise to be able to perform their duties. The Nomination and Remuneration Committee prepares a report in this regard. All the directors of IBERIA meet the applicable requirements and all the appointments made since the Regulations came into force have been made following this procedure.

With a view to the possible re-election of directors, the Nomination and Remuneration Committee is responsible for assessing the quality of the proposed directors' work and dedication to their office during the previous term and must inform on the nomination for re-election submitted by the Board to the General Meeting.

This Committee submits an annual report to the Board on the directors' remuneration policy, previously assessing the performance of their duties.

B.1.20. Events in which directors are obliged to retire

The Regulations of the Board of Directors contemplate the events in which directors must tender their resignations to the Board, to ensure that they meet at all times the requirements for being directors and do not incur in any conflicts of interest or any other conduct that may be detrimental to the company:

- a) On reaching the age of 70, directors must retire at the first Board meeting held after the General Meeting at which the annual accounts corresponding to the year of their 70th birthday are laid before the shareholders. The retirement age for the Chairman and Chief Executive Officer is 65, although they may continue as directors after that age.
- b) When executive directors cease to hold the positions to which their appointment as director was tied.
- c) If they come into any circumstance of incompatibility or prohibition contemplated in law.
- d) If they are brought to trial for a presumed criminal offence or if disciplinary proceedings are brought against them by the supervisory authorities of the Securities Market for serious or very serious misconduct.
- e) If they are given a serious warning by the Audit and Compliance Committee for infringing their obligations as directors.
- f) If by remaining on the Board they may jeopardise the interests of the company, or if the reasons for which they were appointed cease to exist.
- g) Institutional or proprietary directors will step down when the shareholder they represent on the Board disposes of its shares in the company.

B.1.21. Explain whether the Chairman of the Board is the highest executive of the company and the measures adopted to limit the risks of any single person having unfettered powers

YES NO

According to the Regulations of the Board of Directors, the Chairman of the Board is the highest executive of the company and, as such, directs the company's business, according to the decisions and criteria established by the General Meeting and the Board. To prevent the risks of any single person having unfettered powers, the Board of Directors has approved a set of Internal Regulations on the Use and Limitation of Delegated Powers, according to which, although the Chairman has sufficient powers in respect of third parties, certain decisions must at all events be adopted by the Board.

B.1.22. Explain whether special majorities differing from those stipulated in law are required for any type of decision and the procedure for adopting resolutions in the Board

YES NO

General rule

The general rule for the adopting of resolutions by the Board, in pursuance of the Corporations Act and the Bylaws of the company, is that Board meetings are quorate when attended, in person or by proxy, by one-half plus one of the members and resolutions are adopted by absolute majority of the directors present or represented at the meeting. Written votes without assembly are possible provided that no directors object to this procedure. Board meetings are also valid without prior call whenever all the directors are present or represented and unanimously agree to assemble in a Board meeting.

Special resolutions

This notwithstanding, according to the Bylaws, the permanent delegation of any power of the Board to the Executive Committee or Chief Executive Officer and the appointment of the directors who are to hold these positions require the favourable vote of two-thirds of the Board members, as established in the Corporations Act. This rule is deemed applicable to the delegation of powers to the Executive Chairman.

The Regulations of the Board of Directors of IBERIA also requires a special resolution for the appointment of the Chairman, which requires a quorum of two-thirds of the directors and votes in favour cast by at least two-thirds of the Board members. The same rule is applicable for appointment of the Chairman of the Audit and Compliance Committee, according to the Internal Regulations of that Committee.

B.1.23. Are there any specific requirements, other than those established for directors, to be appointed Chairman?

YES NO

The Chairman is not subject to any specific requisite, except the age limit, which in this case is 65. Apart from this, the Chairman, just like all other directors, must have business experience and a proven track record, as required by the Bylaws. He must also hold at least 400 shares in the company, which may not be transferred during his term in office.

B.1.24. Does the Chairman have a casting vote?

YES NO

There is no mention in the company regulations of the casting vote of the Chairman.

B.1.25. Do the Bylaws or Regulations of the Board establish an age limit for directors?

YES NO

Age limit Chairman	65
Age limit Chief Executive Officer	65
Age limit Directors	70

The Regulations of the Board set the age limit for directors at 70. None of the current directors has yet reached this age. The Regulations of the Board set the age limit for the Chairman and Chief Executive Officer at 65.

B.1.26. Do the Bylaws or Regulations of the Board establish a limited term of office for independent directors?

YES NO

Maximum years in office of Independent Directors	12
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The statutory term of office of directors is four years, after which they are eligible for reappointment on one or several occasions for the same maximum term. On expiry of their appointment, the relevant directors' term in office ceases at the first General Meeting held thereafter or on expiry of the legal time limit for holding the General Meeting at which the financial statements of the previous year are laid before the shareholders.

An exception to this rule is established for independent directors. According to the Regulations of the Board, these directors have a limited term of office and may not be reappointed on more than two occasions, in other words, no Independent Director may hold office as such for more than twelve years.

B.1.27. Proportion of female directors on the Board

At present there are no female directors on the Board of Directors of Iberia. All the Board members have been selected objectively in consideration of their prestige, knowledge and professional experience, with no implicit bias in the selection processes that could preclude the appointment of female directors.

IBERIA has had a female non-director Secretary of the Board since 2001. Among other duties she is responsible for ensuring compliance with the rules and recommendations for good governance.

B.1.28. Are there any formal procedures for the delegation of votes at Board meetings?

The Regulations of the Board require directors to use their best endeavours to attend Board meetings and, when they are unable to do so in person, to grant a proxy to another Board member of the same group (Executive, Proprietary or Independent), issuing the appropriate voting instructions. No single director may hold more than three proxies, except the Chairman, who is not subject to this limit, although he may not represent the majority of the Board.

B.1.29. Number of meetings held by the Board of Directors and Committees of the Board during the year, indicating how many times the Board has met without the Chairman

Board Meetings

(2007)

Total number of board meetings	18
No. board meetings not attended by the Chairman	0

Meetings of the Board Committees

(2007)

Committees	No. meetings
Executive Committee	8
Audit and Compliance Committee	11
Nomination and Remuneration Committee	10
Safety Committee	4

B.1.30. Number of meetings held by the Board during the period without the attendance of all its members

The overall attendance of Board meetings in 2007 was 182, representing an attendance rate of 87.5%.

(2007)

Number of absences of directors	26
% absences to total votes during the year	12.5%

B.1.31. Are the separate and consolidated financial statements submitted to the Board for approval previously certified?

YES NO

The 2007 separate and consolidated financial statements were submitted by Management to the Board after being certified by the Control and Administration Manager and the Chairman. This certificate guarantees that the accounts have been taken from the company's accounting records, reflecting all its transactions, assets and liabilities and give, in all material respects, a true and fair view of the net worth and financial position of the company at 31 December 2007, the results of its operations and any changes produced in its financial position during 2007, and that they contain all necessary information for an adequate interpretation and comprehension thereof, in accordance with generally accepted accounting standards and principles, applied on a consistent basis. A favourable report was also issued on the financial statements by the Audit and Compliance Committee.

B.1.32. Mechanisms established by the Board to avoid a qualified auditors' report on the separate and consolidated financial statements laid before the General Meeting

The Audit and Compliance Committee is responsible for dealing with these issues to avoid, as far as possible, the filing of financial statements with a qualified report. The Committee meets with management and the external auditor to ensure the absence of diverging criteria regarding the company's financial statements, in an effort to avoid any discrepancies that could arise.

B.1.33. Is the Secretary of the Board a Director?

YES NO

According to the Bylaws, the Secretary of the Board may or may not be a director. However, to date it has not been considered convenient for these positions to be combined, increasing the number of executive directors on the Board.

B.1.40. Stakes held by members of the Board of Directors of the Company in the capital of undertakings engaged in activities identical, similar or complementary to those of the Company and its Group, as far as the Company has been notified. Positions held or duties performed in those undertakings

The positions and stakes held by company directors in other undertakings engaged in activities identical, similar or complementary to those of the Company and its Group, as far as IBERIA has been notified, are indicated below. None of the stakes held by directors in those undertakings is significant.

(at 31 December 2007)

Director	Company	Activity	% stake	Position or duties
Lord Garel-Jones	Acciona	Handling	0%	Board member
Mr. Roger P. Maynard	British Airways	Air transport	0.0004994%	Director Investments & Joint Ventures
Mr. Miguel Blesa de la Parra	Flightcare (company of the FCC GROUP)	Handling	(FCC) 0.003%	Board member of FCC

B.1.41. Procedure for external counselling of Directors

The Regulations of the Board of Directors provide that the Board and its Committees may request assistance from external advisers on any matters in which they may so require. In 2007, the Safety Committee was assisted by an expert external adviser in the performance of its duties.

B.1.42. Procedure for Directors to obtain sufficiently in advance any information they may need to prepare the meetings of the governing bodies

The Regulations of the Board stipulate that notices of call to meetings must include the agenda for the meeting and be accompanied by the relevant information, duly summarised and prepared, and the minutes of the previous meeting, regardless of whether they have been approved, and must be received by the directors seven days in advance, wherever possible, and in any case no less than 72 hours before the meeting.

During 2007 the directors have promptly received the most important information concerning the items on the agenda for each meeting and have had at their disposal any other information they have considered necessary or convenient, which they have requested through the Chairman or Secretary of the Board.

B.1.43. Rules obliging Directors to report and, if necessary, retire in any cases that could be detrimental to the prestige and reputation of the company

According to Article 15 of the Regulations of the Board, Directors shall tender their resignation to the Board, among other causes, in the following circumstances:

- If they are tried for a presumed criminal offence or if disciplinary proceedings are brought against them by the supervisory authorities of the Securities Market for serious or very serious misconduct.
- If they are given a serious warning by the Audit and Compliance Committee for infringing their obligations as directors
- If by remaining on the Board they may jeopardise the interests of the company, or if the reasons for which they were appointed cease to exist.

B.1.44. Has any member of the Board informed the company that he/she has been sued or brought to trial for any of the offences contemplated in section 124 of the Corporations Act?

None of the Board members has informed the Company of any such situation.

B.2. Board Committees

B.2.1. Board Committees and their members

With a view to strengthening and, particularly, increasing the efficiency of the Board's duties, four specialist committees have been set up, to spread the work so that in certain matters, except when they are so urgent and important that they require direct consideration by the full Board, the proposals and resolutions of the Board are first studied by a specialist body, which can filter and inform on its decisions, thereby increasing the guarantees of resolutions adopted objectively and after due reflection.

On 5 April 2001, the Board of Directors set up an Executive Committee, with executive duties to adopt resolutions binding on the company within the scope of its delegation. The members of this Executive Committee at the date of this report were:

Executive Committee

Name of Director	Position	Type
Mr. Fernando Conte García	Chairman	Executive
Mr. Miguel Blesa de la Parra	Member	Proprietary
Mr. Roger Paul Maynard	Member	Proprietary
Mr. José B. Terceiro Lomba	Member	Independent
Mr. Rafael Sánchez-Lozano Turmo*	Member	Proprietary
Mr. Antonio Masa Godoy	Member	Independent
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Secretary Director

* Representing VALORACIÓN Y CONTROL, S.A.

The Board has also had three sub-committees since 2001, with duties of reporting and submitting proposals to the Board, namely: the Audit and Compliance Committee, Nomination and Remuneration Committee and Safety Committee. In January 2008 the Board resolved a partial renewal of the members of these committees. The members are non-executive directors.

The current composition of the Committees is as follows:

Nomination and remuneration Committee

Name of Director	Position	Type
Mr. Jorge Pont Sánchez	Chairman	Proprietary
Mr. José Manuel Fernández Norriella	Member	Independent
Mr. Rafael Sánchez-Lozano Turmo*	Member	Proprietary
Mr. José Pedro Pérez-Llorca	Member	Independent
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Secretary Director

* Representing VALORACIÓN Y CONTROL, S.L.

Audit and compliance Committee

Name of Director	Position	Type
Mr. José Manuel Fernández Norriella	Chairman	Independent
Mr. José B. Terceiro Lomba	Member	Independent
Mr. Alberto Recarte García-Andrade*	Member	Proprietary
Mr. Jorge Pont Sánchez	Member	Proprietary
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Secretary Director

* Representing INMOGESTIÓN Y PATRIMONIOS, S.A.

Safety Committee

Name of Director	Position	Type
Mr. Roger Paul Maynard	Chairman	Proprietary
Mr. José Pedro Pérez-Llorca	Member	Independent
Lord Tristan Garel Jones	Member	Proprietary
Mr. Antonio Masa Godoy	Member	Independent
Mrs. Lourdes Máiz Carro	Secretary of the Commission	Non-Secretary Director

B.2.2. Duties of the Audit and Compliance Committee

Duties of the Audit Committee	YES	NO
Oversee the preparation and integrity of the company's, and if necessary the group's, financial reporting, checking compliance with the legal requirements, adequate definition of the consolidated group and correct application of accounting principles	✓	
Regularly check the internal control and risk management systems, ensuring that the principal risks are adequately identified, managed and reported	✓	
Ensure the independence and efficacy of the internal audit duties; propose the nomination, appointment, re-appointment and removal of the chief audit officer; propose the budget for this department; receive regular information on its activities; check that the top management heeds the conclusions and recommendations set out in its reports	✓	
Establish and supervise a "whistle-blowing" procedure so employees can confidentially or, where appropriate, even anonymously report any irregularities they observe in the company's conduct, particularly in financial and accounting aspects		✓
Submit to the Board proposals for nomination, appointment, re-appointment and replacement of external auditor, and terms of engagement	✓	
Receive regularly from the external auditor information on the audit plan and the outcome of its fulfilment and see that top management heeds its recommendations	✓	
Guarantee the independence of the external auditor	✓	
In the case of groups, encourage the group auditor to audit the different companies in the group	✓	

B.2.3. Rules of organisation and procedure attributed to each Committee

Executive Committee

All the powers of the Board of Directors are permanently delegated to the Executive Committee, except those which may not be delegated, whether by law, institutional provision or under the Regulations of the Board.

Without prejudice to the effectiveness of an extensive delegation of powers in respect of third parties, the Executive Committee has the following internal powers, according to the Regulations of the Board:

- Adoption of the final resolution on specific matters previously discussed by the Board and referred to the Executive Committee for a final decision, either to resolve within the limits previously defined by the Board or to develop and complete detailed aspects of the action or transaction previously approved by the Board.
- Adoption of resolutions, in case of urgency, on delegated matters. In urgent matters, the Executive Committee may act when it is not possible to call the Board to discuss the matter in question and decision cannot be delayed.
- Discussion and submission of proposals for a decision by the Board on the matters reserved to the latter, whenever the Chairman considers this procedure most expedient.

In principle, the ordinary meetings of the Executive Committee are monthly. In 2007 it held eight meetings. The Board is promptly informed on the contents of its meetings.

Audit and Compliance Committee

There are no executive directors on the Audit and Compliance Committee and the chairman is an independent director. It has its own Regulations, approved by the Board of Directors on 28 February 2002 and adapted to the Financial System (Reform Measures) Act at the Board meeting of 24 July 2003, following the necessary adjustment of the Bylaws at the AGM held on 12 June 2003.

The main duty of the Audit and Compliance Committee is to assist the Board in the oversight and control of the company, regularly checking compliance with the legal provisions and internal regulations applicable to the company.

Without prejudice to any others assigned by the Board, the Audit and Compliance Committee has the following duties:

- Inform at General Meetings on any issues within its competence raised by shareholders.
- Propose to the Board, to be submitted to the General Meeting, the appointment of the external auditor, terms of engagement, the scope of its professional appointment and, if necessary, the revocation or non-renewal of said appointment. Supervise fulfilment of the audit contract, endeavouring to ensure that the opinion on the financial statements and the main contents of the auditors' report is set out clearly and precisely.
- Keep in contact with the auditor to receive information on any issues that could jeopardise its independence, and any other information relating to the auditing process, and to receive information and exchange with the auditor the communications stipulated in the auditing laws and technical auditing standards.
- Act as liaison between the Board and the auditors, assess the results of each audit and the response by management to their recommendations, and intervene in the event of discrepancies between the auditors and the Board in connection with the principles and criteria applicable in the preparation of the financial statements.
- Check the financial statements, ensure compliance with all legal requirements and correct application of the generally accepted accounting principles.

- f) Oversee the internal financial control manuals and procedures adopted by the company, ensure compliance and check the appointment and replacement of those responsible for them.
- g) Supervise the internal audit services.
- h) Check compliance with the Internal Code of Market Conduct, the Regulations of the Board and, in general, the rules of governance of the company and make such proposals as may be necessary to improve them. In particular, the Audit and Compliance Committee must receive information and, where appropriate, issue reports on disciplinary measures against senior officers of the company.
- i) Consider any suggestions submitted by the Chairman, members of the Board, senior officers or shareholders of the company and inform and submit recommendations to the Board on the measures it considers appropriate in respect of auditing and any other activities assigned to it, and on compliance with the applicable legal provisions on reporting to the markets and transparency and accuracy of the information given.

The Audit and Compliance Committee holds ordinary meetings at least once every three months and additional meetings whenever called by the Chairman, on his own initiative or at the request of two or more of the Committee members. It also meets whenever the Board requests reports, recommendations or the adopting of decisions within the scope of its duties.

Eleven meetings were held in 2007, at which the Committee, in close communication with the auditors, assessed the results of audit work, checked the accounts and financial statements of the company, reviewed the internal control and risk management systems and examined the degree of compliance with the rules of good governance. In short, it performed its duties as assigned in law and the Regulations of the Committee. The Audit and Compliance Committee also underpinned the organisation and work of the company's internal auditor, paying particular attention to risk management and fulfilment of the 2007 Audit Plan.

Nomination and Remuneration Committee

In pursuance of good governance requirements, there are no executive directors on the Nomination and Remuneration Committee, which is chaired by a non-executive proprietary director.

The main duty of the Nomination and Remuneration Committee is to assess the profile of the most suitable persons to sit on the different governing bodies of the Board and submit the corresponding nominations to the Board. Without prejudice to any other duties assigned by the Board, the Nomination and Remuneration Committee has the following basic responsibilities:

- a) Draw up and check the criteria to be followed for the composition of the Board and selection of candidates, nominating proposed directors for the Board to directly appoint them (cooptation) or submit the proposal to the General Meeting for a decision. Propose the members of each of the committees.
- b) Propose to the Board the system and amount of the annual remunerations of directors and senior officers, and, once approved, regularly review the remuneration programme, assessing adequacy and performance.
- c) Supervise and establish guidelines on the appointment, hiring, career, promotions and dismissals of senior officers to ensure that the company has adequate highly qualified management.
- d) Propose measures to guarantee transparency of remunerations and watch over their fulfilment.
- e) Inform on any transactions that involve or may involve conflicts of interests and, in general, on the matters contemplated in Chapter VI of the Board Regulations.

The Nomination and Remuneration Committee met formally on ten occasions during 2007, specifically analysing the company's remuneration programmes.

Safety Committee

Finally, the Board has a Safety Committee to specifically oversee and watch over the safety of operations from the point of view of aircraft and engine reliability and maintenance and the actions by crew and other staff involved in flight operations.

The Safety Committee is chaired by a non-executive proprietary director and consists of two non-executive proprietary directors and two non-executive independent directors. Without prejudice to any other duties assigned by the Board, the Safety Commission has the following basic powers:

- a) Analyse the general policy of the company regarding in-flight safety systems.
- b) Submit to the Board such proposals as it may deem fit to improve the company's systems in this respect, and monitor the measures adopted by the Board in respect of in-flight safety.
- c) In general, compile, analyse and disseminate all information available on in-flight safety, and make such studies of this subject as may be considered necessary.

The Safety Committee must meet formally at least four times a year. Four meetings were held during 2007, at which a specific analysis was made of the reliability of aircraft and engines and the safety parameters of operations.

B.2.4. Powers of counselling, consultation and, where appropriate, delegation of each Committee

Only the Executive Committee has, as such and in general, the powers delegated by the Board on the terms indicated hereinabove. The other Committees have essentially advisory, proposal and reporting functions, notwithstanding the possibility, in certain cases, of specific delegation by the Board.

B.2.5. Regulations of the Board Committees, where they are available for consultation and any modifications made during the year, indicating, where appropriate, whether an annual report has been issued on the activities of each Committee

As indicated above, the Audit and Compliance Committee has its own Regulations, adapted to the new legislation on 24 July 2003. The text of these Regulations can be consulted on the company's web site. A report has also been issued of the activities of this Committee in 2007.

B.2.6. Does the composition of the Executive Committee reflect the participation on the Board of the different types of Director?

YES NO

Although all the types of directors making up the Board are represented on the Executive Committee, their proportional participation is different. It thus consists of five directors: one executive director, three proprietary directors and two independent directors.

Related party transactions

The most important transactions made during 2007 with the major shareholders are described below.

C.1. Does the full Board reserve the right to approve, subject to a favourable report by the Audit and Compliance Committee or such other committee it may have commissioned, any transactions between the company and its directors, significant or represented shareholders or parties related thereto

YES NO

C.2. Major transactions involving a transfer of resources or obligations between the Company and/or Group and its significant shareholders

The main details of these transactions in 2007 are set out in the following table.

Summary of Related Party Transactions December 2007

Shareholder	IBERIA		VIVA, VUELOS INTERNACIONALES DE VACACIONES, S.A.		COMPAÑÍA AUXILIAR AL CARGO EXPRES S.A.		IBERIA TECNOLOGÍA S.A.		BINTER FINANCE		IBERIA GROUP	
	Received from IB	Paid to IB	Received. from Viva	Paid. to Viva	Received from Cacesa	Paid to Cacesa	Received from IB Tec.	Paid to IB Tec.	Rec. from Binter	Paid to Binter	Rec. from IB Group	Paid to IB Group
British Airways	6,837	19,043	0	0	130	0	0	0	0	0	6,967	19,043
El Corte Inglés	21,428	8	0	0	33	114	0	0	0	0	21,461	122
BBVA	3,820	88	0	0	0	0	0	0	32	370	3,852	458
Caja Madrid	7,280	7	1	0	0	4	3	0	0	0	7,284	11
	39,365	19,146	1	0	163	118	3	0	32	370	39,564	19,634

British Airways:

These transactions include:

- Payments to Iberia for the British Executive Frequent Flyer Programme.
- Code Sharing Commissions charged and paid between the two companies for tickets issued by one company and flown by the other.
- Payments by Iberia for Passenger and Cargo Handling Services and payments to Iberia for Maintenance and Goods Handling Services.
- Charges and payments for Leasing of VIP Lounges and others.

El Corte Inglés:

These transactions mainly include charges to IBERIA for:

- Supplies of uniform for flight crew.
- Development of software and hardware.
- Technical Assistance and Maintenance.
- Passenger sales commissions and incentives.

BBVA:

- Interest on fleet financing transactions and guarantees furnished for aircraft purchases.

Caja Madrid:

- Interest on fleet financing transactions and guarantees furnished for aircraft purchases.

C.3. Significant transactions involving a transfer of resources or obligations between the Company and/or Group and the Directors or Executives of the Company

The Company has no record of any transactions of this nature made during the year.

C.4. Significant transactions with other companies in the same group (Intercompany Transactions), that are not eliminated in the consolidated financial statements and which do not, by virtue of their object or terms, correspond to the normal trade of the Company

There have been no transactions in IBERIA in 2007 that meet these two conditions, i.e. that are not eliminated in the consolidated financial statements and which do not correspond to the normal trade of the company, by virtue of their object or terms. During 2007, IBERIA invoiced 90,709 thousand euro to subsidiaries and associated companies and received services from these companies for the value of 62,941 thousand euro, as indicated in the Notes to the Financial Statements. It received dividends from these companies to the tune of 2,313 thousand euro and incurred financial expenses of 281 thousand euro.

C.5. Conflicts of interest of company directors, pursuant to s. 127 ter of the Corporations Act

In principle, none of the directors have any permanent conflict of interests with the company, pursuant to the aforesaid legal provision, that would prevent them from performing their duties. Whenever business has been transacted that particularly affects a given director or the company represented by a given director, the director in question has abstained, according to legal and regulatory requirements.

C.6. Mechanisms established to detect and regulate possible conflicts of interest between the Company and/or its Group, and its directors, executives or significant shareholders

Pursuant to the Regulations of the Board, directors may not work in or for companies with similar objects or that are rivals of the company and that, even though these precluding conditions are not met, the director must consult the Nomination and Remuneration Committee before accepting any executive position in another company that may give rise to a conflict of interests or detract from his dedication to his duties within the company. This restriction does not affect any positions held in Group companies, shareholders forming the Stable Core established for privatisation of the company and any other cases in which the Board, in view of a report issued by the Nomination and Remuneration Committee, considers that the company's interests are not at risk.

The Regulations of the Board, getting ahead of the Transparency Act on this point, establish a number of prohibitions and limitations on directors regarding their professional and commercial transactions with the Company, use of corporate assets, taking up a business opportunity of the company, and any similar actions that might adversely affect their objectiveness and independence.

IBERIA has also approved its Internal Code of Market Conduct, which, among other obligations, contains detailed regulation of any situations of conflict that may arise.

C.7. Is more than one company of the Group listed in Spain?

YES

NO

Risk control systems

D.1. Risk policy and control systems established for each type of risk

The IBERIA Group is very active in Risk Management and Control, establishing systems to pinpoint, assess, manage and reduce the principal risks to which the different Group activities are exposed.

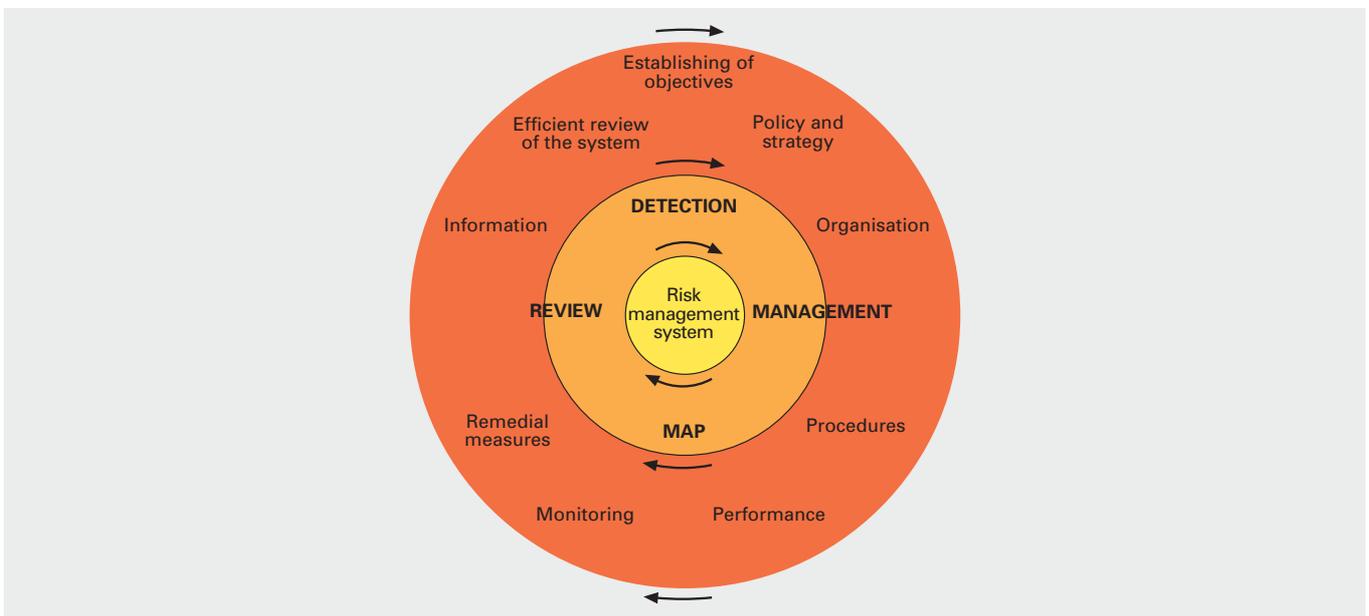
The actions taken in respect of risks affect the key parameters and aspects of the Group management, such as: the Statement of Income, debt, investments, divestments and development of the Director Plan, to optimise the Statement of Income and debt, adopt balanced decisions on yield and risk for new investments and/or divestments and achieve the growth targeted in the Director Plan with controlled flexibility.

The impact of the risks affecting each of the aforesaid fields of action is analysed and calculated and the necessary monitoring and management measures adopted as frequently as is considered necessary to achieve the intended purpose: daily for market risks, monthly for management and budget control, as and when necessary for new investments or divestments, and as required in respect of the current Director Plan.

The IBERIA Group also strives constantly to guarantee all its activities and respond expediently to any emergency situation that may arise, aeronautical or otherwise.

Risk Management System

During 2007 IBERIA further developed its Risk Management System, structured around the following model:



As a result of its implementation, IBERIA not only has its risk exposure under control, but moreover it now also has a systematic risk management, with the following features:

- Each risk has a owner, the person ultimately responsible for its management.
- The Risk Map is reviewed every six months at the top executive level, pinpointing any new risks.
- There are defined procedures of approval, management and information.
- Active participation of all those responsible for the System.

The **information** aspect is particularly important, with the **Business Risk Management Portal**, which has several different levels of access, one public, to which any company employee can have access, containing official information and reference documents, and one private, containing specific information for risk owners; moreover, an on-line Working Area was developed during 2007, to enable permanent updating of the Risk Map:



As far as **internal control** is concerned, both risks controlled within the company's management processes and one-off risks are subject to the Internal Audit Annual Plan, which is essentially established on the basis of the Risk Map.

The following diagram depicts the relationships between the company's objectives and the risk control established to guarantee meeting them:



All these aspects, management system, information system and internal control, are part of a set of criteria whose compliance has been checked against the risk management and control recommendations made in the *Unified Good Governance Code in Listed Companies* of 22 May 2006, the system in place having been found adequate.

Risks Covered by the System

The Risk Management System covers all types of risks to which the company is exposed and all areas of its organisation. For this purpose, "risk" is deemed to mean any potential event or circumstance that may jeopardise fulfilment of the objectives marked for the different processes of the company and, consequently, achievement of the strategic objectives of the organisation.

The Risk Map pinpoints the risks and, within the specific information on each risk, includes the most important checks made to reduce the risk, and their respective strengths, as well as the initiatives planned to reduce their impact should they materialise.

Risk Assessment

The different tests run, based on the perspective of their use from the outset, have established that the most convenient method for risk assessment is considering the arithmetic mean of the following three variables:

- Impact on income, when the risk in question actually occurs,
- Probability of occurrence of the risk, and
- Time horizon for it to be produced.

The same metrics have been established for all the risks identified in the System.

Risk Classification

The different risks have been grouped into the following categories, according to their nature and the different control systems used to reduce or mitigate them:

- I. New Projects: risks associated with the development of new, important projects for the company.
- II. Strategic Objectives: risks associated with the achievement of the strategic objectives defined in the Group's Director Plan.
- III. Internal Control: risks associated with activities relating to asset protection and custody services, the truth and accuracy of the accounting information and compliance with applicable legislation.
- IV. Environment: risks deriving from the environment in which the company moves, including variables on the different markets on which it operates and entities regulating commercial air traffic.
- V. Emergencies: fires, natural disasters, air accidents and terrorist attacks, etc.

Control systems to assess, mitigate or reduce the principal risks

I.- New Projects

The activities of all the areas involved in a new project are coordinated internally to ensure that it is developed on adequate operating and economic terms, minimising risk exposure.

II.- Strategic Objectives

The Strategic Objectives are established in the Director Plan 2006–2008, supplemented with initiatives and controls in each area of the company to ensure fulfilment of the objectives and control risks. The Plan overall and the initiatives contemplated therein are monitored closely. They are the principal referent for the different management committees and, moreover, by virtue of the management by objectives established in the Plan, part of the variable remuneration of the executives responsible for risk management is made subject to achievement of the objectives.

The interrelation of these risks derives from their association with each of the strategic objectives.

Financial Risks

IBERIA has a blanket management programme for its Financial Risks, to control and reduce any potentially adverse effect of fluctuations in exchange rates, interest rates and fuel prices on the income of the company and preserve sufficient liquidity to cover its operating needs and investment requirements.

The company uses a VAR (Value at Risk) model for this purpose, which makes a probabilistic assessment of the possible effect of these market variables on its income statements and defines the maximum volatility targets and the Hedging Programme required to achieve them.

The Hedging Programme, effected within the time and in accordance with the targets set in the company's Director Plan, covers the following risks:

Foreign Exchange Risk

Deriving from the denomination of income and expense accounts in currencies other than the euro. The greatest risk lies in revaluation of the US dollar against the euro, since the company has larger payments than revenues in dollars.

This risk is basically managed by combining two types of instruments: strategic hedges (up to 5 years) using currency swaps, options and other derivatives in an amount covering a given percentage of the position; and tactical hedges with a time horizon less than or equal to one year, to adapt to market trends, which are also linked to real movements of dollar payments by the company.

Interest Risk

Owing to the company's net debtor position (including aircraft leasing transactions), IBERIA is exposed to rises in interest rates of the currencies in which its debt is denominated.

To manage this risk, the company keeps a minimum percentage of its debt at fixed rates or protected. It reduces its exposure to a general rise in interest rates through diversification of loan currencies (US dollar, euro).

Fuel Price Risk

IBERIA controls the cost of aviation fuel by applying active risk management policies. The company's policy is to directly hedge the price of kerosene.

The broad outlines of the hedging policy are based on a set of strategic hedges, with which IBERIA can hedge a given percentage of the estimated consumption through long-term contracts; and on a set of tactical hedges, on a one-year basis, intended to hedge an additional proportion of the consumption.

Liquidity Risk

Owing to its cyclical business and the investment and financing needed for fleet renewals, IBERIA's liquidity policy consists of having a large volume of ready cash.

This cash position is invested in highly liquid short-term assets, such as debt repos, euro deposits and bank commercial paper made through leading financial institutions, according to the current counterparty risk policy.

Apart from short-term investments and the cash position, the company permanently has loan agreements to guarantee its liquidity requirements.

III.- Internal Control

There is an internal control structure involving staff across the board, with a set of rules, means and procedures that guarantee the truth of the accounting information, the authenticity of transactions reported, protection of assets and compliance with laws and regulations. The internal audit department is responsible for seeing that these controls are made.

IBERIA also has Quality Guarantee Systems regulating aircraft operation and maintenance, in compliance with the international aviation standards JAR OPS and JAR 145, and an operational quality and safety system complying with IOSA (IATA) requirements, which has been audited and revealed the adequacy of existing controls.

IBERIA has also installed ISO 9001-compliant Quality Management Systems in different flight and ground operations: ramp and passenger handling, aircraft maintenance, in-flight services, cargo, infrastructure, procurements and IT system activities.

Both guarantee and management systems are audited and certified by the competent official organisations or by authorised certification entities.

IV.- Environment

Every year IBERIA submits its candidacy for the selective *Dow Jones Sustainability Index*, which assesses the company's performance in economic, social and environmental aspects. In 2007-2008, Iberia is included in the world category of this index, up amongst the 250 best enterprises in the world in social responsibility, environmental respect and sustainable management.

In IBERIA, environmental risks are managed through the implementation, audit and certification, where appropriate, of procedures and methods designed to guarantee compliance with prevailing environmental laws, minimising the environmental impact of the company's operations.

IBERIA has obtained certification under standard ISO 14001 for its environmental management systems in the ramp and passenger handling areas at all the airports in the national network, and in the aircraft maintenance and engineering done in the industrial area of Madrid (La Muñozza); in 2007, the latter certificate was extended to the industrial area of Barajas Airport. There are also more specific procedures, contemplating the cargo areas and the medical service installations in Madrid. These certificates cover all material environmental aspects of IBERIA's ground operations.

The environmental regulations concerning aircraft flight operations are handled through Iberia's participation in existing working groups defining such regulations, on the level of both airline associations (AEA and IATA) and administrations (ICAO, Spanish Civil Aviation authorities). During 2007, Iberia participated actively in the working groups dealing with the future Directive, the proposal for which was approved by the European Commission on 20 December 2006, to reduce CO₂ emissions from aircraft. In these groups, IBERIA encourages focusing legislation on recognition of environmental efficiency. The conclusions reached within these groups are distributed internally and the necessary actions are taken to minimise any environmental risks that may arise.

IBERIA has developed the EBI (Environmental Behaviour Index) to assess the overall management of environmental impacts. This indicator regularly assesses all material environmental aspects and, on the basis of the outcome, goals are set and measures adopted with a view to constantly improving management of the company's environmental risk exposure.

IBERIA also participates in different groups involving airline representatives, to deal with other risks relating to new national or international regulations.

V.- Emergencies

Aviation emergencies, deriving from its business as an air carrier, including damage to aircraft, civil liability to third parties, passengers, ground assistance, maintenance and cargo, among others. These risks are managed firstly through prompt compliance with all relevant aeronautical directives in force and secondly through insurance policies taken out with leading Spanish insurance companies and reinsurance on the international markets with high financial standing. All the insurance limits contracted by the company are in line with best practices on the world air transport market and in all cases exceed the minimum cover required under the Spanish Air Navigation Act and International Conventions.

IBERIA has an extensive, exhaustive Emergency Plan, regulated by an internal General Regulation, listing and describing the responsibilities of the Emergency Committee and Support Groups needed to protect and safeguard the safety and physical integrity of anyone and everyone who could be affected and their belongings, including those of the passengers, the company and its employees.

Non-aviation emergencies. IBERIA has developed a *Business Continuity Programme* for all areas of the company, which assesses the potential impact of interruption of each activity within the company's operations and defines the actions to be taken to restore normal activity within a minimal time. It has assessed the risks and vulnerabilities existing in the different areas, including the interruption of normal activity due to natural disasters or other causes, and the necessary security measures have been established to reduce both the likelihood of their occurrence and the consequences for the company's operations if the risk were to occur.

In addition to the economic cover of risks deriving from its business as a carrier, IBERIA has a very broad insurance programme, covering more generic risks, such as damage to its equity, its fleet of vehicles and equipment, merchandise and nuclear risks, with policies covering general civil liability, life and accident insurance, among others.

Risks associated with the possible interruption of computer applications, some of which are vital to provide the service. Compensatory controls include the Image Centre and Synchronous Libraries and the start-up of two new services, the General Security Plan and the Disaster Recovery Plan, designed to prevent the interruption of operations due to potential faults relating to the computer systems:

- The Image Centre is an alternative data processing centre, capable of guaranteeing operation of the critical operating systems (essentially the passenger, dispatch and flight and airport control systems) within a minimal time in the event of a failure at the main data processing centre.
- The Synchronous Libraries enable data recovery so that the service can be continued in the event of incidents in the surrounding area.
- The General Security Plan sets out the security requirements for the new IT systems and, where appropriate, adjusts the criticality assessment for those in production or retired. This set of data is an input flow for the Disaster Recovery Plan.
- The Disaster Recovery Plan establishes the technical and organisational procedures to be carried out in order to restore the service, in the least possible time, in the event of a disaster in the Data Processing Centre, guaranteeing correct operation and ensuring at all times that it is adjusted to the corporate technological platform.

Risks associated with the logical security of systems and the information they contain. The main compensatory controls for this type of risk are:

- The Security Policy, which includes, inter alia, mechanisms for identification, authentication and data access control, password complexity control mechanisms, back-up creation and management and recovery procedures and log-in and integrity control mechanisms on tamper-proof platform in the systems so requiring.
- Security Audits, such as anti-hacking controls, or those required by prevailing laws and regulations on personal data protection.
- The continual designing and implementing of plans to adjust to legal requirements on personal data protection and e-commerce and information society services.

D.2. Risk materialisation, underlying circumstances and functioning, if appropriate, of the established control systems

The risks that materialised in 2007 were the fuel price hike, which was mitigated with the hedging strategies described above, and the market risks related with the increase in competitive pressure in the company's different businesses, especially in air transport and ground handling services, due to the entry of new operators on the domestic market. Both these risks are contemplated in the Director Plan 2006-2008 and, therefore, controlled through the application of the measures established therein. The targets set were met in 2007.

D.3. Bodies of the company responsible for establishing and supervising the control systems

The principal risk management and decision-making bodies are:

- Executive Committee, responsible for directing Risk Management.
- Risk Owners, normally members of the Management or Top Management, having the utmost responsibility for managing the risks within their area of competence and for developing and monitoring action plans to control those risks.
- Internal Audit and Quality Manager, who is responsible for coordinating Risk Management and checking the controls.
- The Audit and Compliance Committee of the Board regularly monitors the development and results of the Risk Management System.

D.4. Identification and description of processes for compliance with the different regulations affecting the Company and/or its Group

Each section of the company Management is responsible for compliance with the legislation applicable to its particular sector of activity. The Secretary of the Board, Chief Finance Officer and Internal Audit and Quality Manager are responsible for ensuring compliance with the good governance rules and recommendations, in the aspects assigned to each of them in the company regulations.

General Meeting

All aspects referring to the General Shareholders' Meeting of IBERIA (quorum, holding, adopting of resolutions) are regulated in the Bylaws, the Regulations of the General Meeting and the applicable legal provisions.

The company's Regulations of the General Meeting were approved at the AGM 2004 and subsequently modified at the AGM of 30 May 2006 to adjust Article 10 to the relevant amendments made to the Corporations Act by the Spanish-Domiciled European Company Act 19/2005 of 14 November. The CNMV was duly notified and they were then published on the company's web site and recorded in the Trade Register, as required by current legislation.

E.1. Quorum for General Meetings established in the Bylaws and differences in respect of the minimums stipulated in the Corporations Act

According to the IBERIA Bylaws, General Meetings are quorate on first call when attended, in person or by proxy, by shareholders holding at least 35% of the subscribed voting capital. On second call, General Meetings are quorate provided the shareholders present or represented hold at least 15% of the subscribed voting capital. The minimum quorum established in the Corporations Act is 25% on first call and unlimited on second call.

A higher quorum is stipulated for General Meetings to validly resolve on debenture issues, the increase or reduction of capital, conversion, merger or demerger of the company and, in general, any alteration of the Bylaws, requiring a quorum on first call of shareholders present and represented holding at least 50% of the subscribed voting capital, the attendance of 31% of such capital being sufficient on second call. The minimum established in the Corporations Act is 50% on first call and 25% on second call.

E.2. Majorities required for adopting resolutions and differences in respect of those stipulated in the Corporations Act

Resolutions are adopted by majority vote, i.e. by shareholders representing the majority of the capital present or represented at the General Meeting. As an exception, both the Bylaws and the Corporations Act stipulate that when General Meetings are attended by shareholders representing less than 50% of the subscribed voting capital, the resolutions contemplated in the preceding section may only be validly adopted with the favourable vote of two-thirds of the capital present or represented at the General Meeting.

E.3. Shareholders' rights in respect of General Meetings differing from those established in the Corporations Act

Right to attend

All shareholders who hold 400 shares, individually or through pooling, are entitled to attend and vote at General Meetings, provided their shares are entered in the corresponding Register five days prior to the date of the meeting.

Any shareholders so entitled may attend the meeting using electronic, telematic or other means of distance communication, provided that this is technologically possible, it is so resolved by the Board and that they use the procedure specified by the Board.

In any case, shareholders exercising their voting rights through the means of distance communication contemplated in the Bylaws and Regulations of the General Meeting shall be considered present for the purpose of the quorum.

Right to representation

Any shareholder entitled to attend may be represented at the General Meeting by any director or by another shareholder entitled to attend, using the proxy form issued by the Company for each General Meeting, including the appropriate indication on the attendance card. The letter of proxy must be received by the company prior to the date of the General Meeting, no later than the date specified in the notice of call.

The conditions and requisites for exercising this right to representation are set out in the Regulations of the General Meeting.

In any case, the proxy may be granted in writing through delivery of a power of attorney, or through postal, electronic or telematic communication, or whatsoever other means of distance communication, provided the proxy granted and the identity of the represented shareholder are duly guaranteed.

This proxy right does not affect the legal provisions regarding representation by a member of the family, public requests for representation and the granting of general powers of attorney.

Right to information

Up to the seventh day prior to the General Meeting, shareholders may request such reports or explanations, or submit such written questions, as they may consider necessary concerning the items on the agenda, and concerning the information available for the public supplied by the company to the National Securities Market Commission (CNMV) since the previous General Meeting. The directors are obliged to provide such information in writing up to the date of the General Meeting.

During the General Meeting, shareholders may orally request such information or explanations as they may consider necessary concerning the items on the agenda. If it is not possible to provide this information or give the necessary explanations at that time, the directors are obliged to provide the information in writing within seven days after the end of the General Meeting.

The directors are obliged to provide the information requested, except when, in the opinion of the Chairman, publicising of that information may jeopardise corporate interests. This exception is not valid when the request is seconded by shareholders representing at least one-quarter of the paid-up capital.

Moreover, as from the date of call to the AGM, any shareholder may obtain from the company, immediately and free of charge at the registered office, copies of all the documents to be laid before the General Meeting and of the auditors' report.

The directors' obligations regarding information may be met through any technical, computer or telematic means that offers the necessary security guarantees. The company has a web page setting out the corresponding information for this purpose.

Duties of the General Meeting

Notwithstanding section 129 of the Corporations Act and apart from deciding with sovereign power on all corporate business, the General Shareholders' Meeting has the following powers:

- a) Approve its own Internal Regulations and any subsequent modifications thereto.
- b) Examine and approve the separate and consolidated annual accounts of each financial year, resolve on the proposal for application of profits and review the management of corporate affairs.
- c) Appoint and reappoint the auditors, and remove them in the events permitted by law.
- d) Appoint, re-elect and remove members of the Board, examine and approve their management of corporate affairs, and ratify or revoke any provisional appointments of board members made by the Board by virtue of its right to cooptation. Exercise of the right of proportional representation will be respected at all times, if exercised by shareholders under section 137 of the Corporations Act.
- e) Approve the overall maximum amount of the annual remuneration payable to the directors, in pursuance of Article 47 of the Bylaws.
- f) In pursuance of the Corporations Act, increase or reduce the capital stock, delegating to the Board, if appropriate, the power, inter alia, to decide on the date or dates of such increases or reductions, within the maximum time stipulated in the Act. The Board may exercise this power, altering Article 5 of the Bylaws accordingly, or abstain from doing so, in view of prevailing circumstances, reporting to the first General Meeting held after the time stipulated for such actions, for the General Meeting to decide as appropriate.
- g) Authorise the Board also to increase the capital stock in pursuance of section 153.1.b) of the Corporations Act. When the General Meeting delegates this power, it may also authorise the Board to exclude the right of preferential subscription in any issues of shares covered by the delegation, subject to the terms and requisites established in the Act.
- h) Delegate its powers to the Board of Directors, subject to the limits established in the Corporations Act, where appropriate, and particularly the power to change the par value of the shares in the capital stock, altering Article 6 of the Bylaws accordingly.
- i) Alter the company Bylaws and confirm or rectify the interpretation of the Bylaws made by the Board.
- j) Resolve on the winding-up, merger, demerger and conversion of the company.
- k) Authorise the company to purchase treasury stock on the terms established in law.
- l) Approve remuneration systems consisting of the delivery of shares or stock option rights, and any other system of remuneration linked to the value of the shares, regardless of the beneficiary, on the terms stipulated in the Corporations Act.
- m) Decide on any business submitted by the Board, which is obliged to inform the General Meeting whenever exceptional or extraordinary circumstances or events arise that may affect the company, its bodies or shareholders, its market projection or strategy, its programmes and policies, in which case it must call the shareholders to discuss the measures to be taken, which are submitted to the General Meeting to decide within its full, sovereign powers.
- n) Decide on any other business reserved to the General Meeting by law or the bylaws.

Logically, the Bylaws list the rights which, although perhaps less systematically, are contemplated in the Corporations Act.

E.4. Measures adopted, if any, to encourage the participation of shareholders at General Meetings

Since the company was privatised, it has made an effort to boost the areas of the organisation responsible for investor relations, creating a Shareholders' Office within the Financial Division, which aims primarily to maintain a channel of communication to guarantee existing and potential shareholders clear, sufficient information on the company. This Office can be contacted at the registered office, calle Velázquez, 130 - 28006 Madrid, on telephone no. 91 587 75 74 or by e-mail invesrel@iberia.es.

The company has, for this purpose, extended its web page for investors and shareholders, containing all the corporate and financial information on the Group and the presentations regularly made for analysts and/or the media (www.iberia.com).

Moreover, before each General Meeting, all information concerning the items on the agenda is offered to shareholders and published on the company's web site, and any requests for information received from shareholders at the Shareholders' Office regarding the items on the agenda are answered. In pursuance of the Corporations Act and Company Bylaws, shareholders are also entitled, as from publication of the call to the General Meeting, to obtain immediately and free of charge copies of all the documents that are to be laid before the General Meeting, particularly the auditors' report.

At the AGM 2004 an alteration of the Bylaws was approved to enable the installation of a distance voting system, by electronic vote, taking advantage of the facilities offered by the new technologies. This system was used at the AGM held on 26 May 2005 and 30 May 2006, with a high level of participation by shareholders both years. At the AGM 2005, of 1,020 shareholders attending the AGM, 738 did so by distance, either by post or through electronic means. The company received 138,979 electronic votes. At the AGM 2006, the proportion of distance participation increased and 150,398 electronic votes were received.

These measures, together with the facilities already offered for proxies and proxy votes, are intended to encourage shareholders to participate in General Meetings well-informed, to ensure that the General Meeting effectively performs its duties under the law and the bylaws.

E.5. Are General Meetings presided by the Chairman of the Board and what measures, if any, are taken to guarantee the independence and proper functioning of the General Meeting?

YES NO

According to the Bylaws, General Meetings are to be presided by the Chairman of the Board, or in his absence by the Vice-Chairman, or otherwise by the oldest director present at the General Meeting in question.

The AGM 2007 was presided by the Chairman of the Board.

E.6. Modifications, if any, made during the year to the Regulations of the General Meeting

The Regulations of the General Meeting were not modified during 2007. These Regulations, approved at the AGM on 24 June 2004, were altered during 2006 to adapt them to the amendments to the Corporations Act made by virtue of the Spanish-Domiciled European Company Act 19/2005 of 14 November. Accordingly, the AGM of 30 May 2006 resolved to alter Article 10 of these Regulations concerning the notice of call to general meetings.

E.7. Attendance of General Meetings held during the year

Only one General Meeting was held in 2007, the AGM, on 30 May.

Annual General Shareholders Meeting of IBERIA, Líneas Aéreas de España, S.A. held on 30 May 2007

The AGM 2007 was held on second call and attended by:

	% present	% represented	% distance votes	Total
AGM 30 May 2007	41.743%	18.091%	0.538%	60.372%

In addition to the capital attending the AGM, a further 5,800,000 shares are held in treasury stock, representing a nominal capital of 4,524,000 euro.

E.8. Resolutions adopted at the General Meetings held during the year and percentage of votes with which each resolution was passed

All the items on the Agenda for the AGM of 30 May 2007 were approved:

1. Examination and approval, if appropriate, of the separate and consolidated Annual Accounts and Directors' Report of IBERIA, L.A.E. for the year ended 31 December 2006.
2. Proposal for application of profits from 2006.
3. Review and approval of the management of corporate affairs by the Board in 2006.
4. Appointment, re-election and, where appropriate, ratification of directors.

5. Alteration of the Bylaws: Article 44. Board of Directors
6. Reappointment of the Auditors of the Company and its Consolidated Group for 2007.
7. Approval of the maximum overall amount of directors' emoluments.
8. Authorisation of the Board to buy back shares in IBERIA, L.A.E., directly or through subsidiaries, within 18 months from the resolution adopted by the General Meeting, rendering void the authorisation granted at the AGM of 26 May 2006.
9. Delegation of powers to the Board, including the powers to delegate, to evidence in a public instrument, remedy, register, interpret, develop and implement the resolutions adopted.

Votes cast at the AGM of 30 May 2007

Agenda	Votes for	%	Votes against	%	Abstentions	%
Item 1	563,380,435	98.93	55,576	0.00	6,008,559	1.05
Item 2	569,314,097	99.97	70,020	0.01	60,453	0.01
Item 3	567,032,489	99.57	229,202	0.04	2,182,879	0.38
Item 4	486,041,558	85.35	75,026,265	13.17	8,376,747	1.47
Item 5	569,174,608	99.95	123,865	0.02	146,097	0.02
Item 6	569,267,784	99.96	65,312	0.01	111,474	0.01
Item 7	569,143,437	99.94	145,664	0.02	155,469	0.02
Item 8	569,264,716	99.96	87,512	0.01	92,342	0.01
Item 9	569,280,133	99.97	67,045	0.01	97,392	0.01

The resolutions adopted can be consulted on the company's web site, "www.iberia.com".

E.9. Number of shares required to attend General Meetings, indicating whether any restrictions are established in the bylaws

400 shares are required to attend and vote at General Meetings. The bylaws do not establish any limits for exercising voting rights.

E.10. Company policies on proxy votes at General Meetings

The right to proxy and proxy votes is regulated in detail in the Regulations of the General Meeting approved at the AGM on 24 June 2004.

Shareholders entitled to attend and vote at General Meetings may be represented at any General Meeting by any director or by another shareholder entitled to attend, using the proxy form issued by the company for each General Meeting, as indicated on the attendance card or any other ad hoc document, in accordance with the Corporations Act and without prejudice to the provisions of the Act on legal and family representation.

The proxy may also include any items which, although not included on the agenda, may be dispatched at the general meeting, being so permitted by law.

In order for a proxy granted to another shareholder to be valid, it must be accepted by the named proxy. A proxy issued in favour of the Chairman of the Board or another director is presumed to be accepted.

In all cases, the proxy must be granted especially for each General Meeting. This requisite is not applicable when the representative is the spouse, ancestor or descendant of the represented shareholder, or when the representative has a general power of attorney, granted in a public document with the power to administer all the assets of the principal in national territory.

The proxy may be granted in either of the following ways:

- a) By the delivery on paper of the signed proxy letter or the attendance card contemplated in Article 13 of the Regulations, duly completed and signed by the shareholder, on the terms established by the company.
- b) Through postal, electronic or telematic communication, or whatsoever other means of distance communication, provided the proxy granted and the identity of the represented shareholder are duly guaranteed. In particular, a proxy granted by electronic or telematic means of communication will be accepted when the electronic document through which it is granted includes the recognised electronic signature used by the principal, or whatever other kind of signature the Board may consider, in a resolution adopted beforehand, offers adequate guarantees of authenticity and identification of the shareholder granting the proxy. Proxies granted by these means must be sent to the company through the procedure and by the deadline specified by the Board in its resolution to call the General Meeting. Proxies granted in accordance with the specifications established by the company will be fully effective, unless a cause of force majeure prevents their valid receipt.

The letter of proxy must be received at the Shareholders' Office or by the services assisting the Presiding Board of the General Meeting prior to the date of the relevant General Meeting, no later than the deadline stated in the notice of call.

Individual shareholders who are deprived of all or any of their civil rights and corporate shareholders may be represented by the person(s) exercising their legal representation, provided this is duly evidenced. In these cases and if any shareholders voluntarily delegate their right to attend, each shareholder may have only one representative at the General Meeting.

Voluntary proxies may be revoked at any time. The proxy or proxy vote will be revoked, regardless of the date on which it has been issued, if the represented shareholder attends the general meeting, in person or through any of the means of distance communication, or votes through such means. Otherwise, the revocation must be made expressly, received by the Shareholders' Office prior to the commencement of the General Meeting and meet any other requisites that may be stipulated by the company.

If the company directors, depositaries of the shares or the entities keeping the record of book entries request a proxy for themselves or for another and, in general, whenever such a request is made publicly, the agenda, the request for voting instructions and indication of how the proxy is to vote in the absence of precise instructions must be incorporated in or attached to the printed or electronic document containing the power of attorney.

In the same cases, if the proxy has been validly granted, in accordance with the Corporations Act and these Regulations, but do not include the voting instructions or if any doubts arise as to the intended proxy or scope of the proxy, the delegation will be deemed made in favour of the Chairman of the General Meeting, referring to all the proposals on the agenda and to vote for such proposals.

If the directors or another person have made a public request for representation, the director or person obtaining such representation may not exercise the voting right corresponding to the shares represented in respect of any items on the agenda in which that person may fall into a conflict of interest, and in any case in respect of the following decisions:

- his/her appointment or ratification as director,
- his/her removal, dismissal or forced retirement as director,
- the bringing of a corporate liability action against him/her,
- approval or ratification, as the case may be, of transactions between the company and the director or person in question, companies he/she controls or represents, or persons acting on his/her behalf.

The same rule is applicable when the proxy also includes matters which, although not on the agenda, may lawfully be put to the vote at the General Meeting.

In these cases, the shareholder granting the proxy may authorise the proxy to nominate a director or another shareholder to substitute him or her whenever faced with a conflict of interest.

If a shareholder who has previously delegated his voting rights then transfers shares such that he/she no longer holds a minimum of four hundred (400) at the time of closing the attendance list for the General Meeting, the proxy will be considered void, without prejudice to the rights of the shareholder acquiring the shares.

E.11. State whether the company is aware of the policies of institutional investors regarding their participation or otherwise in company decisions

The institutional shareholders participate in the decisions of the company and the General Meeting through the ordinary channels. The company is not aware of any strategies materially different from other shareholders.

E.12. Address and access to the corporate governance contents on the company's web site

Enter the web site "www.iberia.com", select "*Investor Relations*". Select language, then, in the "*Corporate Governance*" menu, access information on the "*Annual General Meeting*" (Notice of Call, Agenda, Documents –including the Annual Report on Corporate Governance– and Resolutions Adopted), "*Bylaws*" and "*Regulations*" (Regulations of the Board of Directors, Regulations of the General Meeting, Internal Code of Market Conduct and Internal Regulations of the Audit and Compliance Committee).

*Extent of compliance with the corporate
governance recommendations*

The 23 recommendations of the Unified Good Governance Code are set out below, with a brief indication of the degree of compliance by the company with those recommendations.

1.- The Bylaws of listed companies should not limit the number of votes held by an individual shareholder or impose other restrictions on the company's takeover via the market acquisition of its shares.

Compliance Explain

2.- When both the parent company and a subsidiary are listed, they should both publish a document specifying exactly:
a) The types of activity they are respectively engaged in and any business dealings between them, and between the listed subsidiary and other group companies;
b) the mechanisms in place to solve any conflicts of interest.

Compliance Partial Compliance Explain Not applicable

3.- Although not expressly required in company law, any operations involving a structural alteration of the company should be submitted to the General Shareholders' Meeting for approval, especially the following:

- a) Conversion of listed companies into holdings, through spin-off of "subsidiarisation", or reallocating to subsidiaries of core activities thereunto performed by the company, even though the latter may retain full ownership of its subsidiaries;
- b) Acquisition or disposal of key operating assets, if this involves an effective alteration of its objects;
- c) Any operations producing effects equivalent to liquidation of the company.

Compliance Partial Compliance Explain

4.- Detailed proposals of the resolutions to be adopted at a General Shareholders' Meeting, including the information contemplated in Recommendation 28, should be published simultaneously with the notice of call to the General Meeting.

Compliance Explain

5.- Substantially independent items shall be voted separately at General Meetings to enable shareholders to express their preferences separately. This rule is particularly applicable:

- a) To the appointment or ratification of directors, which should be voted individually;
- b) In the case of Bylaw alterations, to each article or substantially independent group of articles.

Compliance Partial Compliance Explain

This has not been considered necessary up to now.

6.- Companies should allow split votes, so that financial intermediaries on record as shareholders but acting on behalf of different clients can vote according to the latter's instructions.

Compliance Explain

7.- The Board should perform its duties with unity in proposal and independent criteria, affording all shareholders the same treatment and guided by corporate interests, which shall mean maximising the value of the company over time. It shall also ensure that the company complies with the applicable laws and regulations in its relations with stakeholders; fulfils its contracts and obligations in good faith; respects good customs and practice in the sectors and territories in which it operates; and upholds any other social responsibility principles that it may have subscribed to voluntarily.

Compliance Partial Compliance Explain

8.- The Board should undertake, as its principal mission, to approve the company's strategy and the organisation required to put it into practice, and to oversee and ensure that Management meets the targets marked out and respects the objects and corporate interest of the company. For this purpose, the full Board shall approve the following:

- a) General policies and strategies of the Company, particularly:
 - I) The strategic or business plan, management objectives and annual budgets;
 - II) Investment and financing policy;
 - III) Definition of the structure of the corporate group;
 - IV) Corporate governance policy;
 - V) Corporate social responsibility policy;
 - VI) Policy on the remuneration and performance assessment of senior officers;
 - VII) Risk management and control policy and the regular monitoring of internal information and control systems;
 - VIII) The dividend policy and treasury stock policy, particularly regarding limits.

b) The following decisions:

- I) Upon recommendation by the chief executive, the appointment and possible removal of senior officers, and corresponding severance clauses.
- II) Directors' emoluments and, for executive directors, supplementary remuneration for their executive duties and any other terms and conditions to be included in their contracts.
- III) The financial information that listed companies are obliged to disclose periodically.
- IV) Any investments or transactions considered strategic by virtue of their amount or special characteristics, unless approval corresponds to the General Meeting;
- V) Creation or acquisition of shares in special purpose vehicles or companies domiciled in countries or territories considered tax havens, and any transactions or operations of a similar nature which could, by virtue of their complex structure, impair the group's transparency.

c) Transactions between the company and its directors, significant shareholders or shareholders with representatives on the Board, or persons related thereto ("related-party transactions"). However, this authorisation will not be necessary for related-party transactions that meet all of the following three conditions:

1. Made under contracts with standard terms and conditions applied across the board to large numbers of clients;
2. Made at the general prices or rates established by the person supplying the good or service;
3. Made for a sum not exceeding 1% of the company's annual earnings.

The Board is recommended to make approval of related-party transactions dependent on a favourable report by the Audit Committee, or such other committee as may be assigned this duty.

Apart from not exercising or delegating their vote, the affected Directors shall leave the room during the corresponding discussion and voting by the Board.

It is recommended that these competences of the Board be non-delegable, except those contemplated in paragraphs b) and c), which may be adopted by the Executive Committee in an emergency, subject to subsequent ratification by the full Board.

Compliance

Partial Compliance

Explain

9.- The Board should have an adequate size to secure efficient, participative performance of its duties. The recommended size is between five and fifteen members.

Compliance

Explain

10.- Non-Executive Proprietary and Independent Directors should have an ample majority on the Board, while the number of Executive Directors should be kept to a minimum, taking account of their equity ownership and the complexity of the corporate group.

Compliance

Partial Compliance

Explain

11.- If any Non-Executive Director cannot be considered Proprietary or Independent, the company should explain this circumstance and his/her ties with the company or its executives, or with its shareholders.

Compliance

Explain

Not applicable

12.- Among the non-executive directors, the ratio of Proprietary to Independent Directors should reflect the proportion between capital represented and not represented on the Board. This strictly proportional distribution may be relaxed so that Proprietary Directors have a greater weight than that corresponding to the total percentage of capital they represent:

1. In companies with a high capitalisation with few or no shareholdings considered significant by law, but in which certain shareholders have interests with a high absolute value.
2. In companies with a plurality of unrelated shareholders represented on the Board.

Compliance

Explain

13.- The total number of Independent Directors should represent at least one-third of the total Directors.

Compliance

Explain

14.- The Board should explain the nature of each Director at the General Shareholders' Meeting at which an appointment is to be made or ratified. The type of director should be confirmed or altered, as the case may be, in the Annual Corporate Governance Report, following verification by the Nomination Committee. The reasons why Proprietary Directors have been appointed at the request of shareholders with an interest of less than 5% in the capital shall be explained in that Report, as well as the reasons, where appropriate, for not meeting formal requests for presence on the Board from shareholders with an interest equal or greater than others at whose request proprietary directors have been appointed.

Compliance

Partial Compliance

Explain

15.- reasons for this situation and the steps taken to correct it. In particular, when vacancies arise on the Board, the Nomination Committee should ensure that:

- a) There is no hidden bias against women candidates in the selection procedures;
- b) The company makes a conscious effort to include women with the target profile among the candidates.

Compliance Partial Compliance Explain Not applicable

At present there are no female directors on the Iberia Board. All Board members are selected objectively, in view of their prestige, expertise and professional experience, with no implicit bias in the selection procedure to hamper the appointment of women as directors.

IBERIA has had a female non-director Secretary of the Board since 2001. Her duties include, among others, ensuring compliance with good governance rules and recommendations.

16.- The Chairman, being responsible for the effective operation of the Board, should make sure that directors receive sufficient information in advance; stimulate debate and active participation by directors at all Board meetings, protecting their free stand and expression of opinion on any issues; and organise and coordinate periodic assessment of the Board, and the Managing Director or CEO, if any, with the chairmen of the principal committees.

Compliance Partial Compliance Explain

17.- When the Chairman of the Board is also the chief executive officer of the company, one of the Independent Directors should be authorised to request the calling of a Board meeting or the inclusion of new items on the agenda; coordinate and express the concerns of the Non-Executive Directors; and direct the assessment by the Board of its Chairman.

Compliance Partial Compliance Explain Not applicable

The company has not expressly authorised one of its Independent Directors to take these initiatives, although Article 9.1 of the Regulations of the Board does allow a minimum of four directors to request the calling of a Board meeting. Bearing in mind that there are five Independent Directors on the Board, this measure contemplated in the Board Regulations is an adequate counterweight for the powers of the Chairman/Chief Executive Officer.

18.- The Secretary of the Board should especially ensure that the Board's actions:

- a) Conform to the text and spirit of the laws and regulations, including those adopted by the market watchdogs;
 - b) Conform to the company's Bylaws and the Regulations of the General Meeting, the Board and any other internal regulations of the Company;
 - c) Take account of the good governance recommendations contained in this Unified Code endorsed by the company.
- To guarantee the independence, impartiality and professionalism of the Secretary, his/her appointment and removal should require a report by the Nomination Committee and approval by the full Board; and the procedure for appointment and removal should be set down in the Regulations of the Board.

Compliance Partial Compliance Explain

19.- The Board should meet as often as may be necessary to secure efficient performance of its duties, following the calendar and business established at the beginning of the year, although any director may propose other items not initially contemplated to be included on the agenda.

Compliance Partial Compliance Explain

20.- Non-attendance of Board meetings should be limited to inevitable cases and stated in the Annual Corporate Governance Report. If a director is forced to grant a proxy for any Board meeting, the appropriate instructions shall be issued.

Compliance Partial Compliance Explain

21.- When the Directors or the Secretary express concern over a proposal, or, in the case of Directors, the company's performance, those concerns should be put on record, at the request of those expressing them.

Compliance Partial Compliance Explain Not applicable

22.- The full Board should assess once a year:

- a) The quality and effectiveness of the Board's actions;
- b) Based on the report issued by the Nomination Committee, the performance by the Chairman of the Board and Chief Executive Officer of their respective duties;
- c) The performance of its Committees, based on the reports issued by each one.

Compliance Partial Compliance Explain

23.- All the Directors should be entitled to obtain such supplementary information as they may consider necessary on business within the competence of the Board. Save otherwise stipulated in the Bylaws or Board Regulations, their requests should be addressed to the Chairman or Secretary of the Board.

Compliance

Explain

24.- All Directors should be entitled to call on the company for specific guidance in the performance of their duties, and the company should provide adequate means for exercising this right, which in special circumstances may include external assistance, at the company's expense.

Compliance

Explain

25.- Companies should establish an induction programme to give new Directors a rapid, sufficient insight into the company and its rules on corporate governance. Directors should also be offered refresher courses in the appropriate circumstances.

Compliance

Partial Compliance

Explain

The different divisions of the company provide all new Directors with sufficient information to give them a rapid, sufficient insight into the company.

26.- Companies should require Directors to devote the necessary time and efforts to perform their duties efficiently. Accordingly:

a) Directors should inform the Nomination Committee of any other professional obligations they may have, in case they may interfere with the required dedication;

b) Companies should limit the number of directorships that its Directors may hold.

Compliance

Partial Compliance

Explain

All the Directors report promptly to the Nomination and Remuneration Committee on any other professional obligations they may have, their membership of other Boards and any conflicts of interest that may arise.

The Company has not considered it necessary to lay down any rules regarding the number of directorships of its Directors.

27.- Proposals for the appointment or re-appointment of Directors submitted by the Board to the General Shareholders' Meeting and the provisional appointment of Directors by cooptation should be approved by the Board:

a) At the proposal of the Nomination Committee, in the case of Independent Directors.

b) Subject to a report by the Nomination Committee for other Directors.

Compliance

Partial Compliance

Explain

28.- Companies should publish on their web sites and regularly update the following information on their directors:

a) Professional and biographical profile;

b) Other directorships held, in listed or unlisted companies;

c) Type of Director, indicating in the case of Proprietary Directors the shareholders they represent or are related with.

d) Date of first and subsequent appointments as company Director; and

e) Company shares and stock options held.

Compliance

Partial Compliance

Explain

29.- Independent Directors should not remain on the Board as such for more than 12 years in succession.

Compliance

Explain

30.- Proprietary Directors should resign when the shareholder they represent disposes of its entire shareholding in the company. They should also resign in the corresponding number when the shareholder disposes of part of its shares to an extent requiring a reduction in the number of Proprietary Directors.

Compliance

Partial Compliance

Explain

31.- The Board should not propose the removal of any Independent Director before the end of the period for which he or she was appointed, unless there are just grounds for doing so, as appreciated by the Board subject to a report by the Nomination Committee. Just grounds are deemed to exist when the director has acted in breach of his duties or when he or she falls into any of the circumstances described in point III.5, definitions, of this Code.

The removal of Independent Directors may also be proposed as a result of takeover bids, mergers or similar corporate operations producing a change in the capital structure of the company, whenever those changes in the structure of the Board correspond to the principle of proportionality established in Recommendation 12.

Compliance Explain

32.- Companies should establish rules obliging Directors to report and, if necessary, resign in any cases that may jeopardise the company's reputation. In particular, Directors should be obliged to inform the Board of any criminal proceedings brought against them and the subsequent development of the proceedings.

If a Director is tried for any of the offences contemplated in section 124 of the Corporations Act, the Board should study the case as soon as possible and, in view of the specific circumstances, decide whether or not the Director should remain in office. A reasoned account should be included in the Annual Corporate Governance Report.

Compliance Partial Compliance Explain

33.- All the Directors should clearly express their opposition whenever they consider that any proposed decision submitted to the Board may go against corporate interests. The Independent and other Directors not affected by the potential conflict of interest should also do so when the decisions may be detrimental to shareholders not represented on the Board.

And when the Board adopts significant or reiterated decisions regarding which a Director has expressed serious reservations, the latter should reach the appropriate conclusions and, if he or she opts to resign, explain the reasons in the letter contemplated in the following recommendation. This recommendation also affects the Secretary of the Board, even if he or she is not a Director.

Compliance Partial Compliance Explain Not applicable

34.- If a Director resigns or retires from office on whatsoever other grounds before the end of his or her term of office, he or she should explain the reasons in a letter sent to all the Board members. Regardless of whether the retirement is announced as a significant event, the reason shall be indicated in the Annual Corporate Governance Report.

Cumple Partial Compliance Explain Not applicable

35.- The remuneration policy approved by the Board should regulate at least the following aspects:

a) Amount of fixed items, specifying the amount of attendance fees, if any, for Board and Committee meetings and estimating the fixed remuneration for the year;

b) Variable pay items, including, in particular:

I) Types of Director to which they are applicable and an explanation of the relative weight of the variable pay items to the fixed items;

II) Criteria for assessment of results on which any right to remuneration in shares, stock options or any other variable component is based;

III) Essential parameters and basis for any system of annual bonus payments or other non-cash benefits;

IV) An estimate of the aggregate sum of variable remunerations deriving from the proposed remuneration plan, according to the degree of fulfilment of the reference hypotheses or objectives.

c) Principal terms of the welfare schemes (e.g. supplementary pensions, life assurance and similar), estimating the amount or equivalent annual cost.

d) Conditions to be respected in top management and Executive Director contracts, including:

I) Term;

II) Notice; and

III) Any other clauses concerning golden hellos or golden parachutes for early termination of the contractual relationship between the company and the Executive Director.

Compliance Partial Compliance Explain

36.- Remunerations in the form of shares in the company or group companies, stock options or instruments linked to the value of the share, variable remuneration linked to the company's performance or welfare schemes should be limited to Executive Directors.

This recommendation shall not be applicable to the delivery of shares when subject to the condition that the Directors keep them up to their retirement from the Board.

Compliance Explain

37.- The remuneration of Non-Executive Directors should be sufficient to remunerate their dedication, qualifications and responsibilities, but not so high as to compromise their independence.

Compliance Explain

38.- Earnings-linked remuneration should take account of any qualifications in the external auditor's report that may reduce such earnings.

Compliance Explain Not applicable

39.- In the case of variable remuneration, the pay policies should contemplate such precautions as may be necessary to ensure that such remuneration is related to the professional performance of its beneficiaries, not merely deriving from general trends on the markets or in the company's sector of business or other similar circumstances.

Compliance Explain Not applicable

40.- The Board should submit to an advisory vote at the General Shareholders' Meeting, as a separate item on the agenda, a report on the directors' remuneration policy. This report should be made available to shareholders, as a separate document or in whatsoever other form the company may deem fit.

The report should focus especially on the remuneration policy approved by the Board for the current year and that established, if any, for future years. It shall address all the issues contemplated in Recommendation 35, except those points that could entail disclosure of commercially sensitive information. It shall stress the most significant changes in such policies in respect of that applied during the previous year to which the General Meeting refers. It shall also include a global summary of implementation of the remuneration policy in the previous year.

The Board should also inform on the role played by the Remuneration Committee in defining the remuneration policy and, if external assistance has been used, the identity of the external advisers who provided such assistance.

Compliance Partial Compliance Explain

Shareholders and investors are issued with the Corporate Governance Report, which informs amply on the directors' emoluments, each year at the Annual General Meeting.

41.- The individual remunerations of directors during the year shall be disclosed in the Annual Report, including following details:

a) Breakdown of the remuneration of each director, including, where applicable:

- I) Attendance fees and other fixed sums payable to directors;
- II) Additional compensation for being Chairman or member of one of the Committees of the Board;
- III) Payments made under profit-sharing or bonus schemes and the reasons for their accrual;
- IV) Contributions on behalf of the director to defined-contribution pension schemes; or increase in the director's vested rights in contributions to defined-benefit schemes;
- V) Any indemnities agreed or paid upon termination of their duties;
- VI) Compensation received as director of other group companies;
- VII) Remuneration received by Executive Directors as payment for their senior management duties;
- VIII) Any sums paid other than those listed above, regardless of the nature or the group company paying them, especially when it may be considered a related-party transaction or omission would distort the true and fair view of the total remuneration received by the Director.

b) Breakdown for each director of any deliveries of shares, stock options or whatsoever other instrument linked to the value of the company's share, specifying:

- I) Number of shares or options granted during the year and conditions for exercising the options;
- II) Number of options exercised during the year, indicating the corresponding number of shares and the exercise price;
- III) Number of options pending exercise at year end, indicating their price, date and other conditions for exercise;
- IV) Any modification during the year of the conditions for exercising options granted earlier.

c) Information on the ratio during the previous year of remuneration received by the Executive Directors and the company's profits or any other measure of its earnings.

Compliance Partial Compliance Explain

The company provides detailed information in its Annual Corporate Governance Report on directors' remuneration, according to the following principles:

- **Payments corresponding to directors as members of the Board** (fixed payments, attendance fees, payment in kind, insurance, etc.).
- **Remuneration by types of Director.** Since there is only one Executive Director at present, the Chairman, his compensation as company director is stated individually.
- **Remuneration of Executive Directors for their duties as Senior Officers of the company:** there is only one Executive Director, the Chairman, so the information on his remuneration as senior officer of the company is stated individually.

42.- When there is an Executive Committee, the balance between the different types of Director should roughly mirror that of the Board. The Secretary of the Board should be Secretary of the Executive Committee.

Compliance

Partial Compliance

Explain

Not applicable

43.- The Board should be informed at all times of the business transacted and decisions made by the Executive Committee and all Board members should receive a copy of the minutes of Executive Committee meetings.

Compliance

Explain

Not applicable

44.- In addition to the Audit Committee which is mandatory under the Securities Market Act, the Board shall set up a Nomination and Remuneration Committee, or two separate Committees.

The rules on composition and procedure of the Audit Committee and the Nomination and Remuneration Committee or Committees should be set out in the Regulations of the Board, including the following:

a) The Board should appoint the members of these Committees, taking account of the directors' knowledge, expertise and experience and the duties corresponding to each Committee and discuss their proposals and reports. The Committees should report to the Board on their actions at the first full Board meeting after each Committee meeting, being accountable for the work done.

b) These Committees should have a minimum of three members, who should be exclusively Non-Executive Directors. This notwithstanding, Executive Directors or senior officers may attend their meetings when expressly so decided by the Committee members.

c) The Committees should be chaired by Independent Directors.

d) They may obtain external assistance whenever this is considered necessary for the performance of their duties.

e) Minutes should be issued of Committee meetings and a copy sent to all members of the Board.

Compliance

Partial Compliance

Explain

45.- The Audit Committee, Nomination Committee or, if separate, the Compliance or Corporate Governance Committee(s) should be responsible for overseeing compliance with internal codes of conduct and corporate governance rules and regulations.

Compliance

Explain

46.- All members of the Audit Committee, particularly its Chairman, should be appointed in view of their knowledge of and experience in accounting, auditing or risk management.

Compliance

Explain

47.- Listed companies should have an internal audit department, supervised by the Audit Committee, to guarantee the effectiveness and efficiency of the internal reporting and control systems.

Compliance

Explain

48.- The chief audit officer should submit an annual work programme to the Audit Committee, reporting directly on any irregularities arising during its implementation and submitting an activity report at each year end.

Compliance

Partial Compliance

Explain

49.- The risk management and control policy should define at least:

a) The different types of risk (operating, technological, financial, legal, reputational...) to which the company is exposed, including under financial or economic risks any contingent liabilities or other off-balance-sheet exposure;

b) The level of risk that the company considers acceptable;

c) The measures envisaged to soften the effects of the risks identified, should they materialise;

d) The internal reporting and control systems to be used to control and manage those risks, including contingent liabilities or off-balance-sheet risks.

Compliance

Partial Compliance

Explain

50.- The Audit Committee should:

1. In connection with the internal reporting and control systems:

a) Supervise the preparation and integrity of the financial information on the company and, where appropriate, the group, checking for compliance with applicable legal provisions, adequate definition of the consolidated group and correct application of accounting standards.

b) Check internal control and risk management systems on a regular basis to ensure that the principal risks are adequately identified, managed and disclosed.

c) Oversee the independence and effectiveness of the internal audit department; propose the nomination, appointment, reappointment and removal of the chief audit officer; propose the budget for this department; receive periodical information on its activities; and check that the top management heeds the conclusions and recommendations set out in its reports.

d) Establish and supervise a “whistle-blowing” procedure so employees can confidentially or, where appropriate, even anonymously report any irregularities they observe in the company's conduct., especially in financial and accounting aspects.

2. In connection with the external auditor:

a) Submit proposals to the Board on the nomination, appointment, reappointment and replacement of the external auditor and its terms of engagement.

b) Receive regular information from the external auditor on the audit plan and findings and make sure the senior management acts on its recommendations.

c) Guarantee the independence of the external auditor, and for this purpose:

I) The company should inform the CNMV as a significant event whenever the auditor is changed, attaching a declaration on any disagreements that may have arisen with the outgoing auditor and their content, if any.

II) The company and the auditor should be ensured to respect all rules and regulations in place regarding the provision of services other than auditing services, limits on concentration of the auditor's services and any other rules established to guarantee the auditors' independence;

III) Investigate the circumstances giving rise to resignation of any external auditor.

d) In groups, encourage the auditor of the group to audit the group companies.

Compliance

Partial Compliance

Explain

This recommendation is complied with, except regarding the existence of a whistle-blowing procedure, which has not been considered necessary.

51.- The Audit Committee may call any employee or executive of the company into its meetings, even ordering their appearance without the presence of any other senior officer.

Compliance

Explain

52.- The Audit Committee should report to the Board on the following matters from Recommendation 8 before the latter adopts the corresponding decisions:

a) The financial information that listed companies are obliged to disclose periodically. The Committee shall ensure that intermediate financial statements are drawn up under the same accounting principles as the annual statements, requesting a limited external audit if necessary.

b) Creation or acquisition of shares in special purpose vehicles or companies domiciled in countries or territories which are considered tax havens, and any transactions or operations of a similar nature which could, by virtue of their complex structure, impair the group's transparency.

c) Related-party transactions, unless this prior reporting duty has been assigned to another supervision and control committee.

Compliance

Partial Compliance

Explain

53.- The Board should endeavour to avoid a qualified auditor's report on the accounts laid before the General Meeting, and in exceptional circumstances when such qualifications exist, both the Chairman of the Audit Committee and the auditors shall clearly explain to the shareholders their content and scope.

Compliance

Partial Compliance

Explain

54.- The majority of the members of the Nomination Committee – or Nomination and Remuneration Committee if there is just one – should be Independent Directors.

Compliance

Explain

Not applicable

The Nomination and Remuneration Committee consists of four Directors, two Proprietary and two Independent. This composition is considered adequate to guarantee the effectiveness of the Committee.

55.- Apart from the duties specified in preceding Recommendations, the Nomination Committee should:

a) Assess the expertise, knowledge and experience of Board members; define the duties and skills required of candidates to fill vacancies; and determine the time and dedication considered necessary for them to adequately perform their duties.

b) Study or organise as appropriate the succession of the Chairman or Chief Executive Officer and, if necessary, make recommendations to the Board to secure an orderly, well-planned handover.

c) Report on any appointments and removals of senior officers proposed by the Chief Executive Officer.
d) Report to the Board on the gender issues contemplated in Recommendation 14.

Compliance

Partial Compliance

Explain

Not applicable

56.- The Nomination Committee should consult the Chairman and Chief Executive Officer, especially on matters concerning Executive Directors.

And any Director may request the Nomination Committee to consider potential candidates they consider suitable to fill vacancies on the Board.

Compliance

Partial Compliance

Explain

Not applicable

57.- Apart from the duties indicated in the preceding Recommendations, the Remuneration Committee should:

a) Submit proposals to the Board on:

I) The remuneration policy for directors and senior officers;

II) The individual remuneration of Executive Directors and other terms of contract;

III) The basic conditions of senior executive contracts.

b) Ensure compliance with the pay policy established by the company.

Compliance

Partial Compliance

Explain

Not applicable

58.- The Remuneration Committee should consult the Chairman and Chief Executive Officer, especially on matters concerning Executive Directors.

Compliance

Explain

Not applicable

ACTIVITY REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF THE BOARD OF DIRECTORS OF IBERIA, L.A.E., S.A.

I.- REGULATION

In response to the growing demands regarding Corporate Governance, the Bylaws of IBERIA, L.A.E., S.A., approved in April 2001, contemplated the creation of an Audit and Compliance Committee to assist the Board of Directors in supervising the financial statements and the control of the company. The Board created the Audit and Compliance Committee on 5 April 2001, consisting exclusively of Non-Executive Directors. It was set up as an internal consultative body of the Board, without executive duties but with powers of information, advice and proposal.

On 28 February 2002, the Board approved the Regulations of the Audit and Compliance Committee, setting out the principles of the Committee's actions and the basic rules of organisation and procedure.

Subsequently, the entry into force of the Financial System (Reform Measures) Act 44/2002 of 22 November 2002 ("Finance Act") made it compulsory for listed companies to have Audit Committees and laid down the basic duties of that Committee.

IBERIA then had to adapt its Bylaws to the new requirements stipulated in the Finance Act for the Audit and Compliance Committee. This was accomplished at the Annual General Meeting (AGM) held on 12 June 2003, at which shareholders resolved to alter Articles 53 and 54 of the Bylaws and extend the Committee's duties. After altering the Bylaws and upon recommendation by the Audit and Compliance Committee, the Board resolved on 24 July 2003 to adapt the Internal Regulations of the Audit and Compliance Committee. These internal regulations are available for shareholders and investors on the company's web site (www.iberia.com).

Finally, towards the end of 2003, the Board of Directors of IBERIA decided to increase the importance of its Audit and Compliance Committee, following the recommendations of good governance and in keeping with the self-assessment made by the Committee after two years' experience. Accordingly, the Board resolved to raise the number of Committee members from three to four, all Non-Executive Directors, and the Committee decided to increase the intensity of its work.

II.- COMPOSITION

The Audit and Compliance Committee will have no fewer than three nor more than five members, the exact number to be decided by the Board from time to time.

The Board appoints the Non-Executive Directors who are to sit on the Audit and Compliance Committee, upon recommendation by the Nomination and Remuneration Committee. A reasonable balance must be maintained between Domanial and Independent Directors. The members of the Audit and Compliance Committee must have the necessary devotion, capacity and experience to be able to perform their duties as such.

The Board is also responsible for removing members of the Audit and Compliance Committee, who are in any case obliged to step down when they retire from the Board. Any vacancies will be filled by the Board as promptly as it is reasonably able.

The Chairman and Secretary of the Committee will be appointed by the Board, on the basis of a report issued by the Nomination and Remuneration Committee. According to the Regulations of the Audit and Compliance Committee, the Secretary of the Board will necessarily be the Committee Secretary.

A quorum of two-thirds of the members of the Board is required to appoint the Chairman, with the favourable vote of at least two-thirds of the directors. The Chairman may remain in office for a maximum of four years and may not be re-elected chairman until at least one year after his retirement from office.

In the event of a vacancy, absence or illness, the Chairman will be substituted by the oldest member of the Committee present, while the substitute for the Secretary, if necessary, will be the youngest member.

In May 2005, the composition of all the consultative committees, including the Audit and Compliance Committee, was modified to rotate other Non-Executive Directors in the position of Chairman of the different Committees, who had been in office for 4 years, and to renew part of their members.

As a result, the composition of the Audit and Compliance Committee at 31 December 2007 was as follows:

Position	Members	Type of director
Chairman	Mr. Gregorio Villalabeitia Galarraga	Non-Executive Domanial
Members	Mr. Antonio Vázquez Romero	Non-Executive Domanial
	Mr. José Pedro Pérez-Llorca	Non-Executive Independent
Secretary	Mr. Antonio Masa Godoy	Non-Executive Independent
	Mrs. Lourdes Máiz Carro	Secretary of the Board

However, at the date of preparing this report, the composition of the Audit and Compliance Committee has changed, following the reshuffle of all the Board Committees, as decided by the Board on 23 January 2008. This entailed the renewal of all the members of the Audit and Compliance Committee, all being Non-Executive Directors, appointing an Independent Director Chairman of the Committee in compliance with the corporate governance recommendations.

Consequently, the current composition of the Audit and Compliance Committee is as follows:

Position	Members	Type of director
Chairman	Mr. José Manuel Fernández Norriella	Non-Executive Independent
Members	Mr. José B. Terceiro Lomba	Non-Executive Independent
	Mr. Alberto Recarte García-Andrade	Non-Executive Domanial
Secretary	Mr. Jorge Pont Sánchez	Non-Executive Dominical
	Mrs. Lourdes Máiz Carro	Secretary of the Board

III.- POWERS AND DUTIES

The main duty of the Audit and Compliance Committee is to assist the Board in its watchdog duties through the regular checking of compliance with legal provisions and internal regulations applicable to the company in respect of the financial statements and good governance.

Without prejudice to any others assigned by the Board, the Audit and Compliance Committee will study, review and report on the following matters:

- a) Report at General Meetings on any issues within its sphere of competence raised by shareholders.
- b) Propose to the Board, to be submitted to the General Meeting, the appointment of external auditors, terms of contract, scope of their commission and, where appropriate, their removal or non-reappointment. Oversee fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual accounts and main contents of the auditors' report are clear and precise.
- c) Keep in contact with the auditors to receive information on any issues that could jeopardise their independence and any other issues relating to the auditing of accounts, and to receive the information and exchange the communications contemplated in auditing laws and standards.
- d) Act as a liaison between the Board and the auditors, assess the results of each audit and the response by the management team to their recommendations, and intervene in the event of discrepancies between the auditors and the Board concerning the principles and criteria applicable in the preparation of the financial statements.
- e) Check the company's accounts, ensure compliance with all legal requirements and correct application of the generally accepted accounting principles.
- f) Watch over the internal financial control manuals and procedures adopted by the company, ensure compliance and oversee the appointment and replacement of those responsible for them.
- g) Supervise the internal audit department, if any, of the company.
- h) Check compliance with the Internal Code of Market Conduct, the Internal Regulations of the Audit and Compliance Committee and, in general, the rules of governance of the company and make whatever proposals may be necessary to improve them. In particular, the Audit and Compliance Committee must receive information and, where appropriate, issue reports on disciplinary measures against senior executives of the company.
- i) Consider the suggestions submitted by the Chairman, members of the Board, senior executives or shareholders of the company and inform and submit recommendations to the Board on the measures it considers appropriate in respect of auditing and any other activities assigned to it, and on compliance with the applicable legal provisions on reporting to the markets and transparency and accuracy of the information given.

In particular, the Internal Regulations of the Audit and Compliance Committee specifically stipulate that the Committee is to ensure prompt fulfilment of the prevailing instructions on the reporting of significant events, in pursuance of the Internal Code of Market Conduct. It must also recommend such measures as it may deem fit so that the quarterly, half-year and annual reports and any other financial information to be made available to the markets are drawn up following the same principles and professional practices as those used for preparing the annual accounts and that they are equally reliable. The Audit and Compliance Commission will also propose whatever actions and measures it may consider necessary to guarantee the company's transparency for the financial markets, ensure the free, unadulterated forming of share prices of the company and its subsidiaries, supervise the regular publishing of financial reports and perform any other duties that may be required of listed companies.

IV.- PRACTICE AND PROCEDURE

The Audit and Compliance Committee must meet regularly at least once every three months, and whenever else it may be called by its Chairman, on his own initiative or at the request of two or more of its members. It will also meet whenever the Board requests the issuing of reports, submission of proposals or adoption of resolutions within the scope of its duties.

Committee meetings will normally be called by the Chairman, who will draw up the agenda and direct the debates. The agenda must be included in the notice of call and any relevant information must be attached, adequately summarised and prepared to enable the Committee members to perform their duties. Meetings may also be held without prior call, provided all the members are present and unanimously agree to assemble in a Committee meeting.

Meetings of the Audit and Compliance Committee will normally be held at the registered office of the company, although they may also be held anywhere else decided by the Chairman and stated in the notice of call.

The Committee will dispatch the issues on the agenda and any others decided by the Chairman or proposed by the majority of the members present or represented, even if they are not included on the agenda.

The resolutions adopted by the Audit and Compliance Committee within the scope of its duties of informing, advising and proposing are valid without requiring subsequent ratification by the Board, although the Committee must report at the next succeeding Board meeting on all business transacted and decisions adopted at each Committee meeting.

Committee members are fully authorised to obtain information on any aspect of the company, examine its books, registers and documents and inspect all its installations and premises whenever this is considered necessary to fulfil their duties and obligations.

The Audit and Compliance Committee may also request the attendance of its meetings by the company's auditors, any member of Management or any other employee, who will be obliged to attend and collaborate, providing all requested information whenever possible.

The Committee may also propose to the Board the contracting by the company of any legal, accounting, technical, financial, commercial or other advisers it may consider necessary to assist it in the performance of its duties whenever it has to deal with specific major or complex problems.

The powers contemplated in the preceding two paragraphs will be exercised through the Chairman or Secretary of the Board, who will meet the requests of the Committee, directly providing the necessary information, offering the appropriate contacts, or taking such measures as may be necessary to secure the information requested or the collaboration of the appropriate advisers.

V.- ACTIVITIES IN 2007

The Audit and Compliance Committee held eleven meetings in 2007.

Committee meetings are regularly attended by the managers of the accounting and internal auditing departments, and any other company executives responsible for the business included on the agenda whenever considered necessary by the Chairman of the Committee. The Secretary of the Board and the Committee is responsible for overseeing compliance with the rules and recommendations on corporate governance. The afore-mentioned executives have provided the Committee with adequate information on the issues to be dispatched.

Most Committee meetings are also attended by the company's external auditors, whose relations with the Board are channelled through the Audit and Compliance Committee.

Financial Information

The Committee has been particularly engaged in checking the annual accounts of the company and its group before they are officially drawn up by the Board. The Control and Administration Manager, who is responsible for the company's accounting and bookkeeping, has provided the Committee with timely information, through documents and meetings, on the preparation and consolidation of the financial statements and individual and consolidated annual accounts, to enable the Committee to check compliance with the applicable accounting principles and standards and that those accounts and statements give a true and fair view of the financial position and net worth of the company and its group.

At meetings held in the first quarter of 2007, the Committee examined the 2006 financial statements of the company, assisted by the auditors, and resolved to submit to the Board in March the draft balance sheet, profit and loss account, notes to the accounts and directors' report for 2006 of IBERIA, L.A.E., S.A. and its Consolidated Group, to be formally drawn up by the Board, together with the proposal for application of profits, to be laid before the AGM on 30 May 2007.

As a result of the company's rigorous preparation of its financial statements and scrupulous compliance with the applicable accounting standards and principles, the auditors have issued an unqualified report, indicating that the accounts give a true and fair view of the real situation of the company, contain all necessary information for an adequate comprehension thereof, clearly explain any contingencies and were prepared in accordance with the general accepted accounting principles and standards.

After examining the corresponding documents at several meetings held during 2007 and 2008, assisted by the company's auditors, the Committee resolved to submit the balance sheet, profit and loss account, notes to the accounts and directors' report of IBERIA, L.A.E., S.A. and its Consolidated Group for 2007 to the Board. The auditors' report on these accounts was, once again, unqualified.

In February and March 2007, the Committee analysed the Annual Report on Corporate Governance and Corporate Social Responsibility Report for 2006, expressing a favourable opinion on both these reports.

Auditor de Cuentas

In March 2007, the Committee proposed reappointing the company's external auditors (Deloitte&Touche), whose previous term of appointment expired in 2007. The Board resolved to submit this proposal to the AGM held on 30 May 2007, which approved their reappointment for one year.

The Committee held six meetings with the auditors during 2007, during which it obtained detailed information on the planning and progress of their work. It also made a thorough analysis, jointly with the auditors, of their audit report on the 2006 and 2007 accounts.

The fees for audits made by Deloitte&Touche of the company and group accounts amounted to **€497,000**. The fees for other professional services provided for IBERIA by the main auditors and related firms during the period are stated in the Annual Report 2007. Those professional services do not conflict with the general auditing duties and the rules on incompatibility established in the Finance Act have been strictly heeded. The services in question consisted mainly of counselling on updating the application of international accounting standards (IAS), the progress of the new National Chart of Accounts and auditing of the financial statements corresponding to the consumption of oil products in 2007. The non-audit work was done by a different partner to the one responsible for the audit.

2007	Iberia, L.A.E.	Other companies in the IBERIA Group	Total
Fees charged for non-audit work (€ thousand)	119	–	119
Fees for non-audit work / Total invoiced by auditors (%)	20.8	–	19.3

The Audit and Compliance Committee considers that there are no objective reasons to question the independence of the company's external auditors.

Internal Audit Department

In December 2003, upon recommendation by the Audit and Compliance Committee, the structure and duties of the internal audit department were reorganised to give it greater weight within the organisation, making the department manager directly accountable to the company Chairman.

The Internal Audit Regulations were approved in May 2004, defining the internal audit function as an independent, objective control and advisory activity, designed to add value and improve the company's operations, helping it to meet its strategic objectives through a systematic, disciplined approach. This is achieved by assessing and improving the efficiency of risk management and internal control processes and corporate governance, in collaboration with the Secretary of the Board.

The Internal Audit and Quality Manager has attended four meetings of the Audit and Compliance Committee, at which he submitted the updated Risk Map of the company and the Risk Management Procedure, reported on fulfilment of the 2006 Audit Plan and presented the Audit Plan for 2007.

The Annual Audit Plan includes the following activities, among others:

- Review of the different areas of the company to ensure that they are complying with the applicable internal regulations and procedures.
- Checking and analysis of the internal accounting and operations control systems.
- Review of the control procedures designed to protect the company's assets.
- Pinpointing of room for improvement, if detected during routine audits.
- Oversight of compliance with internal corporate governance rules and regulations.

Compliance with the corporate governance rules

The Committee permanently checks compliance with the rules and recommendations on corporate governance, making whatever suggestions it considers necessary.

During 2005 electronic voting and proxies were introduced for General Meetings. In view of the extensive use thereof by shareholders, this electronic voting and proxy system was made available once again for the AGMs 2006 and 2007.

The Committee has also studied the Unified Code of Good Governance, with a view to adjusting company practices to its recommendations. As a result of this study and following a proposal by the Nomination and Remuneration Committee, the Board amended its Regulations in February 2007 to adjust them to those recommendations.

The Committee considers that the degree of compliance by the Company with the rules and recommendations on good governance is very high.

This Report was unanimously approved by the Audit and Compliance Committee on 27 February 2008.

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B-23.958-2008