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“ Management transparency in corporate governance is much more than a highly useful tool for a company's internal management; above all, it is an obligation towards shareholders, employees, suppliers and customers. ”

CORPORATE GOVERNANCE REPORT.

The regulations and governance practices of the board of directors of Iberia, L.A.E. are in line with the latest recommendations published regarding the good governance of companies aimed at improving the transparency of its corporate governance. The board has resolved to provide the shareholders with this report on the company's governance procedures, which shows how IBERIA complies with such requirements to a great extent. The board of directors has carried out its activity responsibly and effectively, watching over the company's interests and adopting all the decisions needed to ensure the viability and competitiveness of the company in the medium and long term.

A) THE COMPANY'S OWNERSHIP STRUCTURE.

On December 31, 2002, the structure of IBERIA's capital was as follows:

ON DECEMBER 31, 2002

Shareholders	Number of Shares	% of Capital
Caja de Ahorros y Monte de Piedad de Madrid (CAJA MADRID)	91,290,716	10.00 %
British Airways and American Airlines Holdings B.V.	91,296,204	10.00 %
Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)	85,918,876	9.41 %
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.	27,404,254	3.00 %
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (IBERCAJA)	3,231,693	0.35 %
Caja de España de Inversiones	1,984,891	0.22 %
Caja Castilla- La Mancha	1,539,009	0.17 %
Caja de Ahorros y Monte de Piedad de Ronda, Cádiz, Almería, Málaga y Antequera (UNICAJA)	991,763	0.11 %
Caja de Ahorros de Murcia	1,000,000	0.11 %
Caja de Ahorros y Monte de Piedad de Huelva y Sevilla	991,763	0.11 %
Sociedad Estatal de Participaciones Industriales (SEPI)	49,212,526	5.39 %
The rest	469,548,345	51.43 %
TOTAL IBERIA SHARES	912,962,035	100.00 %

With regards to the controlling shareholders, we should highlight the fact that – in accordance with that stated in the verified prospectus recorded in the Official Registry of the Spanish Securities and Exchange Commission dated March 16, 2001 for the purpose of selling SEPI's holding – on March 17, 2000, by means of the public authorization of a private share purchase agreement, Caja Madrid, BBVA, El Corte Inglés, Logista, Participaciones Aeronáuticas and BA & AA Holdings Limited took a holding in IBERIA's capital. By purchasing 40% of the Company's capital they became the so-called Stable Core Shareholders as they acquired the following commitments to remain shareholders of the company from SEPI:

- Caja Madrid: a minimum term of six years,
- BBVA: a minimum term of five years,
- Logista: a minimum term of five years,
- El Corte Inglés: a minimum term of five years,
- Participaciones Aeronáuticas: a minimum term of three years and
- BA & AA Holdings Limited: a minimum term of three years

For the stated period of years, the aforementioned shareholders undertake not to assign, dispose of or transfer the acquired shares to any third party except for companies in their respective groups.

Participaciones Aeronáuticas, S.A. sold its holding in IBERIA's stock capital to the following companies, which as a result are obliged by the commitments undertaken by Participaciones Aeronáuticas in the purchase agreement and act jointly as part of Grupo Ahorro Corporación.

- 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.

Moreover, BA & AA Holdings Limited sold British Airways and American Airlines Holdings BV its stake in IBERIA. The acquiring company is thus obliged by the commitments undertaken by the transferring company.

The Stable Core Shareholders signed a shareholders' agreement on December 15, 1999, which regulates the relations between them for the purpose of creating a stable core of IBERIA shareholders involved in managing the company for the purpose of making the management criteria consistent and in order to make the Company stable in the medium and long term, all in defense of the company's interests. In order to do this, a syndicate of shareholders was set up including the holding of the Industrial Partner (British Airways and American Airlines Holdings BV) and the Institutional Shareholders.

The syndicated shares are the shares that were owned by the Stable Core Shareholders at the time of the agreement and added up to 40% of the whole, so the agreement does not apply to the additional IBERIA shares that such shareholders may have acquired subsequently, except for those acquired by means of exercising the pre-emptive subscription right or the pre-emptive acquisition right stipulated in the shareholders' agreement itself.

For these purposes, the shares owned by the Stable Core Shareholders covered by the agreement were as follows:

STABLE CORE SHAREHOLDERS		
Shareholders	Number of Shares	% of Capital
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	1,984,891	0.22 %
Caja Castilla- La Mancha	1,489,009	0.16 %
Caja de Ahorros y Monte de Piedad 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 STABLE CORE	365,162,865	40.00 %

The shareholders have also undertaken to act jointly in the event of the acquisition of new shares making it necessary to launch a takeover bid.

The agreement will be regarded as immediately terminated and null and void if:

- British Airways and American Airlines Holdings BV lowers its stake in IBERIA to less than 7% or the percentage that matches the arithmetical average of the shareholding percentages held by the other Shareholders subject to the agreement, or
- all the parties to the agreement so agree in writing.

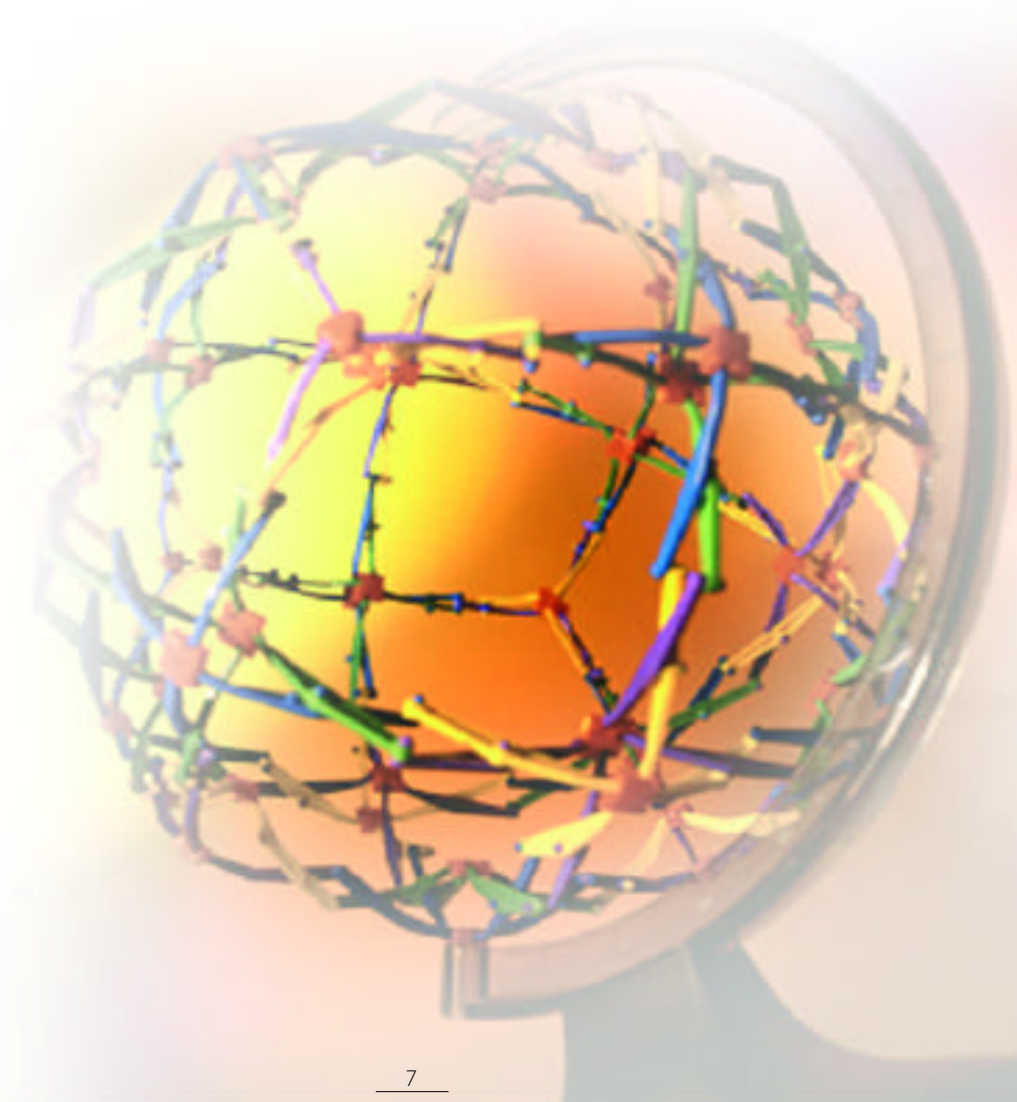
The issues that must be dealt with in the board of directors, in the Board's Committees and in the General Shareholders Meeting are discussed in the syndicate's meetings. The syndicated shareholders undertake to vote the same way in the competent bodies of IBERIA as decided in the syndicate's meeting.

By virtue of that set forth in the shareholders' agreement, the syndicated shares may not be sold within three years of acquiring them. This restriction does not apply to the syndicated shares' subscription rights. The rest of the shareholders that belong to the syndicate hold a pre-emptive acquisition right and once this three-year period has elapsed, if a shareholder wishes to sell its shares, the shares may only be transferred to a third party if such pre-emptive acquisition right is not exercised. The pre-emptive acquisition right is also applicable to sales between syndicate members and any other legal transaction that involves a third party acquiring the voting rights of the syndicated shares.

If the person or company that acquires or intends to acquire (acting directly or indirectly or jointly with a third party) a share package of at least 3.5% from a vendor shareholder (in one or several tranches within a twelve-month period) it or, as applicable, any of the other shareholders that acquire all or part of the shares (with no minimum amount), must undertake to accept all the terms and conditions of the agreement in the legal position of the vendor shareholder in relation to the shares offered.

The agreement between the Stable Core Shareholders of IBERIA contains a set of guarantees to avoid possible conflicts of interest. In any case, if it is determined that one or several of the shareholders has a conflict of interest, such shareholders must abstain from voting on such issue.

The rest of the terms of the agreement can be accessed by the public due to being recorded in the Official Registry of the Spanish Securities and Exchange Commission.



B) THE COMPANY'S MANAGEMENT STRUCTURE.

I.- BOARD OF DIRECTORS.

The basic principles that govern the actions of the board of directors are effectiveness, transparency and responsibility, the main aim being to increase the value of the company in the interests of the shareholders, supervising the performance of the business activity and ensuring the company's future viability and competitiveness, in all cases following the laws in force and in accordance with the values and generally accepted conduct criteria.

The composition and rules for the governance of Iberia, L.A.E. are set forth in its By-Laws, the Regulations of its board of directors, approved in the board meeting dated March 9, 2001, and the Internal Code of Conduct for matters concerning the stock market that has been in force since the same date.

The Regulations of the board of directors are in line with the recommendations of the so-called "Code of Good Governance of the board of directors" approved by the Special Commission for the Ethical Study of the Boards of Directors of listed companies (known as the "Olivencia Report"). Their purpose is to determine the action principles for the company's governing body, the basic rules for its organization and operation and the code of conduct for its members and the company's senior managers, as well as its supervision and control system.

The Internal Code of Conduct for issues concerning the stock market, applicable to the members of the board of directors, the members of the Management Committee and the rest of the company's personnel that, due to their work, post or duties have access to privileged information, rounds off the foregoing regulations and sets out the duties and obligations in relation to taking action in organized markets and, especially, those concerning the use of privileged information and transactions involving the company's own shares.

Within this general framework, the board of directors essentially focuses its activity on supervising and controlling the company's ordinary management and, in particular, undertakes to directly exercise the following responsibilities:

- a) approval of the company's general strategies, plans and policies;
- b) appointing, remunerating and, as applicable, dismissing the company's senior managers, as well as controlling and assessing their management activity;
- c) approving the policy regarding treasury stock;
- d) pinpointing the company's main risks and, especially, implementing and monitoring the appropriate internal control and information systems;
- e) determining the policy for notifying and communicating with shareholders, the markets and public opinion;
- f) in general, transactions that involve the disposal of substantial assets of the company and large company transactions, as well as all those specifically set out in the Regulations.

The board of directors is made up of twelve Directors, all experienced people with a proven career. They comply with the statutory requirements of holding at least 400 shares in the company, which they may not transfer while they are in the post. The Board is assisted by the Non-Executive Secretary of the Board. The composition of the Board is as follows:



• CHAIRMAN AND CHIEF EXECUTIVE OFFICER •

Xabier de Irala Estévez, born in New York (United States of America) on November 23, 1946, holding national identification card number 4.847.996-X. He was appointed member and chairman of the board of directors on July 26, 1996 and reelected by the General Shareholders Meeting on March 31, 2001. **Internal or executive director.**

Industrial engineering degree (majoring in mechanics) from the University of Salle (The Philippines) and a Master's Degree in Business Administration from the same university. During his career he has worked in the electrical and capital goods sectors and now in air transport. Among other positions of responsibility that he held until he became chairman of IBERIA in July 1996, he was Executive Vice-chairman and C.E.O. of ABB in Madrid; Vice-chairman of Finance for General Electric in Paris; Financial Program Manager at GE International Operations in London; C.E.O. of GE Portuguesa in Lisbon; Sole Director of CONELEC (formerly General Eléctrica Española) and C.E.O. of General Electric Española. He was chairman of IATA (International Air Transport Association) between June 2001 and June 2002. In addition, in 2000, he was chairman of the Association of European Airlines (AEA).



• VICE-CHAIRMAN •

Miguel Blesa de la Parra, born in Linares (Jaén) on August 8, 1947, holding national identification card number 26.166.340-E. He was appointed a member of the board of directors in the board meeting dated March 23, 2000. His appointment was approved in the Extraordinary General Shareholders Meeting on April 26, 2000 and he was appointed Vice-chairman of the Board on April 26, 2000. He was reelected by the General Shareholders Meeting on June 6, 2002. **Proprietary outside director proposed by Caja Madrid.**

Law degree from the University of Granada. State Tax and Financial Inspector. Between 1978 and 1986, he worked in the Ministry of Economics and the Treasury and from then to 1996 he practiced law as a specialist in tax law. He was also a member of the board of directors of Antena 3 TV. He is chairman of the board of directors of Caja Madrid, Corporación Financiera Caja Madrid, Altae Banco and Fundación Caja Madrid. In addition, he is a director of Telemadrid, Endesa and Dragados.



• CHIEF OPERATING OFFICER •

Ángel Mullor Parrondo, born in Madrid on March 30, 1948, holding national identification card number 50.788.283-M. He was appointed a member of the board of directors by the General Shareholders Meeting on March 31, 2001 and appointed Chief Executive Officer in the board meeting on April 5, 2001. **Internal or executive director.**

Degree in business and economic science from the Complutense University of Madrid. He is currently a chief executive officer of IBERIA and a director of Viva Tours. He has held various posts as a business manager. It is worth mentioning his involvement in restructuring the Spanish iron and steel industry in the position of economic and financial manager of Gerencia Siderúrgica. He has been a director of several companies in the multinational group Asea Brown Boveri, dean of the Madrid Economists Association and has also worked in various specialist economics publications and in the advertising sector.



• BOARD MEMBER •

Fernando Conte García, born in Mérida (Mexico) on February 28, 1950, holding national identification card number 2.644.336-A. He was appointed a member of the board of directors by the General Shareholders Meeting on March 31, 2001. **Independent outside director.**

He holds an industrial engineering degree from ICAI and an MBA from the Madrid Business Institute. He is an independent director from Amadeus. Since 1974 he has worked with the ABB Group, first in ASEA, S.A. in Spain and later in Central America and Venezuela as regional manager and division manager until 1984. Since then, he has held positions of responsibility in ASEA and the ABB Group. From 1992 to 1994 he was managing director of ABB Trafos, S.A. In 1994 he became vice-chairman of the Power Distribution and Transmission Segment of Asea Brown Boveri. In 1996, he was appointed chief executive officer of the ABB Group in Spain, a post he continues to hold now.



• BOARD MEMBER •

William Armand Thomas Tristan Garel-Jones, born in Gorseinon (Wales – Great Britain) on February 28, 1941, holding valid passport number 500.244.546. He was appointed a member of the board of directors in the board meeting on March 23, 2000. His appointment was approved in the Extraordinary General Shareholders Meeting on April 26, 2000. He was reelected by the General Shareholders Meeting on June 6, 2002. **Proprietary outside director proposed by British Airways and American Airlines.**

Degree in political science. He was a Conservative Member of Parliament from 1979 to 1997. He held several ministerial posts in the United Kingdom in the governments of Margaret Thatcher and John Major. He was Lord Commissioner of the Treasury, Treasurer of the Royal Household and Minister of State for European Affairs. He is a Privy Councillor. He is also a director of Vodafone and Acciona and managing director of UBS Warburg.



• BOARD MEMBER •

Pablo Isla Álvarez de Tejera, born in Madrid, on January 22, 1964, holding national identification card number 401.984-J. He was appointed a member of the board of directors in the board meeting on October 9, 2000. His appointment was approved in the Extraordinary General Meeting on February 28, 2001. **Proprietary outside director proposed by Logista.**

Law degree from the Complutense University of Madrid in 1987. State attorney. In 1989, he began his career in the Ministry of Transport, Tourism and Communication. In 1991, he moved to the General Directorate of the State Legal Service as official Spanish delegate to the United Nations Commission on International Trade Law. From 1992 to 1996 he was Manager of Legal Service at Banco Popular Español. He was Director General of State Assets in the Ministry of Economics and the Treasury and, in 1998, he was appointed Secretary-General of Banco Popular Español. In 2000, he was appointed Co-chairman of Grupo Altadis and chairman of its board of directors. He is chairman of Logista and a Director of Telefónica.



• BOARD MEMBER •

Antonio Masa Godoy, born in Badajoz on January 14, 1942, holding national identification card number 8.414.129-Q. He was appointed a member of the board of directors by the General Shareholders Meeting on March 31, 2001. **Independent outside director.**

An economist and auditor, he is a lecturer in applied economics. Chairman, vice-chairman and director in several companies in the property, engineering and construction and risk capital sectors. A member of the executive committee of the CEOE (Spanish Confederation of Business Associations) and the I.E.E. (Institute of Economic Studies). Among other posts, he has been chairman of Compañía de Seguros Hércules Hispano and the portfolio company Cartex, S.A.



• BOARD MEMBER •

Roger Paul Maynard, born in Birkhamstead (England– Great Britain) on February 10, 1943, holding valid passport number 500.163.204. Appointed in the board meeting on March 23, 2000. His appointment was approved in the Extraordinary General Meeting on April 26, 2000. He was reelected by the General Shareholders Meeting on June 6, 2002. **Proprietary outside director proposed by British Airways and American Airlines.**

Non-executive director of British Airways. He was awarded a degree in economic science from Queens College, Cambridge in 1965. He was a civil servant in the United Kingdom from 1965 to 1987 in the department of trade, industry and transport. He was transferred to the diplomatic service in Geneva between 1968 and 1972 and in Washington between 1982 and 1987. He later became an aviation specialist and was then recruited by British Airways in 1987 as manager of government affairs in North America. He was later executive director in North America before returning to the United Kingdom as director of investor relations. In 1991, he was appointed director of strategy before taking on his current post in 1996.



• BOARD MEMBER •

José Pedro Pérez-Llorca Rodrigo, born in Cádiz on November 30, 1940, holding national identification card number 31.128.825-G, appointed by the General Shareholders Meeting on March 31, 2001. **Independent outside director.**

He holds a law degree and is a member of the diplomatic corps and a parliamentary attorney. He was one of the fathers of the Spanish Constitution. He was Presidential Minister, Minister of Parliamentary Relations, Minister of Territorial Administration and Minister of Foreign Affairs. He has held various posts on the boards of directors of different companies, particularly in the credit sector. Among other posts, he has been chairman of Urquijo Leasing, chairman of AEG Ibérica and a member of the Madrid Stock Market Governing Company. He is currently the managing partner of the Pérez-Llorca law firm.



• BOARD MEMBER •

Jorge Pont Sánchez, born in Premia de Dalt (Barcelona) on January 22, 1938, holding national identification card number 36.817.268-H. He was appointed in the board meeting on March 23, 2000. His appointment was approved in the Extraordinary General Meeting on April 26, 2000. He was reelected in the General Shareholders Meeting on June 6, 2002. **Proprietary outside director proposed by El Corte Inglés.**

A law graduate. He was assistant lecturer in commercial law in the Faculties of Law and Economic Science at the University of Barcelona from 1960 to 1964. In 1965, he joined El Corte Inglés, S.A. where he held various posts. He is currently deputy chairman and manager of international expansion at El Corte Inglés and director of Fundación Ramón Areces. In addition, he is chairman of The Harris Company, chairman of the Executive Committee of the International Association of Department Stores and a director of Gottschalks, Inc., World Wide Retail Exchange and Marco Polo Investments.



• BOARD MEMBER •

José Terceiro Lomba, born in Santiago de Compostela (A Coruña) on July 14, 1943, holding national identification card number 35.203.147-Z. He was appointed a member of the board of directors by the General Shareholders Meeting on March 31, 2001. **Independent outside director.**

He is professor of applied economics at the Complutense University of Madrid. He is chairman of Bioetanol Galicia and the Advisory Board of Abengoa; a director of Aberdeen International Fund, Grupo PRISA and Unión Fenosa and an expert on the Economic and Social Board. He is a scientific member of the High Consultative Board for Research and Development of the Presidency of the Autonomous Government of Valencia and a member of the Science and Technology Committee of the Board of Galician Culture. In 1992, he was awarded the CEOE Prize for Economic Science and received the "Rey Jaime I" Prize for Economics in 2000.



• BOARD MEMBER •

Gregorio Villalabeitia Galarra, born in Baracaldo (Vizcaya) on March 5, 1951, holding national identification card number 14.692.127-A. He was appointed a member of the board of directors in the board meeting on January 24, 2002. His appointment was approved by the General Shareholders Meeting on June 6, 2002. **Proprietary outside director proposed by BBVA.**

He holds a degree in economics from Deusto Commercial University and is also a law graduate. From 1977 to 1983, he worked in the London branch of Banco de Vizcaya as deputy regional manager. From 1983 to 1990, he was general manager of Caja de Ahorros Vizcaina (now BBK). In 1990, he was appointed general manager of Banco Cooperativo Español and from 1993 to 1999 he held various posts in Argentaria. Since 1999 he has held several posts in BBVA. He is also a member of the board of directors of Telefónica, Repsol, Gas Natural and IBV.



• NON-EXECUTIVE SECRETARY •

Lourdes Máiz Carro, born in Santiago de Compostela (A Coruña) on April 26, 1959, holding national identification card number 51.340.955-X and appointed in the board meeting on May 10, 2001.

A law and arts graduate and a doctor of philosophy. She was lecturer in metaphysics and the theory of knowledge at the Complutense University in Madrid. In 1992, she joined the State Attorney Corps. She has held various civil service posts such as Director-General of Administrative Organization in the Public Administration Ministry, Director-General of the Equity Holding Corporation in the Ministry of Economics and the Treasury and Technical General Secretary in the Ministry of Agriculture, Fisheries and Food.



Out of the twelve members that currently make up the board of directors, two are internal or executive directors – the company chairman, who is also the chairman of the board of directors, and the Chief Executive Officer. The other ten are outside directors. Four of the latter are regarded as independent. As such they are not nor do they represent shareholders capable of influencing the control of the company. The remaining six directors are proprietary directors and as such have been proposed by stable shareholders considered to have a sufficiently significant holding in the company's capital.

As a result, the make-up of the board of directors is in line with the recommendations of the Aldama Report, an update of the Olivencia Report, as there is a large majority of outside directors on the board and a highly significant proportion of these are independent directors, bearing in mind the company's shareholding structure and the capital represented on the board.

Proposals for the appointment of directors are submitted by the board of directors for the consideration of the General Shareholders Meeting, which adopts a decision by virtue of the co-option powers legally attributed to it. The people proposed must be highly prestigious and have sufficient professional experience and knowledge in order to carry out their duties, in addition to complying with the legal and statutory requirements for the post. The Appointment and Remuneration Committee draws up a report on these points. All of IBERIA's directors fulfill these requirements.

According to the company by-laws, directors are appointed for a four-year term and may be reelected one or several times for terms of an equal maximum number of years, except for the independent directors, who may not hold the post for more than eight years. The regulations of the board of directors stipulate that the age limit for the post of director is 70 years old, falling to 65 in the case of the chairman and the chief executive officer. None of the directors has yet reached the stipulated age limit.

The regulations of the board of directors stipulate that the directors must resign their posts in the following circumstances:

- a) When they reach 70 years of age. In this case, the director must resign in the first meeting of the board of directors held after the General Shareholders Meeting in which the annual accounts for the financial year in which the director reached the aforementioned age are submitted for approval. For the posts of chairman and chief executive officer, the age is 65 years, although they may continue to be directors.
- b) When the executive directors resign from the posts to which they were appointed as directors.
- c) When they are involved in any of the legally stipulated cases of disqualification or prohibition.
- d) When they are prosecuted for an allegedly criminal act or are disciplined for serious or gross misconduct by the stock market supervisory authorities.
- e) When they are seriously reprimanded by the Auditing and Compliance Committee due to having infringed their obligations as directors.
- f) When their continuance on the board may put the company's interests at risk or when the reasons for which they were appointed cease to exist.
- g) In the case of institutional or proprietary directors, when the shareholder whose interests they represent on the board disposes of its holding in the company.

The regulations especially require of the directors confidentiality, loyalty and a duty to inform. The directors have diligently carried out such duties, keeping the company informed of any fact or situation that might be relevant to their action as directors of the company, enabling the board to closely monitor situations in which there may be a conflict of interest.

II.- SPECIALIST COMMITTEES.

The strengthening and, especially, the effective performance of the board's duties have resulted in the setting-up of four specialist committees in order to diversify the work and ensure that for certain relevant matters, which due to their immediacy and importance cannot be directly referred to the full board, the proposals and resolutions first pass through a specialist body that can filter and inform its decisions in order to boost the guarantees of objectiveness and reflection in their resolutions.

Thus, in its meeting on April 5, 2001, the board of directors set up an executive or delegated committee with executive duties to adopt binding resolutions for the company within the scope of the matters delegated to it. On December 31, 2002, the make-up of the committee was as follows:

EXECUTIVE COMMITTEE:

- Mr. Xabier de Irala Estévez (Chairman of the Committee).
- Mr. Miguel Blesa de la Parra.
- Mr. Roger Paul Maynard.
- Mr. Ángel Mullor Parrondo.
- Mr. José B. Terceiro Lomba.
- Mr. Gregorio Villalabeitia Galarraga.
- Mrs. Lourdes Máiz (Secretary of the Committee).

Permanent delegation of powers by the board of directors to the Executive Committee may include all of the board's powers except those that legally or institutionally may not be delegated or those that may not be delegated by virtue of that set forth in the regulations. Notwithstanding the effectiveness of such delegation with regards to third parties, in internal terms the actions of the Executive Committee take the following forms:

- a) Adopting final resolutions on specific matters dealt with beforehand by the board of directors and sent thereby for an ultimate decision by the Executive Committee, either to be resolved within the framework previously approved by the board or for the development and completion of detailed aspects of the action or transactions approved by the board beforehand.
- b) Adopting resolutions in urgent cases on delegated matters. Urgency allows the Executive Committee to act when it is not possible to hold a board meeting to deal with the matter and the decision cannot be delayed.
- c) Deliberating and submitting proposals for the board of directors' decision on matters reserved for it when the chairman deems this procedure appropriate.

In addition, the board also has three committees with duties to inform and make proposals to the board of directors, the Auditing and Compliance Committee, the Appointment and Remuneration Committee and the Safety Committee. As of December 31, 2002, the make-up of the committees was as follows:

AUDITING AND COMPLIANCE COMMITTEE *(April 5, 2001):*

- Mr. Antonio Masa Godoy (Chairman of the Committee).
- Lord Garel-Jones.
- Mr. José Pedro Pérez-Llorca Rodrigo.
- Mrs. Lourdes Máiz (Secretary of the Committee).

APPOINTMENT AND REMUNERATION COMMITTEE *(April 5, 2001):*

- Mr. Pablo Isla Álvarez de Tejera (Chairman of the Committee).
- Mr. Fernando Conte García.
- Mr. Jorge Pont Sánchez.
- Mrs. Lourdes Máiz (Secretary of the Committee).

SAFETY COMMITTEE *(June 7, 2001):*

- Mr. José Pedro Pérez-Llorca Rodrigo (Chairman of the Committee).
- Mr. Roger Paul Maynard.
- Mr. Ángel Mullor Parrondo.
- Mrs. Lourdes Máiz (Secretary of the Committee).

There are no internal or executive directors on the **Auditing and Compliance Committee** and the chairmanship is held by an independent director. It has its own operating regulations, drawn up and approved by the board of directors on February 28, 2002, which will be adapted to the provisions of the Financial System Reform Measures Act.

The main task of the Auditing and Compliance Committee is to assist the board of directors in its duties to supervise and control the company by means of periodically reviewing the performance of the legal provisions and internal regulations applicable to the company.



Notwithstanding any other tasks assigned to it by the board, the Auditing and Compliance Committee must study, review and report on the following matters:

- a) Proposing the appointment of the outside auditor to the board, the contracting conditions, the scope of the professional mandate and, when applicable, revocation or non-renewal of it. Supervising fulfillment of the auditing agreement, seeking to ensure that the opinion on the annual accounts and the main contents of the auditing report are drawn up in a clear and accurate manner.
- b) Acting as a communication channel between the board of directors and the auditors, assessing the results of each audit and the responses of the management team to its recommendations and mediating between them when they differ in opinion on the principles and criteria applicable to drawing up the financial statements.
- c) Reviewing the company's accounts, monitoring compliance with the legal requirements and the correct application of the generally accepted accounting principles. Following the operation of the internal financial control manuals and procedures adopted by the company, checking that they are complied with and reviewing the appointment and replacement of those responsible.
- d) Examining compliance with the Internal Code of Conduct on the Stock Markets, these regulations and the company's governance rules in general and making the necessary proposals for improving them. In particular, the Auditing and Compliance Committee is responsible for receiving information and, when applicable, issuing a report on disciplinary measures for the company's senior managers.
- e) Considering the suggestions made by the company's chairman, board members, senior managers or shareholders, as well as making and informing the board of directors of proposals concerning measures that it deems opportune concerning auditing and the rest of the activities assigned to it, as well as compliance with the legal regulations concerning disclosure of information to the markets and the transparency and accuracy of such information.

The Appointment and Remuneration Committee does not include any internal or executive directors and the chairmanship is held by an outside director.

The main task of the Appointment and Remuneration Committee is to assess the profile of the most suitable people to be members of the various committees and make the relevant proposals to the board. Notwithstanding any other tasks assigned to it by the board, the Appointment and Remuneration Committee has the following basic responsibilities:

- a) Formulating and reviewing the criteria that must be followed in the composition of the board of directors and selecting candidates, making proposals to the boards concerning the appointment of directors so that the board may directly appoint them (co-option) or pass the proposals on for the approval of the Shareholders Meeting. Proposing to the board which members should be on each of the delegated committees.
- b) Proposing to the board the system and amount of annual remuneration of the directors and senior managers and, once it has been approved, periodically reviewing the remuneration scheme, weighing up its suitability and their performance.
- c) Supervising and setting guidelines concerning the appointment, recruitment, career, promotion and dismissal of senior managers in order to ensure that the company has the highly-qualified staff it needs for its management.
- d) Proposing measures for the transparency of remuneration and supervising compliance.
- e) Notifying transactions that involve or may involve conflicts of interest and, in general, the matters set forth in chapter VI of the Regulations.

Finally, the **Safety Committee** includes the chief executive officer and a proprietary outside director and its chairman is an independent director. Apart from any other tasks assigned to it by the board, the Safety Committee has the following basic responsibilities:

- a) Analyzing the company's general policy concerning in-flight safety systems.
- b) Making the proposals to the board of directors that it deems appropriate concerning improvements to the company's systems of this kind, as well as monitoring the measures adopted by the board of directors concerning in-flight safety.
- b) In general, gathering, analyzing and circulating the available information concerning in-flight safety, as well as the studies concerning the matter that it deems appropriate.

COMMITTEES OF THE BOARD					
	Date Appointed	Executive Committee	Appointment Committee	Auditing Committee	Safety Committee
CHAIRMAN					
Mr. Xabier de Irala Estévez	July 26, 1996	Chairman			
VICE-CHAIRMAN					
Mr. Miguel Blesa de la Parra (Caja Madrid)	March 23, 2000	Board Member			
CHIEF EXECUTIVE OFFICER					
Mr. Ángel Mullor Parrondo	March 31, 2001	Board Member			Board Member
DIRECTORS					
Mr. Fernando Conte García*	March 31, 2001		Board Member		
Lord Garel-Jones (British Airways and American Airlines)	March 23, 2000			Board Member	
Mr. Pablo Isla Álvarez de Tejera (Logista)	October 9, 2000		Chairman		
Mr. Antonio Masa Godoy*	March 31, 2001			Chairman	
Mr. Roger Paul Maynard (British Airways and American Airlines)	March 23, 2000	Board Member			Board Member
Mr. José Pedro Pérez-Llorca Rodrigo*	March 31, 2001			Board Member	Chairman
Mr. Jorge Pont Sánchez (El Corte Inglés)	March 23, 2000		Board Member		
Mr. José B. Terceiro Lomba*	March 31, 2001	Board Member			
Mr. Gregorio Villalabeitia Galarraga (BBVA)	January 24, 2002	Board Member			
Non-Executive Secretary					
Mrs. Lourdes Maíz Carro	May 10, 2001	Secretary	Secretary	Secretary	Secretary

*Independent Directors.

III.- OPERATION OF THE BOARD AND ITS COMMITTEES.

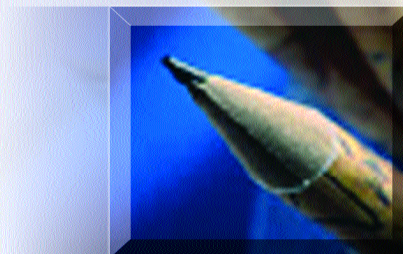
The board of directors must meet at least once every two months. In 2002, there were fifteen meetings in which the board painstakingly monitored the company's progress, assessed the most significant risks and adopted the strategic decisions that, in 2002, enabled the company to overcome one of the worst years in the entire history of the aviation sector. The directors regularly received the most relevant information about the items dealt with in each meeting and had any other necessary or advisable information available to them, which they requested through the chairman or the secretary of the board. All the directors have had a high level of attendance at board meetings, where they have actively taken part in the discussions, thus effectively contributing to the decision-making process. Their actions were solely guided by the company's interest, seeking the greatest defense and protection of the interests of all shareholders.

In principle, the Executive Committee holds its ordinary meetings on a monthly basis. There were eleven meetings in 2002. The board of directors is immediately informed of the contents of such meetings, so the relations between the two bodies are completely transparent.

The Auditing and Compliance Committee must formally meet at least once every four months. In 2002, there were six meetings, during which the committee, in close communication with the external auditors, assessed the results of each audit, as well as the actions of the company's management team, reviewed the company's accounts and financial statements and dealt with any other competences included in the regulations.

The Appointment and Remuneration Committee formally met eight times in 2002. In these meetings it reviewed the company remuneration schemes with the help of outside experts that provided objective advice on the matter.

The Safety Committee must meet formally at least four times a year. In 2002, there were four meetings in which it carried out the necessary monitoring of the operational safety parameters and the new safety measures. In addition, it has also made use of external auditors that provided objective advice on the matter.



IV.- REMUNERATION SYSTEM FOR THE BOARD OF DIRECTORS.

In the General Shareholders Meeting on June 6, 2002, which was both an Ordinary and Extraordinary Meeting, it was agreed to approve the modification to article 47 of the company's by-laws concerning the system for remunerating the directors. The remuneration system was thus updated, making it more specific and transparent, combining different remuneration systems (annual fixed allowance, economic compensation for attending board meetings and committees and variable remuneration in kind) and granting the General Shareholders Meeting the power to set the maximum overall amount for all the aforementioned items. Once the General Shareholders Meeting has set the maximum overall amount, the board of directors can freely distribute such amount among the various items and among the directors in the manner, at the time and in the proportion it deems appropriate.

The same General Shareholders Meeting resolved to set the overall maximum amount of annual remuneration of the directors for the financial year 2002, for the fixed allowance, economic compensation for attending the meetings of the board of directors and committees and variable remuneration in kind at one million five hundred thousand euros (€1,500,000).

The board of directors, at the proposal of the Appointment and Remuneration Committee, adopted the resolution to distribute such amount in the following manner:

- a) Fixed remuneration to each director of €50,000 per annum.
- b) Economic compensation for actual attendance at the meetings of the board of directors and its committees of €1,500 per meeting.
- c) Variable remuneration to be paid in the form of company tickets of up to €360,000 for all the directors.

The figures for the remuneration payable in the financial year 2002 in accordance with the new remuneration system approved by the General Shareholders Meeting are as follows:

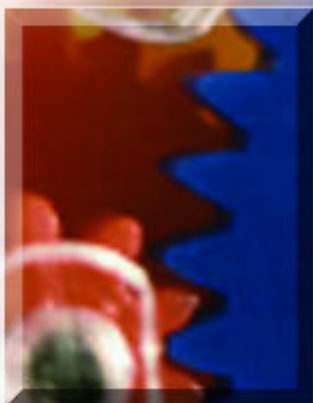
REMUNERATION SYSTEM BY THE GENERAL SHAREHOLDERS MEETING		(In Euros)
Item		
Fixed allowance of the Board		600,024
Economic compensation for attendance at meetings		421,500
Remuneration in kind		21,596
TOTAL REMUNERATION OF THE BOARD		1,043,120

With regards to the executive directors, who are the chairman and chief executive officer, the by-laws stipulate that the remuneration of the members of the board of directors shall be compatible with and independent of the salaries, remuneration, compensation, pensions or payments of any kind of a general or singular nature for the members of the board of directors that have a labor relationship with the company – whether a normal relationship or as a senior manager – or due to rendering services. The amount of the remuneration payable to the executive directors in 2002 due to being senior managers was €1,225,000 and the amount of social security, insurance and other expenses amounted to €461,935. Moreover, the General Shareholders Meeting on June 6, 2002 agreed to include the executive directors in the management share option plan, which is to be set up within a year of such meeting with a limit of 2,000,000 shares.

V.- SHARES OWNED BY THE BOARD OF DIRECTORS.

SHARES OWNED BY THE BOARD OF DIRECTORS

Director	Number of Shares (Direct)	Number of Shares (Indirect)	Total number of Shares	Percentage of Capital
Mr. Miguel Blesa de la Parra	400	0	400	0.000000438
Mr. Fernando Conte García	520	0	520	0.000000570
Mr. Xabier de Irala Estévez	24,867	0	24,867	0.000027238
Lord Garel-Jones	400	0	400	0.000000438
Mr. Pablo Isla Álvarez de Tejera	401	0	401	0.000000439
Mr. Antonio Masa Godoy	5,250	0	5,250	0.000005751
Mr. Roger Paul Maynard	400	0	400	0.000000438
Mr. Ángel Mullor Parrondo	19,199	0	19,199	0.000021029
Mr. José Pedro Pérez-Llorca Rodrigo	400	0	400	0.000000438
Mr. Jorge Pont Sánchez	401	0	401	0.000000439
Mr. José B. Terceiro Lomba	400	0	400	0.000000438
Mr. Gregorio Villalabeitia Galarraga	400	0	400	0.000000438



C) ASSOCIATED TRANSACTIONS.

The most significant transactions carried out with the aforementioned shareholders during the financial year 2002 are set out below.

SUMMARY OF ASSOCIATED TRANSACTIONS			(Thousands of Euros)
Investor Company	Charged to Iberia	Paid to Iberia	
American Airlines	19,696	14,361	
British Airways	7,062	28,126	
El Corte Inglés	37,963	0	
Logista	249	0	
BBVA	4,229	541	
Caja Madrid	1,087	166	

AMERICAN AIRLINES:

These transactions mainly include:

- Ticket commission (ISC and code-sharing) charged and paid between the two companies for tickets issued by one company and flown by the other.
- Charges and payments related to the two companies' loyalty scheme.
- Charges to IBERIA for airport handling services.

BRITISH AIRWAYS:

This includes transactions related to:

- Ticket commission (ISC and code-sharing) charged and paid between the two companies for tickets issued by one company and flown by the other.
- Charges and payments related to the two companies' loyalty scheme.
- Payments to IBERIA for passenger handling and loading services.
- Charges to IBERIA for leasing VIP lounges and others.

EL CORTE INGLÉS:

This mainly includes charges to IBERIA for:

- Providing clothing for the flight crew.
- Commission and incentives for ticket sales, as well as refunds for settlement of sales agreements.
- Technical consulting.
- Purchasing and maintenance of I.T. equipment.

LOGISTA:

The handling and home delivery service for tickets bought over the telephone. IBERIA also has an agreement for on-board sale of articles with ALTADIS, the parent company of Logista.

BBVA:

The transactions are made up of charges to IBERIA for:

- Technical advice on the sale of a subsidiary.
- Interest connected to fleet financing transactions and guarantees provided for airplanes.

In addition, it includes payments to IBERIA for the BBVA IBCards and BBVA Visa IB-Plus schemes.

CAJA MADRID:

This basically includes charges to IBERIA for interest connected to fleet financing transactions, guarantees provided for airplanes and payments to Iberia for the Caja Madrid Visa IBCards IB-Plus scheme.

D) TRANSACTIONS BETWEEN GROUP COMPANIES.

During the financial year 2002, IBERIA made sales worth €52,682,000 to group and associated companies and received services from such companies amounting to €173,232,000, as described in Note 17 of the annual report in the annual accounts. In addition, it was paid €11,726,000 by such companies as dividends.

