



# 2004

Annual Report on  
Corporate Governance

**IBERIA** 





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Listed companies are obliged to publish an Annual Report on Corporate Governance under Act 26/2003 of 17 July 2003, known as the "*Transparency Act*". The structure and contents of this Act are developed in the Order of the Ministry of Economy 3722/2003, of 26 December 2003. On 17 March 2004, the Spanish Stock Exchange Commission (Comisión Nacional del Mercado de Valores) (CNMV), responsible for the subsequent, detailed development of these provisions, approved a standard model for preparing the Annual Report on Corporate Governance.

With a view to improving the transparency of its corporate governance, the Board of Iberia, L.A.E., S.A., whose regulations and governance practice are commensurate with the latest rules and regulations approved on the good governance of companies, decided in 2004 to make the 2003 Annual Report on Corporate Governance of IBERIA available to shareholders and investors. It was one of the first companies to adapt the structure and content of its Annual Report to the model approved by the CNMV.

This year once again, the Board of Iberia, L.A.E., S.A. has decided to make this 2004 Annual Report on Corporate Governance of IBERIA available to 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](http://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 2004, 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 2004, 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, is as follows:

Date of the last modification in 2004	Capital stock (at 31 Dec. 2004)	Number of shares (at 31 Dec. 2004)
Resolution adopted by the Board on 28/10/04	€ 731,224,625.04	937,467,468

The Board approved three capital increases in 2004 under the authorisation granted at the General Meeting on 31 March 2001, which also approved a Stock Option Plan for employees and executives of the company, secured with convertible debentures for exercise on four dates. The dates of exercise were 3 October and 3 February 2003, 3 June and 3 October 2004. Consequently, the Board approved the corresponding capital increases to deliver shares to all beneficiaries of the Plan who exercised their rights on those dates, at a rate of one share for each convertible debenture. The execution of the Stock Option Plan approved at the AGM 2001 was completed with the capital increase made on 28 October 2004.

## 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 the Order of the Ministry of Economy 3722/2003, including all direct or indirect interests of at least 5% in the capital or voting rights of the company. Shareholders' agreements whereby the parties are obliged to adopt a common policy regarding the management of the company or intended to exert an important influence in such management, through the concerted exercise of their voting rights, is deemed equivalent to the acquisition of shares. Any interests that might have a considerable bearing on the company are also considered significant interests, even if they are smaller than 5%.

The following table includes, therefore, both stakes equal to or greater than 5% in the capital and those held by shareholders who, although holding less than 5% in the capital, have signed shareholding agreements undertaking to act in concert.



(at 31 December 2004)

<b>Tax. Registration No.</b>	<b>Holders of significant shareholding interests</b>	<b>No. direct shares</b>	<b>No. indirect shares</b>	<b>% capital stock</b>
G28029007	CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID (CAJA MADRID)	91,290,716		9.74
GB222452988	BRITISH AIRWAYS AND AMERICAN AIRLINES HOLDINGS, B.V.	91,296,204		9.74
A48265169	BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (BBVA)	69,209,157		7.38
A28141307	COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL, S.A. (LOGISTA)	61,164,780		6.52
A28017895	EL CORTE INGLÉS, S.A.	27,387,215		2.92
A15125057	CORPORACIÓN FINANCIERA DE GALICIA, S.A.	32,404,254		3.46
G50000652	CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	3,257,693		0.35
G16131336	CAJA CASTILLA-LA MANCHA	1,489,009		0.16
G29498086	CAJA DE AHORROS Y MONTE DE RONDA, CÁDIZ, ALMERÍA, MÁLAGA Y ANTEQUERA (UNICAJA)	1,008,263		0.11
G41402819	CAJA DE AHORROS Y MONTE DE PIEDAD DE HUELVA Y SEVILLA	991,763		0.11
Q2820015B	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	49,212,526		5.25
<b>TOTAL SHARES CORRESP. TO SIGNIFICANT INTERESTS</b>		<b>428,711,580</b>		<b>45.73</b>
<b>REST (SHAREHOLDERS AND TREASURY STOCK)</b>		<b>508,755,888</b>		<b>54.27</b>
<b>TOTAL IBERIA SHARES</b>		<b>937,467,468</b>		<b>100.00</b>

There were no transactions between the holders of significant interests during 2004 generating an obligation to notify the CNMV under Royal Decree 377/1991.

## 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 IBERIA shares at 31 December 2004:

(at 31 December 2004)

Directors	No. direct shares	No. indirect shares	% capital stock
Mr. Fernando Conte García	520	-	0.000055
Mr. Miguel Blesa de la Parra	401	-	0.000043
Mr. Ángel Mullor Parrondo	113,772	-	0.012136
Mr. José M. Fernández Norniella	800	-	0.000085
Lord Garel-Jones	401	-	0.000043
Mr. Pablo Isla Álvarez de Tejera	401	-	0.000043
Mr. Antonio Masa Godoy	5,250	-	0.000560
Mr. Roger Paul Maynard	401	-	0.000043
Mr. José Pedro Pérez-Llorca	400	-	0.000043
Mr. Jorge Pont Sánchez	401	-	0.000043
Mr. José B. Terceiro Lomba	400	-	0.000043
Mr. Gregorio Villalabeitia Galarraga	400	-	0.000043
<b>% of the capital held by directors</b>			<b>0.013180%</b>

### Directors' options over shares in the company

Only the Executive Chairman and the CEO have options over shares in the company, by virtue of the corresponding resolutions adopted by the General Meeting. According to the company's records, the options directly or indirectly held by executive directors over IBERIA shares at 31 December 2004 was as indicated below:

(at 31 December 2004)

Directors	Total options (direct)	Total options (indirect)	Equivalent no. of shares	% total IBERIA shares
Mr. Fernando Conte García	1,000,000	-	1,000,000	0.106670
Mr. Ángel Mullor Parrondo	750,000	-	750,000	0.080003

#### **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 will 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:

# 12

- 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, B.V., 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 defense 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)

<b>Parties to the shareholders' agreement</b>	<b>No. shares pooled</b>	<b>% of the capital stock affected</b>
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
<b>TOTAL SHARES POOLED</b>	<b>365,162,865</b>	<b>40.00%</b>

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.

The shareholders' agreement stipulates that the pooled shares may not be sold within three years following their purchase. This limit does not affect the subscription rights of the pooled shares. If a shareholder wishes to sell its shares after that time, 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.

#### **Situation of the Shareholders' Agreement at year-end**

Caja de Ahorros de Murcia abandoned the Stable Core during 2003. At 31 December 2003, Caja de España de Inversiones held an indirect interest of 0.22% in the capital through one of its subsidiaries (INVERGESTIÓN), whose shares were pooled. IBERGESTIÓN also disposed of this block of shares during 2004, so Caja de España de Inversiones is no longer part of the Stable Core.

The Stable Core held a total of 362,186,211 shares at 31 December 2004, bringing its percentage stake down to 38.64% of the capital.

At 31 December 2004, the Stable Core shareholders held the following shares subject to the Shareholders' Agreement (pooled shares):

(at December 31, 2003)		
<b>Parties to the shareholders' agreement</b>	<b>No. shares pooled</b>	<b>% of the capital stock affected</b>
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID (CAJA MADRID)	91,290,716	9.74
BRITISH AIRWAYS AND AMERICAN AIRLINES HOLDINGS, B.V.	91,290,716	9.74
BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (BBVA)	66,642,223	7.11
COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL, S.A. (LOGISTA)	61,164,780	6.52
EL CORTE INGLÉS, S.A.	27,387,215	2.92
CORPORACIÓN FINANCIERA DE GALICIA, S.A.	18,457,254	1.97
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA ARAGÓN Y RIOJA (IBERCAJA)	2,480,772	0.26
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 Y MONTE DE PIEDAD DE HUELVA Y SEVILLA	991,763	0.11
<b>TOTAL SHARES POOLED</b>	<b>362,186,211</b>	<b>38.64%</b>

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 2004)
No. direct shares	No. indirect shares	% capital stock	
16,669,560	-	1.78	

### Significant variations in treasury stock

Under Royal Decree 377/1991, of 15 March 1991, *on notification of significant holdings in listed companies and buyback by listed companies of their own shares*, companies are obliged to notify the CNMV of any acquisitions of own shares, through one or several transactions, representing more than 1% of the capital stock, not counting any sales that may have been made.

In pursuance of this obligation, the company notified the CNMV on 15 July 2004 that it held own shares accounting for 1.67% of the capital stock.

The only significant variations contemplated in Royal Decree 377/1991 produced during 2004 were:

				(at 31 December 2004)
Date	No. direct shares	No. indirect shares	% capital stock	
15 July 2004	15,477,439	-	1.67	

### Income from treasury stock

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

<b>Income obtained during the year on transactions involving treasury stock (thousands of euro)</b>	<b>8,991</b>
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## **A.9. Term and conditions of the current authorisation granted by the General Meeting to the Board of Directors for transactions involving treasury stock**

At the AGM held on 24 June 2004, 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-EGM held on 12 June 2003. 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, directly or through any subsidiaries in which Iberia, L.A.E., S.A. is the controlling company, 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 24 June 2004, 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.



The Golden Share regime remains applicable to IBERIA up to 3 April 2006, with the possibility of extending it for a further two years. Act 62/2003, of 30 December 2003, amended Act 5/1995, of 23 March 1995 on the sale of public holdings in certain companies and modified the Golden Share regime. The former procedure for authorisation is substituted with a prior notification of the Ministry of Economy in certain cases, particularly the direct or indirect acquisition of the company's own shares or other securities that may confer a right to subscription or acquisition of such shares, whenever this results in a holding of at least 10% of the corresponding capital stock, save in the event of purely financial acquisitions not made with the intention of participating in the control or management of the company.

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 Act 14/2000 of 29 December 2000, on fiscal, administrative and social measures, 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 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 required by 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".*



# **Management structure of the Company**

## **B.1. Board of Directors**

### **B.1.0. Introduction**

#### ***Basic principles***

The basic principles prevailing in the actions of the Board are those of efficiency, transparency and responsibility, with the priority aim of increasing the value of the company for shareholders, supervising the business activities and ensuring the future viability and competitiveness of the company, with due consideration for the interests of employees and the company. As indicated elsewhere in this report, the governing bodies of the company comply fully with the law and generally accepted behaviour criteria.

#### ***Regulation***

The composition and rules of governance of Iberia, L.A.E., S.A. are set out in its Bylaws, the Regulation of the Board of Directors, approved on 9 March 2001, and the Internal Code of Market Conduct, approved on the same date, which was adapted by the Board on 24 July 2004.

**The Regulations of the Board**, which came into force after the IPO that marked the end of State control in April 2001, were drafted on the basis of the recommendations contained in the "Code of Good Governance of the Board of Directors", approved by the Ad Hoc Commission for the Ethical Study of Boards of Directors of Listed Companies (known as the "Olivencia Code"). These Regulations, which have been recorded in the Trade Register, define the principles of action by the governing body of the company, the basic rules of its organisation and functioning and the rules of conduct of its members, as well as the system of supervision and control.

**The Internal Code of Market Conduct** supplements the Regulations of the Board and is applicable to the members of the Board, the members of the Management Committee and all other employees of the company or persons related to it in any way who, by reason of their work, position or duties, have access to price-sensitive information. It describes the duties and obligations of the aforesaid persons in their dealings on organised markets, particularly with regard to the use of price-sensitive information, conflicts of interest and transactions involving treasury stock. It thus aims to strengthen the guarantees of integrity and transparency in the company's stock market conduct.

#### ***Duties***

Within this general framework, the Board of Directors focuses mainly on oversight and monitoring of the management of the company's day-to-day affairs and undertakes particularly **the direct performance of the following responsibilities**, as stipulated in the Board Regulations:

- a) approval of the strategies, plans and general policies of the company;
- b) appointment, remuneration and, where appropriate, dismissal of senior executives of the company, and oversight and assessment of their management;
- c) approval of treasury stock policy;
- d) identification of the principal risks of the company and, in particular, implementation and monitoring of adequate internal control and information systems;
- e) definition of reporting and communication policies affecting shareholders, markets and the public opinion;
- f) in general, any transactions entailing the disposal of material assets of the company and large corporate transactions, as well as those specifically contemplated in the Board Regulations.

In particular, the Board makes a monthly analysis of the company's accounts and business, studying sector trends, the company's share performance and the treasury stock. It approves the Master Plan, recently established for three-year periods, and the Annual Budget, monitoring its fulfilment and the most important investments and divestments. It also regularly examines the results of polls and other instruments for measuring the quality of the service offered by the company, seeking adequate information to adopt timely strategies.

### **B.1.1. Size of the Board of Directors**

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#### **Number of Directors according to Bylaws**

**12**

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According to the Bylaws, the Board of Directors of Iberia, L.A.E., S.A. must have a fixed number of members: twelve.

Accordingly, the Board consists of **twelve directors**, all experienced persons with a proven track record. The number of directors is considered in proportion to the size of the company and shareholders and adequate to allow efficient functioning. 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 2004***

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 <sup>(1)</sup> Tax no.: 2.644.336-A	Chairman	31.03.01	12.06.03	Executive
Mr. Miguel Blesa de la Parra <sup>(2)</sup> Tax no.: 26.166.340-E	Vice-Chairman	23.03.00	06.06.02	Domanial
Mr. Ángel Mullor Parrondo <sup>(3)</sup> Tax no.: 50.788.283-M	CEO	31.03.01	12.06.03	Executive
Mr. J. M. Fernández Norniella Tax no.: 1.158.700-Y	Member	12.06.03	-	Independent
Mr. Tristan Garel-Jones Passport no.: 500.244.546	Member	23.03.00	06.06.02	Domanial
Mr. P. Isla Álvarez de Tejera Tax no.: 401.984-J	Member	09.10.00	12.06.03	Domanial
Mr. Antonio Masa Godoy Tax no.: 8.414.129-Q	Member	31.03.01	12.06.03	Independent
Mr. Roger Paul Maynard Passport no.: 500.163.204	Member	23.03.00	06.06.02	Domanial
Mr. José Pedro Pérez-Llorca Tax no.: 31.128.825-G	Member	31.03.01	12.06.03	Independent
Mr. Jorge Pont Sánchez Tax no.: 36.817.268-H	Member	23.03.00	06.06.02	Domanial
Mr. José B. Terceiro Lomba Tax no.: 35.203.147-Z	Member	31.03.01	12.06.03	Independent
Mr. G.Villalabeitia Galarraga Tax no.: 14.692.127-A	Member	24.01.02	-	Domanial
Mrs. Lourdes Máiz Carro Tax no.: 51.340.955-X	Non-Director Secretary	10.05.01		

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

<sup>(2)</sup> Appointed Vice-Chairman of the Board on 26.04.00.

<sup>(3)</sup> Appointed Chief Executive Officer for the last time at the Board meeting held after the AGM on 12.06.03.

### **Election procedure**

All the directors have been re-elected by the General Meeting on expiry of their term of office (which, in pursuance of the bylaws in force at the time of their appointment, was two years), and they are, consequently, in their second term, except Mr. José Manuel Fernández Norniella, who was appointed for the first time at the AGM of 12 June 2003, and Gregorio Villalabeitia Galarraga, who was appointed director by cooptation on 24 January 2002 and subsequently ratified at the AGM of 6 June 2002.

There were no changes in the composition of the Board during 2004.

### **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.



#### **Executive 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.

*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. He has also been a Director of Adtranz and Independent Director of Amadeus.*



#### **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 on 6 June 2002. **Non-Executive Domanial 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. He has also been on the Board of Antena 3 TV and Telemadrid. He is Chairman of the Board of Caja Madrid, Corporación Financiera Caja Madrid, Altae Banco, Fundación Caja Madrid and the General Foundation of the Complutense University of Madrid. He is Vice-Chairman of the Board of CECA and on the Board of Endesa, S.A. and ACS, Actividades de Construcción y Servicios, S.A.*



#### Chief Executive Officer

**Ángel Mullor Parrondo**, born in Madrid on 30 March 1948, with national identity/tax number: 50.788.283-M, appointed member of the Board at the General Meeting held on 31 March 2001 and appointed Chief Executive Officer at a Board meeting on 5 April 2001. Re-elected member of the Board at the AGM of 12 June 2003 and re-elected Chief Executive Officer at the Board meeting held on the same date. **Executive Director.**

*BA in Economics and Business Studies (Complutense University of Madrid). He has held several management positions. He had a prominent participation in the restructuring of the Spanish steel sector from his position as Economic and Financial Director of the Iron and Steel Department and in the restructuring of the Electrical Equipment sector. He has been director of several companies in the multinational ASEA Brown Boveri (ABB) Group, Dean of the Institute of Economists of Madrid and has also worked in several media specialising in economy and in the advertising sector. He is a member of the Executive Committee of Fundación Empresa y Sociedad.*



#### Members

**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. **Non-Executive Independent Director.**

*BSc in Energy Techniques Engineering, Polytechnic University of Madrid. Diploma in Foreign Trade and Diploma in Logistics and Procurements and in Project Management. He has held several business agent positions: between 1970 and 1979 in Électromécanique, Alfa-Laval and Blacktone; then several management positions from 1979 to 1993 first in the Brown Boveri Group and subsequently in ASEA Brown Boveri. developing part of his career in different executive posts within the ABB group. Vice-Chairman of Aldeasa. He has been on the Boards of: RTVE, Argentaria, Aldeasa, Chilectra and IBERIA. He was 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. He is currently Chairman of Ebro Puleva, and Director of Enagás and Endesa.*





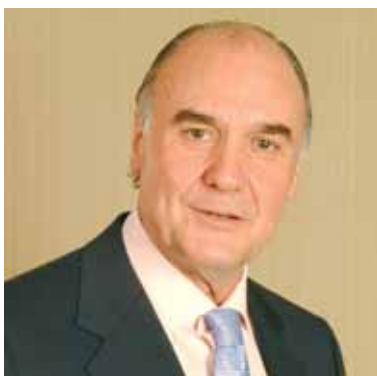
**Tristan Garel-Jones**, born in Gorseinon (Wales-Great Britain) on 28 February 1941, passport no.: 500244546 (valid), appointed member of the Board at a Board meeting on 23 March 2000, ratified at the Extraordinary General Meeting of 26 April 2000. Re-elected at the AGM on 6 June 2002. **Non-Executive Domanial Director proposed by British Airways and American Airlines.**

*He has been MP for the British Conservative Party (1979-1997) and held several ministry offices in the UK during the governments of Margaret Thatcher and John Major. He was Lord Commissioner of the Exchequer, Treasurer of the Royal Household and Minister of State for Europe. He is member of the British Privy Council. He is also director of Vodafone and Acciona and Managing Director of UBS.*



**Pablo Isla Álvarez de Tejera**, born in Madrid on 22 January 1964, with national identity/tax number 401.984-J, appointed member of the Board at the Board meeting on 9 October 2000, ratified at the Extraordinary General Meeting of 28 February 2001. Re-elected at the AGM of 12 June 2003. **Non-Executive Domanial Director proposed by Logista.**

*BA in Law (Complutense University of Madrid). State Attorney. He began his professional career in the Ministry of Transport, Tourism and Communications in 1989. In 1991 he moved to the Directorate General of the State Legal Service. From 1992 to 1996 he headed the Legal Department of Banco Popular Español, until he was appointed Director General for State Lands in the Ministry of Economy and Finance. In 1998 he was appointed Company Secretary of Banco Popular Español. In 2000 he was appointed Joint-Chairman of Grupo Altadis and Chairman of the Board. He is Chairman of Logista and Director of Telefónica.*



**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. Re-elected at the AGM of 12 June 2003. **Non-Executive Independent Director.**

*Economist and Auditor. University Lecturer in Applied Economics. Among other positions, he has been Chairman of the insurance company Hércules Hispano and the holding company Cartex, S.A. He is currently Chairman of Inversiones Varias Extremeñas, S.L. (property company); Vice-Chairman of JOCA Ingeniería y Construcciones S.A.; Director of Entornos Complementarios de Empresas, S.L. and Corporación Empresarial de Extremadura, S.A. Member of the Executive Committee of CEOE (Spanish Confederation of Business Organisations) and of the IEE.*



**Roger Paul Maynard**, born in Birkhampstead (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. Re-elected at the AGM of 6 June 2002. **Non-Executive Domanial Director proposed by British Airways and American Airlines.**

*BSc in Economics, Queens College, Cambridge, 1965. Civil Servant in the UK 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. He is on the Board of Qantas Airways and Opodo Limited. He is Director of Investments and Joint Ventures of British Airways and Chairman of British Airways CitiExpress.*



**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. Re-elected at AGM of 12 June 2003. **Non-Executive Independent Director.**

*BA in Law. Member of the Diplomatic Corps and Parliamentary Counsel. One of the authors of the Spanish Constitution. Has been Minister in The Presidency, of Parliamentary Relations, Regional Government and Foreign Affairs. He has held several positions on the Boards of different companies, particularly in the credit sector. Among other offices, he has been Chairman of Urquijo Leasing and AEG Ibérica and member of the Madrid Stock Exchange Council. He is the founding partner of the Pérez-Llorca Law Office.*



**Jorge Pont Sánchez**, born in Premià 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. Re-elected at the AGM of 6 June 2002. **Non-Executive Domanial 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. He is on the Board of Fundación Ramón Areces, President of The Harris Company, director of Gottschalks Inc. and WorldWide Retail Exchange and former President (2001-2003) of the International Association of Department Stores. He is on the Board of Parque Temático de Madrid and Marco Polo Investments.*



**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. Re-elected at the AGM of 12 June 2003. **Non-Director Independent Director.** *Professor of Applied Economics at Complutense University in Madrid. King Jaime I Prize in Economics. Chairman of Bioetanol Galicia and of the Advisory Board of Abengoa; Director and Chairman of the Audit Committee of the PRISA Group; member of the Boards of Aberdeen International Fund, Abengoa, S.A., Unión Fenosa and of the Economic and Social Council.*



**Gregorio Villalabeitia Galarraga**, born on 5 March 1951, with national identity/tax number: 14.692.127-A, appointed member of the Board at the Board meeting of 24 January 2002, ratified at the AGM of 6 June 2002. **Non-Executive Domanial Director proposed by BBVA.** *BSc in Economics (Commercial University of Deusto) and BA in Law. Worked from 1977 to 1983 in Banco de Vizcaya, London Branch, as Deputy Regional Manager. From 1983 to 1990 General Manager of Caja de Ahorros Vizcaína (now BBK). In 1990 he was appointed General Manager of Banco Cooperativo Español and between 1993 and 1999 he held several positions in Argentaria. Since 1999 he has held different positions in BBVA. Up to January 2003 he was General Manager of the Industrial and Property Group of BBVA. He is Domanial Director of Telefónica, Repsol and Gas Natural.*

#### **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 Education Philosophy and 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 been Director of the Office of the Sub-Secretary for Public Administrations, Director of the Office of the Sub-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. She has been 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., and Banco Hipotecario (Argentaria).*

### B.1.3. Types of Directors

The Regulations of the Board of Directors classify directors into three groups –Executive, Domanial and Independent–, following the classification proposed by the Olivencia Code –which is 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 (domanial directors) and a sufficient number of independent directors to counterbalance the executive and domanial directors.

By virtue of this classification, of the **twelve members** currently making up the Board of Directors, two are executive directors –the Chairman of the Board, also Executive Chairman, and the Chief Executive Officer– and the other ten are non-executive directors. Of the latter, **four are independent**, who neither are nor represent shareholders able to exert any influence in the control of the company. **The remaining six are domanial 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. All the directors who have been re-elected at General Shareholders Meetings in the last two years have been proposed by the Nomination and Remuneration Committee of the Board of Directors, which in turn put the proposal to the General Meeting. The same procedure has been followed for the two directors who are in their first term.

#### EXECUTIVE DIRECTORS

Name of Director	Position
Mr. Fernando Conte García	Chairman
Mr. Ángel Mullor Parrondo	Chief Executive Officer

The Chairman of the Board is the Executive Chairman of the company, to which all the other executives report, including the Chief Executive Officer.

#### NON-EXECUTIVE DOMANIAL DIRECTORS

Name of Director	Significant shareholder that proposed his appointment	Tax Reg. No. of significant shareholder
Mr. Miguel Blesa de la Parra	CAJA MADRID	G 28029007
Lord Garel-Jones	BA & AA Holdings, B.V.	GB 222452988
Mr. Roger Paul Maynard	BA & AA Holdings, B.V.	GB 222452988
Mr. Gregorio Villalabeitia Galarraga	BBVA	A 48265169
Mr. Pablo Isla Álvarez de Tejera	LOGISTA	A 28141307
Mr. Jorge Pont Sánchez	EL CORTE INGLÉS, S.A.	A 28017895

#### 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

#### **B.1.4. Types of Directors according to the Regulations of the Board of Directors**

The classification indicated above corresponds to that given in the Regulations of the Board of Directors, based on the Olivencia Code, although the latter used the term "external", or non-executive, as a synonym of "independent". Furthermore, in view of the shareholding structure of the company and the capital represented on the Board, the composition of the Board is in keeping with the recommendations of the Aldama Report, which updates those of the Olivencia Code, since a large percentage of the capital is represented, there is a significant majority of non-executive directors on the Board and, of these, a large proportion are independent directors.

#### **B.1.5. Powers delegated to directors**

Both the Chairman, the highest executive of the company, and the Chief Executive Officer, are permanently vested with all the powers of the Board, save those duties that the Board must, by law or the bylaws, perform directly, as stated in subparagraph B.1.0. of this report.

#### **B.1.6. Company directors who are directors or executives of other Group companies**

During 2004, none of the IBERIA directors have been directors or executives of any other companies in the Group.

#### **B.1.7. 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 2004, are set out in the following table:

(at 31 December 2004)

<b>Tax No./ Passport</b>	<b>Name of IBERIA director</b>	<b>Company listed on spanish market</b>	<b>Position</b>
26.166.340-E	Mr. Miguel Blesa de la Parra	ACS ENDESA	Board member Board member
1158700-Y	Mr. José Manuel Fernández Norniella	EBRO PULEVA ENAGÁS ENDESA	Chairman Board member Board member
50.244.546	Lord Garel-Jones	ACCIONA	Board member
401.984-J	Mr. Pablo Isla Álvarez de Tejera	LOGISTA ALTADIS TELEFÓNICA	Chairman Joint Chairman Board member
35.203.147-Z	Mr. José B. Terceiro Lomba	GRUPO PRISA  UNIÓN FENOSA ABENGOA	Board member Chairman Audit Comm. Board member Board member
14.692.127-A	Mr. Gregorio Villalabeitia Galarraga	GAS NATURAL REPSOL TELEFÓNICA	Board member Board member Board member

### B.1.8. Directors' emoluments earned during the period

The emoluments earned during 2004 according to the system of remuneration approved by the General Meeting are described below:

#### a) Directors' emoluments in Iberia, L.A.E., S.A.

The total emoluments earned by directors during 2004 as members of the Board of Directors of Iberia, L.A.E., S.A., are indicated below:

(2004) (thousands of euro)

<b>Remuneration</b>	<b>Emoluments earned</b>	<b>Maximum emoluments authorised by the AGM</b>
Fixed Remuneration	660	-
Attendance Fees (Per Diems)	516	-
Payment in kind	53	-
<b>Total remuneration of board</b>	<b>1,229</b>	<b>1,500</b>

Directors' emoluments for 2004 are 18% less than the overall amount approved by the General Meeting for the year, while the directors' participation in the different committees of the Board has increased since last year.



(2004) (thousands of euro)

<b>Other benefits</b>	
Advances	-
Loans granted	-
Pension Funds and Schemes: contributions	-
Pension Funds and Schemes: obligations contracted	-
Life insurance premiums	0.165
Guarantees furnished by the company for directors	-

The previous tables include the remuneration and other benefits received as Board members by the current Executive Chairman and the Chief Executive Officer. The expenses incurred in the performance of directors' duties in 2004 totalled 10 thousand €.

**b) Remuneration received by directors for being on other Boards and/or in the top management of Group companies**

Apart from the remuneration received by the Chairman and Chief Executive Officer for their top executive positions in the company mentioned in e) of this section, the directors have not received any additional remuneration during 2004 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, Domanial or Independent. The emoluments of the executive directors include those payable to the Chairman and the Chief Executive Officer as members of the Board of Directors of the company.

(2004) (thousands of euro)

<b>Types of Directors</b>	<b>Total remuneration by Iberia, L.A.E., S.A.</b>	<b>Total remuneration by the Group</b>
Ejecutive	198	-
Non-Executive Domanial	612	-
Non-Executive Independent	419	-
<b>Total</b>	<b>1,229</b>	<b>1,229</b>

**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 €218,401 thousand, the directors, as such, have received the following share:

(2004)

<b>Total remuneration directors (thousands of euro)</b>	<b>1,229</b>
<b>Percentage of attributed income</b>	<b>0.56%</b>

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

As regards the executive directors (the Chairman and Chief Executive Officer), 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 members of the Board who have an employment relationship, whether ordinary or top management, or services contract with the company.

The total remuneration earned by the executive directors in 2004 by virtue of their top management positions is € 1,676 thousand, while the expenses in social security, insurance, etc. totalled € 464 thousand.

Only the executive directors participate in stock option plans; no other director has any options over shares in the company. The Chief Executive Officer participated in the Stock Option Plan approved for employees and executives at the General Meeting of 31 March 2001, which has been fully executed, and also participates in the Stock Option Plan approved for executives at the AGM on 6 June 2002, the first date of exercise being in April 2005.

The Chairman participates in the Stock Option Plan approved at the AGM on 6 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 following table gives a breakdown of the different types of remuneration earned by the executive directors during 2004.

(2004) (thousands of euro)	
<b>Remuneration executive directors</b>	
Fixed remuneration	1,002
Variable remuneration	576
Payment in kind	13
Payment in kind deriving from options exercised	85
<b>Total</b>	<b>1,676</b>



### B.1.9. Remuneration of the Management Committee of the Company, excluding Executive Directors

At 31 December 2004, the Management Committee consisted of the Chairman, the Chief Executive Officer and nineteen managers. The composition of the Management Committee at that date is shown in the following table:

<b>Composition of the Management Committee at 31 December 2004</b>		
Executive Chairman	Mr. Fernando Conte García	Tax no.: 2.644.336A
Chief Executive Officer	Mr. Ángel Mullor Parrondo	Tax no.: 50.788.283M
General Manager of the Airline	Mr. Enrique Donaire Rodríguez	Tax no.: 51.615.966X
Manager Legal Dept. & Secretary Board	Ms. Lourdes Máiz Carro	Tax no.: 51.340.955X
Internal Audit & Quality Manager	Mr. Martín Cuesta Vívar	Tax no.: 51.700.994F
Communications Manager	Mr. Luis Díaz Güell	Tax no.: 50.412.643R
Office of Presidency & Protocol Manager	Mr. Francisco Sánchez Arranz	Tax no.: 50.790.309F
Chief Financial Officer	Mr. Enrique Dupuy de Lôme Chávarri	Tax no.: 50.414.232A
International Relations Manager	Ms. Elvira Herrero Mateo	Tax no.: 50.274.984C
Control & Administration Manager	Mr. José M <sup>a</sup> Fariza Batanero	Tax no.: 50.936.229S
Human Resources Manager	Mr. Sergio Turrión Barbado	Tax no.: 279.150E
Shared Services Manager	Mr. Juan Losa Montañés	Tax no.: 26.171.661F
Material Manager	Mr. Manuel López Aguilar	Tax no.: 51.616.862D
Airports Manager	Mr. Fernando Sarmentero Vidal	Tax no.: 51.576.125M
Systems Manager	Mr. Antonio Bugallo Siegel	Tax no.: 35.966.170N
Production Management Manager	Mr. Juan Bujía Lorenzo	Tax no.: 76.374.434J
Commercial Manager	Mr. Manuel López Colmenarejo	Tax no.: 50.927.592A
Customer Relations Manager	Mr. Félix García Viejobueno	Tax no.: 51.958.912A
Cargo Manager	Mr. Alfonso Fuertes Suárez	Tax no.: 10.548.258K
Operations Manager	Mr. Ricardo Génova Galván	Tax no.: 42.003.321P
In-Flight Service Manager	Mr. Víctor Sánchez García	Tax no.: 1.086.811S

### *Remuneration earned by the Management Committee in 2004*

The remunerations paid to the Management Committee during 2004, excluding the Chairman and Chief Executive Officer, totalled € 4,157 thousand, all-inclusive, including the remuneration obtained through the exercise of options under the Stock Option Plan approved at the AGM 2001.

	(2004)
<b>Total remuneration of the Management Committee (thousands of euro)</b>	<b>4,157</b>

### B.1.10. 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 the Management Committee and other company executives include a golden handshake clause. For members of the Management Committee, payment consists of the remuneration corresponding to between six months and three and a half years.

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.1.11. Determination of the remuneration of Board members and relevant clauses of the bylaws, where appropriate**

The AGM/EGM held on 6 June 2002 approved a modification to Article 47 of the company bylaws, which deals with the system of remuneration of directors. 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 euro (€1,500,000) for the fixed assignment, attendance fees for Board and committee meetings and payment in kind.

At the AGMs 2003 and 2004, the shareholders resolved, at the proposal of the Board, to maintain the same maximum overall amount of annual remunerations of the directors for 2003 and 2004, respectively.

At the proposal of the Nomination and Remuneration Committee, the Board resolved on 22 July 2004 to distribute this sum established for 2004 as follows:

##### A) Monetary remuneration:

- A fixed sum for each director of 55,000 € a year.
- A sum of 2,000 € for each Board meeting actually attended.
- A sum of 1,750 € for each committee meeting actually attended.

B) The directors may also use tickets of the company or its franchisee up to and not exceeding an overall sum of 120,000 € for all the directors.

### B.1.12. Members of the Board who are Board members or executives of companies holding significant interests in the listed company and/or in companies in the same Group

(at 31 December 2004)

Name of Director	Tax Reg. No. of significant shareholder	Name of significant shareholder	Position
Mr. Miguel Blesa	G 28029007	CAJA MADRID	Chairman
Mr. Roger P. Maynard	GB 222452988	BA & AA HOLDINGS	Dir. of Investments and Joint Ventures BA
Mr. Pablo Isla	A 28141307	LOGISTA	Chairman
Mr. Jorge Pont	A 28017895	EL CORTE INGLÉS	Deputy to Chairman

Other significant relationships other than those contemplated in the previous section between Board members and companies holding significant interests in the listed company and/or companies in its Group are indicated below:

(at 31 December 2004)

Name of Director	Tax Reg. No. of significant shareholder	Name of significant shareholder	Description of the relationship
Mr. Gregorio Villalabeitia	A 48265169	BBVA	Former executive

### B.1.13. Modifications to the Regulations of Board made during 2004

The Regulations of the Board of Directors of IBERIA, based on the principles of the Olivencia Code, were passed only four years ago, and have not been modified up to now, having proved efficient to guarantee adequate functioning of the Board and total respect for the principles of good governance in listed companies.

### B.1.14. 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. Ten of the current directors of IBERIA have been re-elected by the General Meeting, proposed by the Board and with a favourable report from the Nomination and Remuneration Committee.

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

## **B.1.15. 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 domanial directors will step down when the shareholder whose interests they represent on the Board disposes of its holding in the company.

## **B.1.16. 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.

In IBERIA, there is also a Chief Executive Officer, to whom the Board has delegated all of its delegable powers. 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 both executives have sufficient powers in respect of third parties, certain decisions must at all events be adopted by the Board.

## **B.1.17. 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.

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.1.18. 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.1.19. 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.1.20. Do the Bylaws or Regulations of the Board establish an age limit for directors?**

YES  NO   
 Age limit Chairman   
 Age limit Chief Executive Officer   
 Age limit Directors

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. Neither of the directors holding these positions has yet reached this age.

**B.1.21. 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

The statutory term of office of directors is four years, after which they are eligible for re-election 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 re-elected on more than one occasion; in other words, no independent director may hold that position for more than eight years.

**B.1.22. 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, Domanial 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.1.23. 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**

	(2004)
<b>Board Meetings</b>	
Total number of board meetings	13
No. board meetings not attended by the Chairman	0

	(2004)
<b>Meetings of the Board Committees</b>	
<b>Committees</b>	<b>No. meetings</b>
Executive Committee	10
Audit and Compliance Committee	9
Nomination and Remuneration Committee	9
Safety Committee	4

**B.1.24. Are the individual and consolidated financial statements submitted to the Board for approval previously certified?**YES  NO 

The 2004 individual and consolidated financial statements were submitted by Management to the Board after being certified by the Control and Administration Manager, the Chief Executive Officer 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 2004, and of the results of its operations and any changes produced in its financial position during 2004, 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.1.25. Mechanisms established by the Board to avoid a qualified auditors' report on the individual 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 the 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.1.26. Measures adopted to ensure that the information disseminated on the stock markets is fair and balanced**

The company presents its quarterly and half year financial information to shareholders and investors in pursuance of the legal requirements and sends it promptly to the CNMV, just like any other important information, as a Significant Event. The Internal Code of Market Conduct describes the obligations of the directors, executives and employees of IBERIA with regard to price-sensitive or insider information, to ensure that the information is offered to shareholders and investors fairly and balanced, not benefiting some to the detriment of others.

**B.1.27. 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.1.28. Mechanisms established by the Company to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies**

The Audit and Compliance Committee ensures strict compliance with the legal provisions applicable to IBERIA regarding incompatibilities of auditors, to guarantee their independence from the executive team. Their fees are stated in the financial statements. There are no peculiarities in the company's relations with the other entities, which are entirely independent of the company.

**B.1.29. Does the firm of auditors do any work for the Company and/or its Group other than standard audit work?**

YES  NO

The Annual Report 2004 indicates the fees charged by the main auditor and related firms for different professional services they have provided for IBERIA. The services performed in 2004 are compatible with auditing activities, consisting essentially of counselling in the adaptation of the company and group financial statements to the new international accounting standards (IAS) applicable as from 2005.

2004	Iberia, L.A.E., S.A.	Other companies of the IBERIA Group	Total
Cost of work other than auditing (thousands of euro)	230	-	230
Cost of work other than auditing / Total amount invoiced by the firm of auditors (%)	41%	-	37%

**B.1.30. Number of years in succession that the current firm of auditors has been auditing the financial statements of the company and/or its group. Indicate the ratio of the number of years audited by the current auditors to the total number of years that the financial statements have been audited**

The firm Andersen has audited the financial statements of Iberia, L.A.E., S.A. at least since 1984, and in recent years, prior to its merger with Deloitte&Touche, it also audited the financial statements of some of the Group subsidiaries. The company's relations with this firm were at all times highly professional, with strict application of the accounting and auditing principles.

Since the merger of Andersen with Deloitte&Touche, the General Meeting has been approving the appointment of the latter firm as external auditors, which is also independent and objective in its work. Since 2001, a new partner has been responsible for the audit.

	Iberia, L.A.E., S.A.	IBERIA Group
No. years in succession of Deloitte&Touche's appointment	3	3
No. years audited by current auditors / no. years that the company has been audited (%)	14	14



**B.1.31. 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 2004)

Director	Tax Reg. No. of Company	Company	Activity	No. shares	% stake	Position or duties
Mr. Roger P. Maynard	GB 222452988	BRITISH AIRWAYS	Air transport	4,545	0.000004197	Director Investments & Joint Ventures
Mr. Tristan Garel-Jones	A 08001851	ACCIONA	Handling	-	-	Board member

**B.1.32. 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 2004, the Safety Committee and the Nomination and Remuneration Committee were assisted by external advisers in the performance of their duties.

**B.1.33. 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 2004 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.1.34. Liability insurance for company directors**

YES  NO

The directors are included under the same civil liability insurance policy as the company executives, which covers them for the usual contingencies in this field of professional activity.

To conclude this description of the procedures and activities of the Board of Directors, all the directors have had a high rate of attendance of Board meetings, participating actively in the discussions and contributing efficiently to the decision-making process. Their actions have been guided exclusively by corporate interests, endeavouring to secure the best defence and protection of the interests of all the company's shareholders.

## **B. 2. Committees of the Board**

### **B.2.1. Bodies of the Board of Directors**

<b>Name of body</b>	<b>No. members</b>
Chairman	1
Vice-Chairman	1
Chief Executive Officer	1
Executive Committee	6
Audit and Compliance Committee	4
Nomination and Remuneration Committee	4
Safety Committee	4

### **B.2.2. 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 for the adopting of resolutions binding on the company within the scope of its delegation. The members of this Executive Committee at 31 December 2004 were:

#### ***Executive Committee***

- Mr. Fernando Conte García (Chairman)
- Mr. Miguel Blesa de la Parra
- Mr. Roger Paul Maynard
- Mr. Ángel Mullor Parrondo
- Mr. José B. Terceiro Lomba
- Mr. Gregorio Villalabeitia Galarraga
- Ms. Lourdes Máiz Carro (Secretary)

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. These Committees were strengthened in 2003, increasing their members from three to four. The members are non-executive directors, except the Safety Committee, on which there is also an executive director (the Chief Executive Officer of the company).

The members of these Committees at 31 December 2004 were as indicated below:

#### ***Nomination and Remuneration Committee***

- Mr. Pablo Isla Álvarez de Tejera (Chairman)
- Mr. José Manuel Fernández Norniella
- Mr. Antonio Masa Godoy
- Mr. Jorge Pont Sánchez
- Ms. Lourdes Máiz Carro (Secretary)

#### ***Audit and Compliance Committee***

- Mr. Antonio Masa Godoy (Chairman)
- Lord Garel-Jones
- Mr. José Pedro Pérez-Llorca
- Mr. Gregorio Villalabeitia Galarraga
- Ms. Lourdes Máiz Carro (Secretary)

#### ***Safety Committee***

- Mr. José Pedro Pérez-Llorca (Chairman)
- Mr. Roger Paul Maynard
- Mr. Ángel Mullor Parrondo
- Mr. Jorge Pont Sánchez
- Ms. Lourdes Máiz Carro (Secretary)

### **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:

- a) Adoption of the final resolution on specific matters previously discussed in 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.

- b) 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.
- c) 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 2004 it held ten 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, which is chaired by 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, after the Bylaws had been adjusted accordingly, 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, through regular checking of 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:

- a) Inform at General Meetings on any issues within its competence raised by shareholders.
- b) Propose to the Board, to be submitted to the General Meeting, the appointment of the external auditor, terms of contract, 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.
- c) 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.
- d) Act as 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 in connection with the principles and criteria applicable in the preparation of the financial statements.
- e) Check the financial statements, 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 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 executives of the company.
- i) Consider any 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.

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 will also meet whenever the Board requests reports, recommendations or the adopting of decisions within the scope of its duties.

Nine meetings were held in 2004, 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, examined the degree of compliance with the good governance provisions and monitored the transition of the company's bookkeeping to the International Accounting Standards (IAS). 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 2004 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 domanial 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 executives, 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 executives 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 nine occasions during 2004, specifically analysing the company's remuneration programmes, with advice from external experts.

### **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 an independent director, its members including the Chief Executive Officer and two non-executive domainial 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 2004, 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 are essentially advisory, proposal and reporting bodies, 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 2004.

**B.2.6. Degree of delegation and autonomy of the Executive Committee to adopt resolutions on the administration and management of the company**

The powers of this Committee have been described above, indicating its duty to assist the Board in the preparation of decisions, execute any decisions delegated by the Board and adopt minor or urgent decisions.

**B.2.7. 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 is thus made up of six directors: two executive directors, three domanial directors and one independent director.

**B.2.8. Are all the members of the Nomination Committee non-executive directors?**

YES  NO

As mentioned above, all four directors on the Nomination and Remuneration Committee of IBERIA are non-executive: two domanial and two independent.





# Related party transactions

The most important transactions made during 2004 with the major shareholders are described below.

### C.1. 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 2004 are set out in the following table:

(thousands of euro)

Significant shareholders	IBERIA		COMPAÑÍA AUXILIAR AL CARGO EXPRES, S.A.		AUXILIAR LOGÍSTICA AEROPORTUARIA, S.A.		SISTEMAS AUTOMATIZADOS DE AGENCIAS DE VIAJES, S.A.		IBERIA Group	
	Received from Iberia	Paid to Iberia	Received from Cacesa	Paid to Cacesa	Received from Alaer	Paid to Alaer	Received from Savia	Paid to Savia	Received from Iberia G.	Paid to Iberia G.
American Airlines	13,573	13,083							13,579	13,083
British Airways	7,975	27,022	6						8,114	27,023
El Corte Inglés	31,476	248	139	1			290	141	31,793	394
Logista	702		27	5	1				702	20
BBVA	1,489	5,991		20					1,489	5,991
Caja Madrid	1,028	5,032					9		1,037	5,032
<b>Total</b>	<b>56,243</b>	<b>51,376</b>	<b>172</b>	<b>26</b>	<b>1</b>	<b>0</b>	<b>299</b>	<b>141</b>	<b>56,714</b>	<b>51,543</b>

#### American Airlines:

These transactions essentially include:

- Passenger commissions (ISC and Code Sharing) charged and paid between the two companies for tickets issued by one company and flown by the other.
- Receipts and payments under the Advantage Frequent Flyer Program.

#### British Airways:

These transactions include:

- Passenger commissions (ISC and Code Sharing) charged and paid between the two companies for tickets issued by one company and flown by the other.
- Receipts and payments under the British Executive Frequent Flyer Programme.
- Payments to IBERIA for Passenger and Cargo Handling Services.
- Payments to IBERIA for Engine Maintenance Services.
- Charges to IBERIA for Leasing of VIP Lounges and others.

#### El Corte Inglés Group:

These transactions mainly include charges to IBERIA for:

- Supplies of uniform for flight crew.
- Passenger sales commissions and incentives, and volume discounts under Commercial Agreements.
- Technical Assistance and Maintenance, and others.
- Development of software and hardware.

**Logista:**

Transactions correspond to the handling service and home delivery of tickets sold by telephone. IBERIA also has an In-Flight Sales contract with Altadis, the parent company of Logista.

**BBVA:**

These transactions include:

- Interest on fleet financing transactions and guarantees furnished for aircraft purchases, paid by the parent company, subsidiaries or associated companies.
- Includes payments to IBERIA for the BBVA Visa card and BBVA IBCards IB-Plus Schemes.
- Interest charged on working capital financial transactions.

**Caja Madrid:**

These transactions include:

- Interest on fleet financing transactions and guarantees furnished for aircraft purchases, paid by the parent company, subsidiaries or associated companies.
- Includes payments to IBERIA for the Caja Madrid IBCards Visa card IB-Plus Scheme.
- Interest charged on working capital financial transactions.

## **C.2. 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.3. Transactions with other companies in the same group (Intracompany 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 2004 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 2004, IBERIA invoiced **61,857** thousand € to subsidiaries and associated companies and received services from these companies for the value of **149,189** thousand €, as indicated in Note 17 to the Financial Statements. It received dividends from these companies to the tune of **10,523** thousand € and incurred financial expenses of **100** thousand €.

## **C.4. 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.5. 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.

The Internal Code of Market Conduct also establishes, among other obligations, the duty to control any situations of conflict that may arise.

Finally, the Audit and Compliance Committee has resolved, in pursuance of the Order issued by the Ministry of Economy and Finance on 15 September 2004, to request information on the related party transactions of the company every six months, in order to monitor these transactions closely and report to the Board accordingly.





# **Risk control systems**

## **D.1. Risk policy**

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

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 Master 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 Master 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 Master Plan.

The IBERIA Group also strives constantly to guarantee all its activities and respond adequately to any emergency situations, whether aeronautical or otherwise, that may arise. It has an extensive, exhaustive Emergency Plan, regulated by Internal General Regulation, defining the responsibilities of the Emergency Committee and Support Groups required to protect and defend the safety and physical integrity of all those possibly affected and their belongings, including passengers, the company and its employees.

During 2004 the company stepped up its risk control. The manager of the Internal Audit and Quality Department was required to draw up a Risk Map and monitor its updates, and to lay the foundations for a new Risk Management System, as described below.

### **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.

### **Risk Assessment**

The different tests run 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 assessment metrics set out in the following table have been applied to all the risks identified in the Risk Map:

Table 1: Risk assessment criteria

Impact on income	Probability of occurrence	Time Horizon
Catastrophic 4 >60 Million € (42% net profit 2003)	Certain 4 90-100%	Imminent 4 Less than 6 month
Significant 3 6 - 60 Million €	Likely 3 60-90%	Short Term 3 6 - 18 month
Moderate 2 600,000 € - 6 Million €	Moderate 2 30-60%	Medium Term 2 1.5 - 3 years
Small 1 <600,000 €	Unlikely 1 0-30%	Long Term 1 more than 3 years
Maximum risk value: 12    Minimum value: 3		

### Risk Classification

The different risks have been grouped into the following categories, according to the different control systems used to reduce or mitigate them, described in D.2:

- NTA: risks associated with the project of changing to the new terminal area at Madrid – Barajas Airport, T-4.
- Strategic Objectives: risks associated with the achievement of the strategic objectives defined in the Group's Master Plan.
- Operations: risks associated with some of the operations performed regularly by the company.
- Internal Control: risks associated with the development of activities related with the asset protection and custody services, the truthfulness and accuracy of the accounting information and compliance with applicable legislation.
- 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.
- Catastrophic, such as: fires, natural disasters, air accidents and terrorist attacks, among others.

## D.2. Control systems to assess, mitigate or reduce the principal risks

### I.- NTA

The move to the NTA is managed by a specific Management Department created for the internal coordination of the activities of all the areas related with the project, the NTA Coordination Department. Since practically all the areas of the company are involved in the move from the existing terminals to the new one, this Department endeavours to ensure that the move is made in optimum operating and economic conditions, minimising risks.

## **II.- Strategic Objectives**

The strategic objectives form part of the Master Plan 2003-2005. The Strategic Objectives are supplemented in that plan 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 management referent for the different management committees and, moreover, the management by objectives introduced makes the variable remuneration of the executives responsible for risk management conditional on achievement of the objectives.

### ***Financial Risks***

IBERIA has a blanket management programme for its Financial Risks, to control and reduce any potential 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 required to achieve them.

The Hedging Programme, effected within the time and in accordance with the targets set in the company's Master 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 appreciation of the US dollar against the euro, since the company has larger payments than revenues in dollars.

This risk is basically managed through the combination of 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 associated with 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 also reduces the risk of a general rise in interest rates on company loans through diversification of loan currencies (US dollar, euro, Swiss franc and pound sterling).

**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 over a three-year period through long-term contracts; and on a set of tactical hedges, on a one-year basis, intended to hedge up to an additional proportion of the consumption.

**Liquidity Risk**

Owing to its cyclical business and the investment and financing needs for renewing its fleet, IBERIA's liquidity policy consists of having a large volume of ready cash, approximately equivalent to three months' revenues.

This cash position is invested in highly liquid short-term assets, such as debt repos, euro deposits, bank commercial paper and securitizations 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 for around € 235 million to guarantee its liquidity requirements.

**III.- Operations**

IBERIA has Quality Guarantee Systems regulating flight and ground operations and aircraft maintenance, in compliance with the international aviation standards JAR OPS and JAR 145. Quality Management Systems meeting Standard ISO 9001 have also been installed in flight operation, passenger handling and ramp, aircraft maintenance, cargo and IT system activities. Both guarantee and maintenance systems are audited and certified by the competent official organisations or by authorised certification entities.

**IV.- 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.

**V.- Environment**

The environmental risks are managed through the development, implementation and certification, where appropriate, of procedures and methods designed, in principle, to guarantee compliance with prevailing environmental laws and minimise the environmental impact in each phase of the services provided.

In August 2003, the Environmental Management System was certified under the standard ISO 14001 in the passenger handling and ramp area at 39 airports in the national network, and in December 2004 the Environmental Management System of the Materials Department was certified, also under ISO 14001, covering the aircraft maintenance services provided at La Muñoz. These two certificates affect 67% of the ground staff of IBERIA and practically all material environmental aspects of IBERIA's ground activities.

The risks of emerging environmental regulations, deriving from the operation of aircraft, are handled through IBERIA's participation in the working parties defined in such regulations, on the level of Airline Associations (AEA and IATA) and Administrations (ICAO).

IBERIA also participates in different groups, both national and international, in which airline representatives have a say, for risks related with new regulations other than environmental regulations, whether national or international.

## **VI.- Catastrophic**

### ***Operating Risks***

Including those deriving from its business as an air carrier: flight safety, damage to aircraft and passengers, among others. These risks are managed firstly through the prompt compliance with all aeronautical directives in force relating to safety and secondly through insurance policies taken out with leading Spanish insurance companies, with 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 cover required under the Spanish Air Navigation Act and International Conventions.

Aircraft are covered at their contractual and/or market value and civil liability for damages to passengers and third parties are subject to a maximum combined limit of US\$1.5 billion per incident, with no maximum aggregate limit. This limit also covers third-party liability deriving from the company's business in ground assistance, maintenance and cargo services, among others. For losses deriving from war and terrorism, the insurance cover is limited to US\$1 billion per loss, with an aggregate limit of US\$2 billion.

IBERIA has also taken out other policies covering more generic risks, such as damage to its equity and damage to its fleet of airport vehicles and equipment, among others.

### ***IT System Risks***

Associated to the possible interruption of computer applications, some of which are vital for the adequate performance of operations. Major investments were made in 2004 in the Image Centre, 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 restoring the critical operating systems within a minimum time in the event of a failure at the main data processing centre. These critical systems are essentially the passenger, dispatch and flight and airport control systems.

IBERIA has also developed a Business Continuity Programme, which is a Contingency Plan supplementing the current Emergency Plan, 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. To do this, 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.

### **D.3. Risk materialisation, underlying circumstances and functioning, if appropriate, of the control systems established**

The only risk that materialised in 2004 was the rise in fuel prices, which was mitigated with the hedging strategies described above.

### **D.4. 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 proprietors, normally members of the Management or Top Management, having the utmost responsibility for managing the risks within their area of competence, developing and monitoring action plans.
- Internal Audit and Quality Manager, who is responsible for coordinating Risk Management and checking the controls.

According to its Internal Regulations, the Internal Audit Department must assess and contribute to improving the Risk Management processes. The annual work programme of the Internal Audit Department is based, among other aspects, on the risks pinpointed in the different management areas of the company.

Finally, the Audit and Compliance Committee of the Board of Directors regularly monitors the development and results of the Risk Management System.

### **D.5. 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.

In pursuance of Act 26/2003 of 17 July 2003, amending the Securities Exchange Act 24/1988, of 28 July 1988, and the corresponding statutory instruments, the Board of Directors of IBERIA resolved to lay before the AGM 2004, for approval, the proposed Regulations of the General Meeting of the Company. These Regulations were approved, the CNMV being notified accordingly, 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 issues of debentures, increase or reduction of the 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, the Bylaws stipulate, as does the Corporations Act, 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 and indicated on the attendance card. The letter of proxy must be received by the company prior to the date of the General Meeting, by the deadline indicated 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 representation 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 as stated in 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. Should it not be 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 site with the corresponding information for this purpose.

## **Duties of the General Meeting**

Notwithstanding section 129 of the Corporations Act, 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 individual 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.
- 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](mailto: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](http://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 regarding the items on the agenda received from shareholders at the Shareholders' Office 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 the Board of Directors passed an alteration of the Bylaws to enable the installation of a distance voting system, by electronic vote, taking advantage of the facilities offered by the new technologies.

Through these measures, together with the facilities already offered for representation and proxy votes, the company endeavours 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 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 2004 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 approved at the AGM held on 24 June 2004.

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

Only one General Meeting was held in 2004, the AGM, on 24 June.

### Annual General Shareholders Meeting of Iberia, Líneas Aéreas de España, S.A. held on 24 June 2004

The AGM 2004 was held on second call and attended by:

	Shareholders	Capital	%	No. Shares
Present	279	329,959,063.20	45.72	423,024,440
Represented	2,666	38,239,136.52	5.29	49,024,534
<b>Total:</b>	<b>2,945</b>	<b>368,198,199.72</b>	<b>51.02%</b>	<b>472,048,974</b>

In addition to the capital attending the AGM, a further 15,377,439 shares are held in treasury stock, representing a nominal capital of 11,994,402.42 €.

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

The Agenda for the AGM of 24 June 2004 was as follows:

1. Examination and approval, if appropriate, of the Financial Statements and Management Report of Iberia, L.A.E., S.A. and its Consolidated Group of companies, and of the proposed application of profits and management of corporate affairs by the Board of Directors, all referring to the 2003 financial year.
2. Reappointment of Auditors of the Company and its Consolidated Group for 2004.
3. Modification of the following articles of the Bylaws: 27. General Meeting; 28. Types and Powers of General Meetings; 36. Right to attend; 37. Representation; 38. Chairman of the General Meeting; 40. Discussion and adoption of resolutions; 31. Right to information.
4. Approval of the Regulations of the General Shareholders' Meeting of IBERIA.
5. Approval, pursuant to section 130 and Supplementary Provision Four of the Corporations Act, of the application of a medium-term remuneration system for the Chairman of the Board of Directors of IBERIA, L.A.E., S.A. ("Stock Option Plan"), consisting of the granting of options to purchase shares in the company.
6. Approval of the maximum global amount of directors' emoluments.

7. Authorisation of the Board to purchase shares in Iberia, L.A.E., S.A., directly or through subsidiaries, within 18 months from the date of the General Meeting, annulling the authorisation granted at the AGM/EGM held on 12 June 2003.
8. Delegation of powers to the Board of Directors, with powers of rectification, to formalise, remedy, register, interpret, develop and carry out the resolutions adopted.

<b>Votes cast at the AGM of 24 June 2004</b>						
<b>Agenda</b>	<b>Votes for</b>	<b>%</b>	<b>Votes against</b>	<b>%</b>	<b>Abstentions</b>	<b>%</b>
Item 1	471,683,947	99.92	700	0.00	364,327	0.07
Item 2	471,759,632	99.93	2,225	0.00	287,117	0.06
Item 3	471,819,287	99.95	6,462	0.00	223,225	0.04
Item 4	472,042,252	99.99	3,582	0.00	3,140	0.00
Item 5	449,194,699	95.15	22,044,987	4.67	809,288	0.17
Item 6	471,905,199	99.96	103,160	0.02	40,615	0.00
Item 7	471,973,809	99.98	43,349	0.00	31,816	0.00
Item 8	472,045,009	99.99	0	0.00	3,965	0.00

On 24 June 2004 (significant event number 50,821), IBERIA notified the CNMV of the approval of each and all the resolutions submitted to the AGM held that day. The resolutions adopted can be consulted on the company's web site, "[www.iberia.com](http://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. Policies of the company regarding 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 document granting the proxy or the attendance card contemplated in Article 13 of the Regulations, duly completed for this purpose 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 assistance service to the Presiding Board of the General Meeting before the date of the relevant General Meeting, by 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:

- Their appointment or ratification as director.
- Their removal, dismissal or forced retirement as director.
- Bringing of a corporate action of liability against him.
- Approval or ratification, as the case may be, of transactions between the company and the director or person in question, companies he controls or represents, or persons acting on his 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, whenever the latter is in a situation of conflict of interest, to nominate a director or another shareholder to substitute him.

If a shareholder who has previously delegated his voting rights then transfers the shares such that he 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 through the ordinary channels in the decisions of the company and the General Meeting. 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](http://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, Internal Code of Market Conduct and Internal Regulations of the Audit and Compliance Committee).





# **Extent of compliance with the corporate governance recommendations**

## F.1. Corporate Governance

Growing importance has been attached in recent years to compliance with the rules and recommendations of good governance, particularly in listed companies, in order to increase security of the financial markets and, consequently, investors' confidence, on the basis of transparency and the control and self-control mechanisms of companies' governing bodies.

In Spain, the Ad Hoc Commission for Considering a Code of Ethics for Boards of Directors of Listed Companies, set up in 1997, issued a Report known as the "**Olivencia Code**", setting out 23 recommendations for listed companies to incorporate in their bylaws and regulations and their behaviour, on a voluntary basis:

*"The recommended measures focus on the Boards of Directors and are based on principles of account and reason –including those of transparency and accountability of the Board– and effectiveness, for the benefit of corporate interests, defined according to the rule of creating value for the shareholder."*

The **Olivencia Code** was published in 1998, i.e. before the Bylaws of IBERIA, as a private company, came into force. The Bylaws were thus based on the 23 recommendations of the Code, so compliance is practically total, and the Board of Directors has performed its duties responsibly and effectively, watching over the corporate interests of the company and making whatever decisions have been necessary to guarantee its medium and long-term viability and competitiveness.

Subsequently, on 19 July 2002, the Council of Ministers set up the Ad Hoc Commission for Promoting Transparency and Security on the Markets and in Listed Companies, to study and propose "criteria and guidelines" for the governance of companies and their relationships with a number of undertakings offering professional services, and to establish those criteria and guidelines with a view to increasing transparency and security on the markets. The work of this Commission, after analysing the current state of application of the Olivencia Code, concluded with a report known as the "**Aldama Report**".

The report prepared by this Commission, which was published in 2003, basically follows on from the Olivencia Code, qualifying some of the recommendations and adding others. The extent of compliance by IBERIA with these recommendations is also very high.

Based on the conclusions of the aforesaid Commissions and on the European legislation being prepared on these issues, two laws have been enacted in Spain, the **Finance Act** (November 2002) and the **Listed Companies Transparency Act** (July 2003), which amend certain sections of the Spanish Securities Exchange Act, the Corporations Act and the Audit Act. IBERIA has adapted promptly to the provisions of these laws and the corresponding statutory instruments.

The principal recommendations and rules of corporate governance are set out below, together with an assessment of each one.

## **F.2. Extent of compliance in IBERIA with the recommendations of the Olivencia Code**

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

### **1. The Board of Directors should expressly assume the general supervisory function as its core mission, exercise the corresponding responsibilities exclusively and indelegably and establish a catalogue of matters which are its exclusive competence.**

As mentioned at the beginning of this report, the basic principles prevailing in the actions of the IBERIA Board are efficiency, transparency and responsibility, with the priority aim of increasing the value of the company for shareholders, supervising the business activities and ensuring the future viability and competitiveness of the company, respecting at all times the law and generally accepted behaviour criteria.

Within this general framework, the Board focuses mainly on supervision and control of the ordinary management of the company. The Regulations of the Board establish a formal set of powers, which the Board undertakes to exercise directly:

- a) approval of the company strategies, plans and general policies;
- b) appointment, remuneration and, if necessary, dismissal of senior executives of the company, and oversight and assessment of their management;
- c) approval of the treasury stock policy;
- d) pinpointing of the principal risks of the company and, in particular, implementation and monitoring of adequate internal control and information systems;
- e) definition of reporting and communication policies affecting shareholders, markets and the public opinion;
- f) in general, any transactions entailing the disposal of material assets of the company and large corporate transactions, as well as those specifically contemplated in the Regulations.

In particular, the Board makes a monthly analysis of the company's accounts and business, studying sector trends, the company's share performance and the treasury stock. It approves the Master Plan, normally established for three-year periods, and the Annual Budget, monitoring its fulfilment. It also examines the results of polls and other instruments for measuring the quality of the service offered by the company, seeking adequate information to adopt timely strategies.

### **2. The Board of Directors should include a reasonable number of independent directors, who are prestigious professionals entirely unrelated to the executive team and significant shareholders.**

According to the Regulations of the Board in force since the privatisation of the company, the composition of the IBERIA Board was decided on the basis of this recommendation, with four independent directors. On a Board of twelve members and in a company with the ratio of stable capital to floating capital existing in IBERIA, the number of independent directors is considered proportionate.

All these independent directors are persons with recognised prestige and have no relationship with any of the company executives, domanial directors or significant shareholders that could jeopardise their independence in the performance of their duties. Three of these directors are currently in their second term of office, and the fourth was elected for the first time at the AGM 2003.

**3. In the composition of the Board of Directors, the Non-Executive Directors (Domianial and Independent) should have an ample majority over the Executive Directors, and the proportion between Domianial and Independent Directors should take account of the ratio between significant shareholdings and other shareholders.**

On the IBERIA Board there is an ample majority of non-executive directors, with ten non-executive directors to two executive directors.

Among the non-executive directors, there are six domianial and four independent directors, which proportion is in line with the ratio of capital held by major shareholders and the rest, since at year-end 2004, the shareholders in the Stable Core held 45.73% of the capital, although the pooled shares only represented 38.64%. The rest of the capital stock was distributed among SEPI (5.25%), treasury stock (1.78%) and minority shareholders. There is, therefore, an adequate ratio between represented capital and independent directors, which counterbalance executive and domianial directors.

Consequently, considering the shareholding structure of the company and the capital represented on the Board, the composition of the Board is in line with the recommendations of the Olivencia Code, since a high percentage of capital is represented, there is an ample majority of non-executive directors and, among them, a very significant proportion of independent directors.

**4. The Board of Directors should adjust its size to achieve greater efficiency and participation. In principle, the size could range from five to fifteen members.**

The Board of Directors has twelve members, which is considered proportionate to the size of the company and shareholders, and adequate to allow efficiency.

**5. If the Board chooses to make the Chairman the first executive of the company, it should take the necessary precautions to reduce the risks of concentrating power in a single person.**

There are two executive directors on the IBERIA Board: the Chairman and the Chief Executive Officer. The Board has approved Internal Regulations for the Use and Limitation of Powers of the Chairman and Chief Executive Officer, whereby certain issues must necessarily be resolved by the Board, without prejudice to the extensive powers of these directors.

**6. The Secretary of the Board should be made more important, increasing his/her independence and stability and highlighting his/her duty to ensure the formal and material legality of the Board's decisions.**

The Olivencia Code does not recommend any particular formula for guaranteeing this independence, leaving open the question of whether or not the Secretary is also a director. The Board of Directors of IBERIA has a Non-Director Secretary, who is also legal counsel to the Board and ensures the formal and material legality of its decisions and that the principles of good governance are followed.

**7. The composition of the Executive Committee, if there is one, should reflect the same balance as the Board between the different types of Directors, and the relations between the two bodies should be based on the principle of transparency, so that the Board is fully informed at all times of the business transacted and decisions made by the Committee.**

The composition of the Executive Committee (two executive, three domanial and one independent director) essentially respects the distribution between the different types of directors on the Board and is adequate for a company such as IBERIA, which has two executive directors, even though it does not have exactly the same proportion as on the Board (two executive, four independent and six domanial).

The relations between the Committee and the Board are transparent and the Board is promptly informed of the discussions and decisions of Committee meetings.

**8. The Board of Directors should create sub-Committees, consisting exclusively of non-executive directors, to act as watchdogs, overseeing matters of financial information and control (Audit); selection of directors and senior executives (Nomination); definition and review of remuneration policies (Remuneration); and assessment of governance (Compliance).**

As explained extensively throughout this report, there are three Advisory Sub-Committees within the Board, apart from the Executive Committee. The Executive Committee has decision-making power and the three Advisory Committees (Audit and Compliance, Nomination and Remuneration, and Safety) are intended to spread the work and ensure that in certain matters, except those that 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 prepare and inform on its decisions, thereby increasing the guarantees of objectiveness and effectiveness.

The Advisory Committees of the IBERIA Board deal with the matters considered essential in the Olivencia Code, namely: Audit, Compliance, Nomination and Remuneration. IBERIA also has a Safety Committee, which deals with issues relating to in-flight safety. The three Committees were subsequently strengthened, having four directors each in 2004.

The members of the Audit and Compliance Committee and the Nomination and Remuneration Committee, recommended by the Olivencia Code, are exclusively non-executive directors, as required by that Code. The Safety Committee, which is entirely specific to IBERIA, is made up mostly of non-executive directors, including also one executive director (the Chief Executive Officer), justified by the specific nature of this Committee, which makes the contributions of the Chief Executive Officer important.

Special importance has also been given to the Audit and Compliance Committee, chaired by an independent director, the members of which are all non-executive directors. Its functions are regulated in the Internal Regulations of the Audit and Compliance Committee, adapted to the Finance Act. This Committee currently consists of two non-executive independent directors and two non-executive domanial directors.

**9. The necessary measures should be adopted to ensure that Directors have adequate, specifically prepared and relevant information sufficiently in advance to be able to prepare Board meetings; the importance or confidentiality of the information will not justify non-application of this recommendation, save in exceptional circumstances.**

The documents needed to adopt resolutions are usually sent to directors seven days ahead of Board and Committee meetings and assistance is provided to any directors who so request through the Chairman or the Secretary of the Board.

**10. To ensure adequate efficiency of the Board, it should meet as frequently as necessary to perform its duties; the Chairman should encourage the participation and free positioning of all directors; special care should be taken in drafting the minutes; and the quality and efficiency of its work should be evaluated at least once a year.**

The Board held thirteen (13) meetings in 2004, the Executive Committee ten (10), the Audit and Compliance Committee nine (9), the Nomination and Remuneration Committee nine (9) and the Safety Committee four (4), making a total of forty-five (45) meetings of the governing bodies of IBERIA. The frequency of these meetings in 2004 is considered adequate considering the characteristics of the company and prevailing circumstances.

There is a high level of attendance and participation by directors at Board and Committee meetings.

The Nomination and Remuneration Committee makes an annual assessment of the quality and efficiency of the work done by Board members, particularly the executive directors, informing the Board of its conclusions.

**11. The Board's participation in the selection and re-election of its members should conform to a formal, transparent procedure, based on a reasoned proposal by the Nomination Committee.**

According to company bylaws and regulations, the directors nominated by the Board for appointment by the General Meeting and those appointed by the Board by cooptation must, apart from meeting the requirements stipulated in law and the bylaws for this office, have recognised prestige and adequate professional knowledge and expertise to perform their duties. The Nomination and Remuneration Committee will issue a report on these aspects.

As mentioned elsewhere herein, all the IBERIA directors meet these requirements and all the directors have been re-elected or appointed subsequent to privatisation and subject to this procedure, which guarantees the selection of adequate, competent professionals.

**12. Companies should establish in their regulations the obligation for directors to resign in any situation that could adversely affect the working of the Board or the Company's prestige and reputation.**

The Regulations of the Board define the events in which directors should resign from the Board, to ensure that the prerequisites for being appointed director are met at all times and avoid any conflicts of interest or other conduct that may be detrimental to the company.

**13. An age limit should be set for directors, which could be between sixty-five and seventy for Executive Directors and the Chairman and more flexible for other members of the Board.**

Following this recommendation of the Olivencia Code, the Regulations of the Board have set the age limit for holding office as director at 70, and 65 for the Chairman and Chief Executive Officer. None of the current directors have yet reached this age.

**14. The right of every director to request and obtain the necessary information and advice to enable him to fulfil his supervisory duties should be formally recognised and the appropriate channels should be established for exercising this right, including the possibility of engaging external experts in special circumstances.**

This right is formally recognised in the Bylaws. External experts have also been engaged whenever this has been considered necessary.

**15. The policy regarding directors' emoluments, proposed, assessed and reviewed by the Remuneration Committee, should conform to criteria of moderation, be proportional to the company's earnings and be disclosed in detail on an individual basis.**

As explained elsewhere in this report, the Annual and Extraordinary General Meeting held on 6 June 2002 approved the modification of Article 47 of the Bylaws, concerning directors' emoluments. The remuneration system was adjusted, making it more specific and transparent, combining different remuneration systems (fixed annual remuneration, per diems for attendance of Board and Committee meetings and variable payment in kind) and giving the General Meeting the power to decide on the maximum global amount for all these types of remuneration. Once the General Meeting has specified that amount, the Board distributes it among the different items and the directors, as and when it deems fit.

In view of comparative surveys published, the remunerations of the IBERIA Board are in line with those prevailing on the market, following a principle of moderation. It should be noted that at the AGM held on 12 June 2003, the shareholders resolved, upon recommendation by the Board, to freeze the maximum global amount of directors' emoluments for 2003, in spite of the excellent results posted in 2002. Once again, at the AGM held on 24 June 2004, it was resolved to freeze the maximum global amount of directors' emoluments for 2004.

The Annual Report on Corporate Governance distributed among shareholders at the AGM 2003 set out the details of the directors' emoluments in the form required by the CNMV as from April 2004, explaining the system of internal distribution of the maximum overall amount authorised by the General Meeting and the sums paid in 2002 for each type of remuneration. The Annual Report on Corporate Governance distributed at the AGM 2004 gave the same information in even greater detail.

The directors' emoluments in 2004 are described elsewhere in this report, in the format approved by the CNMV, showing that they respect the limits of the maximum global amount established by the General Meeting and follow the line of moderation. Details are also given of the remunerations paid to executive directors (Chairman and Chief Executive Officer), specifying the different items and including the remuneration corresponding to stock options exercised during 2004. Information is also given on the remuneration of the Management Committee during the year.

**16. The internal regulations of the company should specify the obligations deriving from directors' general duties of diligence and loyalty, contemplating in particular conflicts of interest, the duty of confidentiality, taking advantage of business opportunities and use of corporate assets.**

In IBERIA, not only is this recommendation included in the Bylaws, but moreover it is developed in detail in the Regulations of the Board and the Internal Code of Market Conduct, which was modified in July 2004 to include a more precise regulation of possible conflicts of interest.

**17. The Board of Directors should promote the appropriate measures to extend the duties of loyalty to the significant shareholders, in particular establishing safeguards for transactions between such shareholders and the company.**

On this point, the Regulations of the Board contemplate the directors' duty not to compete with the company and establish a control mechanism to prevent conflicts of interest, submitting any transactions they may make with the company to approval by the Board, subject to a report by the Nomination and Remuneration Committee.

The Regulations of the Board further establish that the Board formally reserves the right to decide on any transactions between the company and a significant shareholder, subject to a report by the Nomination and Remuneration Committee. A general authorisation of the line of transactions and the conditions for making them is sufficient for ordinary transactions. The Board of Directors has generally authorised transactions between the company and the significant shareholders, provided they are transparent and made on arm's length terms, with no privileges.

The company makes those transactions transparent in the Annual Report on Corporate Governance. The Finance Act has also made it compulsory to report half-yearly, according to the statutory instruments passed by the Ministry of Economy or the CNMV.



**18. Measures should be taken to make the proxy mechanism more transparent and to improve communication between the company and its shareholders, particularly the institutional investors.**

Shareholders are given the utmost importance at General Meetings, as the highest decision-making body and watchdog of the company. The full contents of all proposed resolutions that are to be put to the General Meeting and the corresponding justifications are made available to shareholders, through the traditional channels and also on the company's web site. The proxy mechanism contemplated in the Bylaws and used at General Meetings is absolutely transparent and respectful of the will of the represented shareholder, who must state his voting intentions for each item on the agenda. Voting on any items not included on the agenda that may arise and possible conflicts of interest are also specifically contemplated.

The other mechanisms through which the company endeavours to increase communication with the shareholders and stimulate their participation in General Meetings have been described elsewhere herein, including the Shareholders' Office, where shareholders' suggestions and proposals are received, offering a permanent service, approval of the Regulations of the General Meeting and alteration of the bylaws to introduce the electronic voting system.

**19. The Board of Directors, should go beyond the reporting requirements of current legislation and undertake to supply the markets with timely, precise and reliable information, especially concerning the shareholding structure, material changes in the rules of governance, particularly important related party transactions or the treasury stock.**

IBERIA reports rigorously, rapidly and precisely on the income of the company and all other significant information on the company, in the time and form stipulated in law, keeping this information up-to-date through its web site and notifications to the CNMV.

**20. All periodical financial information supplied to the markets, in addition to the annual report, should be prepared according to the same principles and practices as the annual accounts and should be checked by the Audit Committee before being released.**

The financial information is checked by the Executive Committee, the Audit and Compliance Committee and the Board, set out according to the model established in the company for presenting financial information.

**21. The Board of Directors and the Audit Committee should monitor situations that might jeopardise the independence of the company's external auditors and, in particular, they should check the percentage of the audit firm's total revenues represented by the fees paid and that those fees corresponding to professional services other than auditing are publicly disclosed.**

The Audit and Compliance Committee pays particular attention to relations with the external auditors, ensuring maximum independence of the auditors from the executive team. Details of the auditors' fees are given in the financial statements. The fees corresponding to other professional services provided to the different companies of the Group by the main auditor and other related entities are also indicated in the Annual Report. It should be stressed that those professional services are fully compatible with the auditing services and their relative weight is insignificant.

**22. The Board of Directors should endeavour to ensure that the accounts it draws up are laid before the General Meeting without any qualifications in the auditors' report and, when this is not possible, both the Board and the auditors should clearly explain to shareholders and the markets the nature and extent of the discrepancies.**

The Audit and Compliance Committee is responsible for relations with the external auditors and ensuring compliance with this recommendation, endeavouring to avoid any discrepancies regarding the company's bookkeeping. Unqualified auditors' reports were issued on the 2001, 2002, 2003 and 2004 financial statements.

**23. The Board of Directors should include information on its rules of governance in its annual report, justifying any departures from the recommendations of this Code.**

In the Annual Report on Corporate Governance for 2004, shareholders are informed, inter alia, on the following:

- The ownership structure of the company.
- The composition and functioning of corporate governance in the company, with all significant information on each of the directors.
- The essential provisions of the shareholders' agreement signed by the major shareholders of IBERIA, whose shares are pooled.
- The sums earned by Board members and executive directors for each type of remuneration. The remuneration of executive directors is stated separately from that of other Board members.
- The shares held by each and all of the directors.
- The related party transactions between significant shareholders, directors or executives and the company.
- The risk control systems of the company.
- Functioning of the General Meeting.

A Report on Corporate Social Responsibility also accompanies this report.

This report, which is adjusted to the model approved by the CNMV, provides more extensive information than last year, to give shareholders a better insight into the governing bodies of the company and the decision-making mechanisms. In particular, this section F) contains detailed indications on the compliance of each of the recommendations of good governance.

### **F.3. Degree of compliance in IBERIA of the criteria and guidelines of the Aldama Report**

According to the Aldama Commission, the investment markets are currently shifting from a system focusing mainly on banks and similar financial institutions to stock exchanges. This, together with a growing volume of capital and a situation of uncertainty generated by different causes, requires the application of three basic principles: effective validity of the rule of law, self-regulation of the markets as far as possible and maximum transparency.

The recommendations of the Aldama Commission and the extent of compliance by the company are set out below, respecting the structure of the Aldama Report and highlighting the essential contents. It essentially follows on from the Olivencia Code, although it diverges in some aspects and is more specific in others.

#### **A) The principle of transparency and the duty to report**

The Aldama Commission considers that security on financial markets and in listed companies is achieved primarily through transparency, which is a powerful mechanism allowing control by shareholders.

1. *Duty to report on the ownership structure of the company, giving: (i) a true and fair, up-to-date view of the powers controlling the company, disclosing the structure of its capital, the percentages of significant shareholdings and any family, contractual or corporate relationships; (ii) details of shareholders' agreements and control structures of the groups, and (iii) details of protective measures ("poison pills", etc.).*
2. *Duty to report on the management structure of the company: (i) composition, rules of organisation and workings of the Board of Directors and its sub-Committees; (ii) identity, track record, stake in the capital and remuneration of their members; (iii) duties and positions of each director within the company; (iv) relations between directors and significant shareholders; (v) cross-directorships or tied directorships and procedures for selection, removal or re-election; and (vi) explanation and assessment of practices in place.*
3. *Duty to report on the related party transactions (with core shareholders, directors and executives) and intracompany transactions (with subsidiaries).*
4. *Duty to report on risk control systems.*
5. *Duty to report on the rules and regulations of the General Meeting: (i) channels for communication between the company and its shareholders, (ii) proxy policies, and (iii) informing on problems encountered during General Meetings and on the meetings per se (attendance, information given, questions, complaints).*
6. *Duty to report on the web site: all the provisions on corporate governance of the company should be consolidated in a single text, published for the general knowledge of investors, updated using internet technologies. Minimum contents of the information: (i) Bylaws, (ii) Regulations of the Board and General Meeting, (iii) Quarterly reports, annual accounts and reports by external auditors, (iv) Composition of the Board and Committees, (v) Identification of the shareholders directly or indirectly holding stable interests, and their representation on the Board, shareholders' agreements, (vi) shareholding interests held directly or indirectly by each and all of the Board members, who should inform the company accordingly within no more than 48 hours, (vii) treasury stock and significant changes, (viii) information on presentations made to the markets and significant shareholders, (ix) calls to General Meetings and related information, (x) resolutions adopted at the last General Meeting, (xi) significant events, (xii) any significant related party transactions with core shareholders, directors and executives, and (xiii) summary of the reports issued by the main analysts, investment banks or rating agencies that cover the company on a regular basis. The Order of the Ministry of Economy No. 3722/2003, of 26 December defined the necessary contents of the web page and the CNMV has supplemented that Order with technical requirements.*

7. *Annual Report on Corporate Governance: the information on points 1 - 6 should be set out in an orderly fashion. The Commission recommends regulating this document to see that it is presented on homogenous bases, enabling monitoring and assessment by investors. This report should be examined and approved, if appropriate, by the full Board. The Ministry of Economy and the CNMV have converted this recommendation into a legal requirement.*
8. *Duty to report on any departures from the good governance standards: principle of "comply or explain".*

The company took a major step towards complying with this principle of transparency and the criteria for its compliance with the **Corporate Governance Report** distributed among shareholders for the first time at the AGM of 12 June 2003, referring to 2002. That report, previously approved by the Board of Directors, offered the most important information on the Board and its Committees, the ownership structure of the company and related party transactions between the company and its controlling shareholders.

This Annual Report, issued for 2004, completes the previous information with aspects such as the risk control systems and information on the rules and regulations of the General Meeting, as recommended in the Aldama Report and made compulsory in the model approved by the CNMV on 17 March 2004.

The Board of Directors approved the basic contents of the company's **web page** for shareholders and investors in January 2004, setting out in an orderly fashion all the information required by the Order of the Ministry of Economy of December 2003 and any other information considered of interest for investors and shareholders. The web page was reconfigured in 2004 to make access easier and adapt it to the guidelines currently followed for this type of communication.

Finally, this section F of the Annual Report corresponds to the "**comply or explain**" principle, whereby the company must make an explicit self-assessment, explaining the degree of implementation of the rules and recommendations on corporate governance.

## **B) Duties of loyalty and diligence of directors**

The Aldama Commission considers that **security** on a financial market and in listed companies is achieved primarily, but not exclusively, through transparency.

It is also necessary to regulate conflicts of interests, because the essence of the security requirement on markets is for investors to be confident that the value produced by the company (the directors are obliged to maximise value creation, which is not to be construed solely or primarily in terms of the stock exchange value at any given time) is distributed correctly and the directors and controlling shareholders do not obtain disproportionate benefits for their work and stakes in the capital.

The Aldama Commission considers that self-regulation is not enough here, but that this regulation should be incorporated into company law, which has been done through the Listed Companies Transparency Act of July 2003.

9. *Specification of the duties of loyalty and subjective extension of the duties of loyalty. These recommendations were given legal status in the Transparency Act of July 2003, which amended the Corporations Act on this point, imposing certain obligations on the Directors of Public Limited Companies ('Sociedades Anónimas'), based on the fundamental duty of loyalty.*
10. *An ethical framework: (a) minimise the adverse side effects of business activities (restructurings, pollution...), (b) positive actions in respect of all the players involved directly or indirectly in the company, including society as a whole.*

In the company, the **duties of loyalty** and, in general, everything concerning conflicts of interest, are regulated in the Regulations of the Board, and more especially, in the Internal Code of Market Conduct, as explained elsewhere herein. It has also been stated in this report that the directors have not fallen into any conflicts of interest that have jeopardised the good governance of the company, or any undue use of corporate assets or taking advantage of business opportunities to the detriment of the company.

The company attaches tremendous importance to ethical conduct, aware that it has duties and responsibilities not only to its shareholders, also to society at large. The activities of IBERIA in this area are duly described in the **Report on the Corporate Social Responsibility of the Company**, which is to be distributed among shareholders on the occasion of the Annual General Meeting.

## **C) The Governing Bodies of the Company**

### ***The General Shareholders Meeting***

The Aldama Report makes the following recommendations in respect of the General Shareholders Meeting:

11. *Information for shareholders for General Meetings: (i) as soon as the notice of call is issued, the company must publish on its web site the full contents of the proposed resolutions, giving a clear, precise, understandable justification for each one, and (ii) this point should be included in the Regulations of the General Meeting;*
12. *Preparation and dissemination of Regulations of the General Meeting, which must include at least the aspects mentioned in paragraphs 13 - 16;*
13. *It is recommendable for the company to regulate the need or otherwise to submit to the General Meeting certain business decisions, duly defined, that are important for the future of the company and the interests of shareholders and investors;*
14. *A resolution of the General Meeting should be required to adopt protective measures intended to discourage or frustrate takeover bids or to remove certain persons from office, even by establishing special majorities, or prohibitions; anyone affected by a possible conflict of interests should abstain from voting;*
15. *The notice of call to the General Meeting, should (i) be made public sufficiently in advance, (ii) contain the full text of the resolutions, and (iii) enable the publicising of alternatives proposed by the shareholders;*

16. *Recommendations concerning the procedure at General Meetings: (i) adopt measures to favour participation by shareholders, ensuring that the casting of their votes respect their will; (ii) foster the participation of institutional shareholders; (iii) establish the rules of procedure: chairmanship, information to be provided during the General Meeting and answering of questions submitted in writing, duration, order and number of participants, attendance and participation by the auditors and the chairmen of the specialised committees, and form of minutes, and (iv) standardisation of attendance cards.*

All these recommendations are adequately met, as described elsewhere herein. The draft Regulations of the General Meeting, containing full regulation of all these points, were approved at the AGM 2004 for approval by the shareholders.

### **The Board of Directors**

The Aldama Report makes a number of recommendations concerning the Board of Directors, which are set out briefly below and which are practically entirely fulfilled by the Company.

A) Types of Directors and requirements they must meet:

17. *Definition of the Executive Directors: those who perform executive or management duties in the company or any of its subsidiaries and who, in any case, have a contractual relationship, whether employment, commercial or of whatsoever other nature, with the company, other than that deriving from their condition as director, and who have been granted regular delegations or powers of attorney.*
18. *Definition of Non-Executive Domanial Directors: those proposed by shareholders with a stable interest in the capital stock, which, irrespective of the right to proportional representation, the Board considers sufficiently significant, taking account of the floating capital, to submit proposals to the General Meeting.*
19. *The disqualifications of Domanial Directors from entering into commercial or professional relations with the company or its group should be similar to those applicable to independent directors, indicating which disqualifications may affect the shareholders represented by them.*
20. *The Domanial Directors should disclose any possible situations of conflict of interest between the company and the shareholder they represent, abstaining in the voting on the corresponding resolutions.*
21. *The Non-Executive Independent Directors are prestigious professionals with a sound knowledge of corporate governance, who are elected as such and meet conditions that guarantee their impartiality and objective opinion. These conditions include, inter alia: (i) not having recently entered into any significant contractual relationship with the company, its executives, the domanial directors or the companies they represent, credit institutions with a prominent position in the financing of the company or organisations subsidised by the company, (ii) not being a director of any other listed company having domanial directors in the company in question, and (iii) not having any close blood relationship with any of the executive or domanial directors or any members of the senior management of the company.*
22. *Impossibility of removing Non-Executive Directors (Domanial and Independent). Once these directors have been appointed by the General Meeting, the Board should not propose their removal before the end of the statutory term for which they were appointed, save in exceptional circumstances, justified and approved by the Board based on a report by the Nomination and Remuneration Committee.*

The Regulations of the Board of Directors of IBERIA include this classification of directors, although they use the terminology of the Olivencia Code (which uses the term “non-executive” as a synonym of “independent”). There are currently two executive directors (Chairman and Chief Executive Officer), six domanial directors and four independent directors, thus complying with the recommendations of the Aldama Report.

B) Composition of the Board and its sub-Committees:

23. *Composition of the Board of Directors: the Board should, through the directors, represent the largest possible percentage of the capital.*
24. *Composition of the Board of Directors: there should be an ample majority of non-executive directors on the Board and, among those non-executive directors, a very significant proportion of independent directors, taking account of the shareholding structure of the company and the capital represented on the Board.*
25. *Composition of the Audit Committee: all the members should be non-executive directors, appointed in consideration of their professional experience and expertise, maintaining a proportion of domanial and independent directors similar to that of the Board. The chairman of the Committee should be an independent director. Executive directors may not sit on this Committee.*
26. *The Audit Committee should have its own Regulations, within the Regulations of the Board, which should contemplate the following duties: (i) inform on the annual accounts and the quarterly and half-year financial statements, mentioning the internal control systems, monitoring and compliance oversight, through the internal audit department, and the accounting principles applied, (ii) full access to the internal audit department, report on the selection and removal of the chief audit officer, and on the decision on his remuneration, informing on the budget of this department, (iii) selection and removal of the external auditor and terms of contract, and (iv) preparation of an annual report on its activities, which should be included in the management report.*
27. *Nomination and Remuneration Committee: the recommendations of the Olivencia Commission are repeated.*
28. *Strategy and Investment Committee: companies should assess the opportunity of setting up this body, to propose and issue reports on all strategic decisions, investments and divestments having a significant bearing on the company, assessing whether they are in line with the budget and strategic plans.*

The composition of the Board, described in detail herein, perfectly reflects that **balance** recommended by the Aldama Report between the representation of the largest possible percentage of capital (six directors appointed at the proposal of shareholders representing the capital held by the Stable Core) and a significant number of independent directors (four).

At 31 December 2004, the shareholders in the Stable Core held 45.73% of the capital, although the pooled shares only represented 38.64%. The rest of the capital stock was distributed among SEPI (5.25%), treasury stock (1.78%) and minority shareholders. There is, therefore, an adequate ratio between represented capital and independent directors, which counterbalance executive and domanial directors.

As regards the **Committees of the Board**, this company has those recommended as essential: Audit and Compliance Committee and Nomination and Remuneration Committee. It has not been considered necessary to create a specific Strategy Committee, since these duties are performed by the Executive Committee,



although a Safety Committee has been set up to deal with issues relating to in-flight safety. The Audit and Compliance Committee has its own specific Regulations, contemplating all the duties required by the Finance Act. All the members of this Committee are non-executive directors and it is chaired by an independent director.

C) Remuneration of the Board and Senior Management:

29. *Remuneration of the Board: the Aldama Commission considers that the itemised remuneration received by each director should immediately be disclosed in the notes to the annual financial statements, including the delivery or assignment of shares and stock options. The remuneration corresponding to the executive directors as directors could be temporarily separated, and stated on an individual basis in the notes to the financial statements, from the remuneration corresponding to them as company executives, which would be included, with no individual mention, within the information contemplated in the following paragraph.*
30. *Remuneration and total cost of the Senior Management (Management Committee or similar): should be included globally, with the number and indication of their positions, in the Annual Report, itemised as: salary in cash or in kind, stock options, bonuses, pension schemes, provisions for severance pay and any other compensations that may exist.*
31. *Golden handshake clauses for members of the senior management to cover events of dismissal or changes of ownership: each Board of Directors should establish self-regulation to avoid abusive or unjustifiable situations. In any case, any contract of this nature must be formally approved by the Board of Directors. When the agreed amount of the severance payment is equivalent to more than two years' salary, a provision must be made for the excess on the balance sheet of the year in which it is approved, recorded separately.*

The Annual Report 2003 included a detailed explanation of the distribution of the maximum global amount among the directors for the different types of remuneration. This Annual Report for 2004 also informs on all these types of remuneration, using the model approved by the CNMV in March 2004. Accordingly, the remuneration earned by the directors as such in 2004, specifying each type of remuneration, is stated separately from the remuneration earned by the executive directors by virtue of their senior management relationship with the company. The itemised remuneration of the Management Committee is also included.

The Company has approved a golden handshake formula for company executives, which, in the case of the Management Committee, is equivalent to their remuneration for between six months and three and a half years. 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 for 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.

Finally, the company applies the prevailing accounting principles to any provisions to be made.



D) Company Accounts:

*32. The accounts submitted to the Board of Directors should previously be certified as to their accuracy and integrity by the Chairman (if he has executive duties), the Chief Executive Officer and the Chief Financial Officer. Once it has received the appropriate report from the Audit Committee, made whatever consultations it may consider necessary to the external auditor and obtained all the necessary information, the Board will draw up the annual accounts and management report, clearly and precisely, applying internationally recognised accounting principles.*

The company Management has submitted the individual and consolidated annual accounts for 2004 to the Board to be formally drawn up, previously certified by the Control and Administration Manager, the Chief Executive Officer and the Chairman. The certificate guarantees that the accounts have been taken from the company's accounting records, reflecting all its transactions and its assets and liabilities, giving in all material respects a true and fair view of its net worth and financial position at 31 December 2004 and of the results of its operations and any changes produced in its financial position during 2004, 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.

The company has been working especially intensely over the past year to prepare the transition to the new international accounting standards (IAS), which will be applicable as from 2005.

E) Secretary of the Board:

*33. In addition to the duty to watch over the formal and material legality of the Board's actions and decisions, the Secretary of the Board should be expressly assigned the duty to check the legality of the Bylaws, fulfilment of all provisions issued by regulatory authorities and the consideration of recommendations, if any, as well as to ensure observance of the principles or criteria of corporate governance of the company and the provisions of the Regulations of the Board.*

The Regulations of the Board highlight the obligation of the Secretary to guarantee the formal and material legality of the requirements established for the calling of meetings, quorum and decision-making process, and to watch over the governance rules and procedures of the company.

#### **F.4. Adaptation during the year to the Corporate Governance Rules included in the Finance Act and the Transparency Act**

Finally, it should be stressed, in connection with the **Finance Act** (Financial System (Reform Measures) Act 44/2002, of 22 November 2002) and the **Transparency Act** (Act 26/2003, of 11 July 2003, amending the Securities Exchange Act and the Corporations Act to boost the transparency of listed companies), that IBERIA has complied with all the obligations regarding good governance within the times stipulated in law.

The company has been stepping up the regulation of significant information and price-sensitive information since 2003. In July 2003 the Board approved the new text of the "Internal Code of Market Conduct of Iberia, Líneas Aéreas de España, S.A. and its Group" for this purpose. And in June 2004, these Regulations were modified to introduce detailed regulation of possible conflicts of interest.

The AGM held on 12 June 2003 approved the alteration of the Bylaws to regulate the Audit and Compliance Committee, subject to the applicable legal requisites. The Board also approved the modification of the Internal Regulations of the Audit Committee, to adapt them to the new Supplementary Provision 18 of the Securities Exchange Act, introduced by the Finance Act. This Committee was strengthened with the inclusion of an additional member, a non-executive director, and the increased frequency of its meetings, which led, among other issues, to the restructuring of the department responsible for the internal auditing of the company.

With regard to the measures required under the Finance Act concerning disqualifications of external auditors and rotation of teams, as well as indication of their remunerations in the company's annual report, it has been mentioned elsewhere in this report that the external auditors of IBERIA respect the provisions on disqualifications and the obligation to contract them on an annual basis after expiry of the initial term of contract, rotating the entire team every seven years. The fees charged for their auditing services and other services are set out clearly and transparently in the Annual Report 2004.

The company offers sufficient information on its related party transactions in the Annual Reports on Corporate Governance, and this information is also going to be included in the company's half-year reports, in accordance with the new regulations established by the Ministry of Economy in its Ministerial Order 3050/2004 of 15 September 2004, making the publication of this information compulsory as from June 2005.

In connection with the **Listed Companies Transparency Act**, in force since July 2003 the AGM held on 24 June 2004 proceeded to: (1) approve the Regulations of the General Meeting; (2) make certain adjustments to the proxy voting slips for the AGM to avoid conflicts of interest; and (3) alter the Bylaws to enable electronic voting and proxy voting. This will be put into practice at the forthcoming AGM.

The Act granted a period of three years from its coming into force for publication of any shareholders' agreements, to be notified, deposited and published by the shareholders. IBERIA, seeking the utmost transparency for its shareholders, publicised the Shareholders' Agreement of its Stable Core immediately following the privatisation, in its Annual Reports on Corporate Governance.

The IBERIA Board approved the contents of its web page for shareholders and investors, which includes the minimum contents required by law and any others considered important to give a full insight into the governance and operations of the company. In 2004, IBERIA entirely reconfigured its web page for shareholders and investors, to make it more complete and accessible.

Finally, the obligations established in the Act regarding the contents of the Annual Report on Corporate Governance were duly met in the Annual Report 2003, delivered to shareholders at the AGM held on 24 June 2004.

In conclusion, the degree of compliance by the company with the rules and recommendations on corporate governance may be considered highly satisfactory, without prejudice to the ongoing need to adjust to new provisions on corporate governance as and when they are approved. Furthermore, all the members of the senior management and board of directors of the company have undertaken to maintain at all times a conduct commensurate with those rules and recommendations and use their best endeavours to achieve this.

The work by all the management and directors in this respect is reflected not only in the excellent results posted in 2004, but also in the increased confidence of investors in the company, the generation of value for shareholders and the achievement of high levels of quality in the service provided, which, in turn, guarantee the competitiveness and stability of the company. Suffice it to recall that the IBERIA shares increased their value by **11.8%** in 2004 and by **114.3%** since the company's privatisation in April 2001.

The company has been awarded numerous prizes and recognitions of these achievements, as set out in the Report on Corporate Social Responsibility.

IBERIA was also highlighted in 2004 by the MERCO Report (Spanish Monitor of Corporate Reputation), published by the daily financial newspaper Cinco Días, among the ten enterprises with the best corporate reputation in Spain.

The company was particularly pleased at being awarded the **Prize for Corporate Governance 2004** by "Mi cartera de inversión". The jury for this prize, chaired by Enrique Aldama, was made up of well-known representatives in the area of good governance, including Manuel Olivencia, inter alia. This prize was awarded in recognition of the efforts made by the company to adopt the best practices in corporate governance.



# Annex

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

**2004**

### **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, chaired by an Independent Director and consisting exclusively of Non-Executive Directors. It is 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](http://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 during 2004.

### **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 Committee members is required to appoint the Chairman, with the favourable vote of at least two-thirds of the members. 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, while the substitute for the Secretary, if necessary, will be the youngest member.

The Audit and Compliance Committee currently has the following composition:

Position	Members	Date of appointment	Type of Director
Chairman	Mr. Antonio Masa Godoy	5 April 2001	Non-Executive Independent
Members	Mr. José Pedro Pérez-Llorca	5 April 2001	Non-Executive Independent
	Lord Garel-Jones	5 April 2001	Non-Executive Domanial
	Mr. Gregorio Villalabeitia Galarraga	25 Sept. 2003	Non-Executive Domanial
Secretary	Mrs. Lourdes Máiz Carro	5 April 2001	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 the external auditors, terms of contract, scope of their commission and, where appropriate, their removal or non-renewal. 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 in connection with 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, duly 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 interlocutors, or taking such measures as may be necessary to secure the information requested or the collaboration of the appropriate advisers.

## **V.- Activities in 2004**

The Audit and Compliance Committee held nine meetings in 2004.

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 on 22 January, 26 February and 22 March 2004, the Committee examined the 2003 financial statements of the company, assisted by the auditors, and resolved to submit to the Board on 25 March the draft balance sheet, profit and loss account, notes to the accounts and directors' report for 2003 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 24 June 2004. 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.

The Committee has analysed the documents corresponding to the 2004 balance sheet, profit and loss account, notes to the accounts and directors' report of IBERIA, S.A.E. and its Consolidated Group at several meetings during 2004 and 2005, assisted by the External Auditors, in order to be able to report at the corresponding meeting on the annual accounts and directors' report and submit them to the Board to be officially drawn up. The auditors' report is, once again, unqualified.

On 22 April and 22 May 2004, the Committee analysed the Annual Report on Corporate Governance and Corporate Social Responsibility Report for 2003. On 4 March 2005, it issued a favourable report on the Annual Report on Corporate Governance and the Corporate Social Responsibility Report for 2004.

The Committee has devoted considerable time and attention during 2002, 2003 and 2004 to supervising the adaptation of the company's accounting systems to the International Accounting Standards, applicable as from 2005, and analysing the possible effects of the new accounting rules on the company's accounts, to ensure an expedient, timely transition.

### External Auditors

On 26 May 2004, the Committee resolved to reappoint its external auditors (Deloitte&Touche), whose previous term of appointment expired in 2003. The Board resolved to submit this proposal to the AGM held on 24 June 2004, which approved their reappointment for one year.

The Committee held three meetings with the auditors during 2004, 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 2004 accounts.

The fees for audits made by Deloitte&Touche of the company and group accounts amounted to €407 million. 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 2004. 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 in the transition of the company and group accounting practices to the new international accounting standards (IAS) applicable as from 2005, keeping the two types of services reasonably in proportion. The non-audit work was done by a different partner to the one responsible for the audit.

2004	Iberia, L.A.E., S.A.	Other companies in the IBERIA Group	Total
Fees charged for non-audit work (€ thousand)	230	-	230
Fees for non-audit work / Total invoiced by auditors (%)	41	-	37

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 six meetings of the Audit and Compliance Committee, at which he submitted the new Risk Map of the company and the Risk Management Procedure, reported on the fulfilment of the 2003 Audit Plan and presented the Audit Plan for 2004.

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.
- Overseeing 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 2004 the Committee studied and submitted to the Board a modification to the Internal Code of Market Conduct, incorporating detailed regulation of any conflicts of interest that may arise. This modification was approved by the Board and remitted to the Spanish Securities Exchange Commission (CNMV). The Regulations are available for shareholders and investors on the IBERIA web site ([www.iberia.com](http://www.iberia.com)).

At several meetings held during 2004, the Audit and Compliance Committee studied and issued a favourable report on the draft Regulations of the General Meeting of Shareholders, describing in detail all the shareholders' rights within the company's principal decision-making body. These draft Regulations were approved at the AGM on 24 June 2004 when submitted by the Board. The Regulations contemplate for the first time the possibility of delegation and electronic voting. The Regulations of the General Meeting are available for shareholders and investors on the company's web site ([www.iberia.com](http://www.iberia.com)).

On recommendation by the Audit and Compliance Committee, during 2004 the Board approved the contents of the web site for shareholders and investors with a view to improving transparency, giving it a new configuration and design making it more accessible for the company's investors and shareholders.

Finally, on 4 March 2005, after a thorough examination of the degree of compliance with the rules and recommendations on good governance, the Committee concluded that the company's fulfilment of these obligations was very high.

### **Other activities**

The Audit and Compliance Committee has supervised the functioning of the internal control systems of several operating areas with considerable weight in the company's accounts. In this respect, with the collaboration of the managers of the corresponding departments, it has analysed the hedging and procurements systems, inter alia, of each of these areas separately.

In view of this work and the results obtained, the Audit and Compliance Committee of the Board of Directors of Iberia, L.A.E., S.A. has reached entirely satisfactory conclusions regarding the quality and transparency of the company's financial information and the efficiency of its internal control systems and the degree of compliance by IBERIA of the good governance rules and recommendations.

This Report was unanimously approved by the Audit and Compliance Committee on 4 March 2005.

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**Edition & Design**

Gosban  
Tel.: 93 539 44 50  
[www.gosban.com](http://www.gosban.com)

**Print**

Tecfa Group

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