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VISION, STRATEGY, AND ORGANIZATION.

The year 2002 was one of transition for the aviation industry following the events of 11th September, 2001. IBERIA, thanks to the measures aimed at increasing flexibility that were taken immediately after these events -the return of leased aircraft, the delay in receipt of new aircraft, and a reduction in spending- managed to become one of the few airlines to post a profit for the year.

• *Strategy for the next three years.*

IBERIA's Strategic Plan for 2003-2005, approved on 4th December, 2002, is focused on improving service quality, the consolidation of profitability, growth with flexibility, and increased productivity. The proper management of social and environmental affairs is viewed as an integral part of this programme, in order that IBERIA's growth can be sustainable, as well as flexible and profitable.



• *Objectives of the Strategic Plan for 2003-2005.*

- To increase capacity in order to maintain and consolidate leadership in the Madrid and Barcelona hubs.
- To maintain operational and financial flexibility in order to adjust growth to market trends.
- To improve competitiveness via a sharp reduction of unit costs.
- To implement a distribution strategy that lowers marketing costs.
- To launch a new model of in-flight service, to become price-service leaders in each customer segment.
- To improve service quality and relations with our most valued customers through increased punctuality.



- To maintain a portfolio perspective in managing business lines.
- To reduce capital costs by close monitoring of operational and financial risks.
- To boost the competitiveness of our human resources.
- To use alliances to strengthen our competitive position.

The strategies contained in the Plan will enable IBERIA to meet the challenges and seize the opportunities of the next three years, when new runways will be commissioned at the airports of Madrid and Barcelona, along with a new terminal at Madrid-Barajas. These expanded facilities will give rise to new competitors, as will the opening of the new high-speed railroad line between Madrid and Barcelona.

• ***IBERIA's Environmental and Social Organization.***

The Environmental Unit, reporting to IBERIA's General Technical Department, is in charge of the company's environmental management on the corporate level. There is also an Environmental Management Group to coordinate the actions of all business units that impact on the environment, enabling the Environmental Unit to initiate and implement projects for ensuring that environmental aspects are duly considered in all company areas.

IBERIA's Advertising, Sponsorship, Institutional Relations, and Public Relation units, which report to the Communications Division, handle most of our community aid and sponsorship projects, including relations with the Iberia Association of Parents with Disabled Children, the "Mano a Mano" ["Hand to Hand"] NGO, and the Special Olympics organization, and are also in charge of the specific projects in which a large proportion of IBERIA's staff customarily participates.

• ***Environmental Management.***

IBERIA is now integrating environmental management procedures into the existing quality management systems, starting in 2002 with the handling activities conducted by the Handling Division at the 39 Spanish airports in which IBERIA operates. This initiative, which is to be in the first quarter of 2003, is based on UNE-EN ISO 9001:2000 and UNE-EN ISO 14001:1996 standards.



Quality Control Systems ISO Certifications *

DIVISION	CERTIFYING/ ACCREDITING BODY	STANDARD	SCOPE
Operations	SGS ICS Ibérica, S.A.	UNE-EN-ISO 9001:2000	Aircraft operation, commercial transportation, and support measures design management.
Handling	AENOR	UNE-EN-ISO 9002:1994	Ground handling services.
Cargo	AENOR	UNE-EN-ISO 9002:1994	Air cargo service: reservations and admission of goods. Flight dispatch and cargo delivery.
Aircraft Maintenance	AENOR	UNE-EN-ISO 9002:1994	Military aircraft, aircraft engines and components maintenance. Non-destructive testing. Standardisation and control tests of aeronautical materials and products.
Aircraft Components	ENAC	UNE-EN-ISO/IEC 17025	Electrical calibrations. CC and low frequency.
Computer Systems	AENOR	UNE-EN-ISO 9002:1994	Management of mainframe computer equipment and data-processing centre communications. Production of applications processed in data-processing centre. Monitoring of diverse production systems within the data-processing centre. Support for users of IBERIA IT systems.

* December, 2002

In addition, Iberia's Handling Division has an active Quality and Environment Committee.

In 2002 IBERIA developed the following environmental management procedures:

- Procedures in accordance with the UNE-EN ISO 14001:1996 standard to be applied within the Handling Division Quality System. Certification is expected in the first quarter of 2003.
- Corporate procedures developed by Iberia's Environmental Unit relating to identification and access to legal and other requirements, and to the use of environmental criteria in the procurement of goods and services.

- Improvements to the Hazardous Waste Management procedures followed within the Maintenance Division at Spanish airports and IBERIA's industrial facilities.

Lastly, Iberia participates in several national and international environmental working committees, in order keep up with all new developments and standards, and to take part in the appropriate decision-making forums.

IBERIA's Participation in Environmental Working Groups	
BODY	WORKING GROUP
ICAO (International Civil Aviation Organization)	CAEP (Committee on Aviation Environmental Protection), WG 5 (working group 5, Trade Emissions).
IATA (International Air Transport Association)	ENTAF (Environmental Task Force).
AEA (Association of European Airlines)	IEC (Infrastructure and Environmental Committee) and EWG (Environmental Working Group).
oneworld	OWED, Oneworld Environmental Directors.
Ministerio de Medio Ambiente	Transport sub-group.
Ministerio de Fomento	DGAC (Civil Aviation Authority, Air Transport Group).
AGE-CEOE	Spanish Employers Association transport study subgroup.

• **Social Affairs Management.**

IBERIA's commitment to social welfare translates into projects that benefit the most diverse groups of people, institutions and countries, which means that many thousands of people now perceive IBERIA as something more than a commercially-oriented airline.

This commitment, and the responsibilities we share with the groups closest to us, as well as a policy of transparency which ensures that our employees are aware of the results of our actions and their public impact, is essential to achieving and preserving a good corporate image. This is backed by an external communications policy aimed at improving perceptions of IBERIA by the most socially-committed individuals and organizations.

These policies were initially inspired by our employees, who long ago realised that their jobs and tools placed them in an excellent position to help needy people in many places.

Moreover, aware of the concerns of our customers, the Iberia Group involves them in its social action through two channels, offering the opportunity to contribute to IBERIA campaigns by donating Iberia Plus frequent flyer points, and through in-flight and airport collection of spare change in foreign currencies, such as those held this year to help integrate disabled people through sport.

• **Management of Human Capital.**

The great diversity of the IBERIA staff, as well as its geographical dispersion, alongside the complexity of the airline business, together mean that the company's most important challenge is to ensure that all the different groups of people are fully empowered to carry out their increasingly demanding tasks, and hence to help the Iberia Group to achieve its objectives.

With regard to training, IBERIA has designed a model suitable for the industry to which we belong, one which undergoes continual change and adaptation to the requirements of a competitive and fully de-regulated global market. Thus training activities are aimed at achieving a series of specific objectives allied to our business strategies. The commercial, economic and financial consolidation that is the aim of our latest Strategic Plan is what is now determining our training activities.

At the same time, IBERIA employees are key players in IBERIA's community actions. It was through their initiative that one of IBERIA's most important projects, the Mano a Mano ["Hand to Hand"] organization, came into being, and they continue to conduct its campaigns.

In addition, IBERIA employees voluntarily contribute a proportion of their pay to a Solidarity Fund that is administered by IBERIA's two main shop committees. Many of our ground and flying staff members, and even retired IBERIA personnel, participate actively in the campaigns, both in Spain and in the countries to which IBERIA flies. It is through their efforts that appropriate aid beneficiaries are identified, and materials are collected, shipped, and delivered "hand to hand".

Through the Solidarity Fund Iberia employees contribute to the Association of Parents with Disabled Children of Iberia (APMIB), which operates six centres providing paid employment for 1,400 physically and mentally handicapped people.



• **Taxes Returned to the Community.**

In 2002 the taxes and social security contributions made by IBERIA and its employees amounted to nearly 406 million euros, not counting the 421 million euros in fees IBERIA paid to the Spanish Airport Authority AENA.

