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AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Vueling Airlines, S.A.

1. We have audited the financial statements of Vueling Airlines, S.A., which include the balance sheet as at 31 December 2011, the income statement, the statement of changes in net equity, the cash flow statement and the notes corresponding to the financial year ending on said date. The preparation of these financial statements is the responsibility of the Company's Directors in accordance with the financial information regulatory framework applicable to the company (identified in Note 2.1 of the attached Management Report) and, specifically, with the accounting principles and criteria contained therein. Our responsibility is to express an opinion about the above-mentioned financial statements as a whole, based on the work performed in accordance with generally accepted auditing standards, which require examination, through the performance of selective tests, of the justifying evidence for the financial statements and the evaluation of their presentation of the accounting principles applied and of the estimations made.

2. In our opinion, the accompanying 2011 financial statements present, in all material aspects, a true and fair view of the net worth and financial position of Vueling Airlines, S.A. as at 31 December 2011 and of the results of its operations, of the changes in net equity and cash flows corresponding to the financial year ending on that date. They contain necessary and sufficient information for their proper interpretation and understanding, in accordance with the applicable generally accepted accounting principles and standards accepted in Spanish legislation applied on a basis consistent with that of the previous year.

3. The accompanying management report for 2011 contains the explanations which the Directors consider appropriate relating to the company's situation, the development of its businesses and other issues, and does not form an integral part of the annual report. We have verified that the accounting information contained in the aforementioned management report is consistent with that contained in the financial statements for 2011. Our work is confined to checking the management report with the above-mentioned scope, and does not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in the Official Register of
Account Auditors (ROAC) No. S0692

Ana Maria Gibert

26 March 2012

VUELING AIRLINES, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2011

(Thousand Euros)

ASSETS	Notes	31/12/2011	31/12/2010
NON-CURRENT ASSETS:			
Intangible fixed assets-	**Note 6**	**64.675**	**61.931**
Goodwill		15.419	15.419
Computer software		12.523	9.779
Slots and segments		36.733	36.733
Property, plant and equipment -	**Note 7**	**2.928**	**6.154**
Aircraft components		1.673	3.801
Furniture and equipment		1.255	2.353
Long-term financial investments-	**Note 9.1**	**115.417**	**102.525**
Other financial assets		89.258	100.260
Derivatives	**Note 15**	26.159	2.265
Deferred tax assets	**Note 16.5**	**56.897**	**58.875**
Total non-current assets		**239.917**	**229.485**
CURRENT ASSETS:			
Inventories-	**Note 10**	**353**	**170**
Trade		353	170
Trade and other receivables-		**47.188**	**31.678**
Receivables for sales and services rendered		40.397	23.866
Receivables, related companies	**Note 14**	-	6.239
Sundry receivables		4.303	851
Credits with Public Authorities	**Note** 16.1	2.488	722
Short-term financial investments-	**Note 9.2**	**290.896**	**208.808**
Debt securities		-	2.000
Derivatives	**Note** 15	31.302	7.221
Other financial assets		259.594	199.587
Prepayments and acrrued income		**7.111**	**5.133**
Cash and cash equivalents-	**Note 9.3**	**14.947**	**35.972**
Cash		14.947	14.509
Cash equivalents		-	21.463
Total current assets		**360.495**	**281.761**
TOTAL ASSETS		**600.412**	**511.246**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2011	31/12/2010
SHAREHOLDERS' EQUITY:	**Note 11**		
Capital-		**29.905**	**29.905**
Authorised capital		29.905	29.905
Share premium		**199.185**	**199.185**
Reserves-		**1.623**	**(5.514)**
Legal		5.981	-
Other reserves		(4.358)	-
Treasury shares		**(713)**	**(713)**
Prior years' losses		**(37.738)**	**(76.596)**
Loss for the year		**10.383**	**45.995**
Total Capital and Reserves		**202.645**	**192.262**
Adjustments for changes in value	**Note 15**	**38.835**	**6.705**
Subsidies, donations and bequests received	**Note 11.6**	**27**	**409**
Total net equity		**241.507**	**199.376**
NON-CURRENT LIABILITIES:			
Long-term provisions -	**Note 12.1**	**151.996**	**129.848**
Other provisions		151.996	129.848
Deferred tax liabilities	**Note 16.6**	**28.339**	**14.041**
Total non-current liabilities		**180.335**	**143.889**
CURRENT LIABILITIES:			
Short-term liabilities-	**Note 13.1**	**4.541**	**25.138**
Debts with credit institutions		2.294	23.926
Derivatives	Note 15	2.247	1.212
Debts with related companies	**Note 14**	**32.769**	**21.435**
Trade and other payables-		**101.715**	**87.608**
Suppliers		64.948	58.466
Sundry payables		26.118	17.695
Personnel		5.177	6.017
Other debts with Public Authorities	Note 16.1	3.005	3.403
Advance payments from customers	Note 5.9	2.467	2.027
Short-term accruals and deferred income	**Note 5.9**	**39.545**	**33.800**
Total current liabilities		**178.570**	**167.981**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**600.412**	**511.246**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the Balance Sheet as at 31 December 2011.

VUELING AIRLINES, S.A.

2011 Income Statement

(Thousand Euros)

	Notes to the annual accounts	2011	2010
CONTINUING OPERATIONS:			
Net turnover-	**Note 17.1**	**856.170**	**789.623**
Provision of services		856.170	789.623
Work performed on assets	**Note 6**	**391**	**587**
Procurement-	**Note 17.2**	**(253.540)**	**(183.624)**
Consumption of raw materials and other consumables		(253.540)	(183.624)
Other operating revenue	**Note 17.4**	**6.895**	**6.304**
Personnel Expenses-	**Note 17.5**	**(80.817)**	**(75.036)**
Salaries, wages and similar items		(68.828)	(65.017)
Social contributions		(11.989)	(10.019)
Other operating expenses-	**Note 17.6**	**(511.058)**	**(471.778)**
External services		(510.698)	(471.540)
Taxes		(360)	(213)
Losses, impairment and change in provisions commercial operations		-	(25)
Depreciation and amortisation	**Notes 6 and 7**	**(6.616)**	**(5.787)**
Results from disposals and other items	**Note 6**	**(28)**	**(203)**
OPERATING PROFIT (LOSS)		**11.397**	**60.086**
Financial income-		**10.344**	**3.311**
From tradable securities and other financial instruments with third parties		10.344	3.311
Financial expenses-		**(3.239)**	**(1.566)**
For debts with third parties		(3.239)	(1.566)
Exchange differences	**Note 18**	**(3.640)**	**3.876**
FINANCIAL PROFIT (LOSS)		**3.465**	**5.621**
Profit (loss) before tax		**14.862**	**65.707**
Corporation tax	**Note 16.3**	(4.479)	(19.712)
Profit (loss) for the year from continuing operations		**10.383**	**45.995**
DISCONTINUED OPERATIONS:			
Profit (loss) for the year from discontinued operations net of tax		-	-
PROFIT FOR THE YEAR		**10.383**	**45.995**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2011 Income Statement

VUELING AIRLINES, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011
A) STATEMENT OF RECOGNISED INCOME AND EXPENSE
(Thousand Euros)

	Notes to the annual accounts	2011	2010
RESULT FROM THE INCOME STATEMENT (I)		**10.383**	**45.995**
Income and expenses recognised directly in equity:			
For cash flow hedging	**Note 15**	59.961	20.582
Tax effect		(17.988)	(6.331)
Total income and expenses directly attributable to net equity (II)		**41.973**	**14.251**
Transfers to the income statement:			
For cash flow hedging	**Note 15**	(14.061)	(11.034)
Tax effect		4.218	3.310
Subsidies, donations and legacies received	**Note 11.6**	(546)	(721)
Tax effect		164	216
Total transfers to the income statement (III)		**(10.225)**	**(8.229)**
Total recognised income and expense (I+II+III)		**42.131**	**52.017**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2011 statement of recognised income and expense

VUELING AIRLINES, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011
B) TOTAL STATEMENT OF CHANGES IN EQUITY

(Thousand Euros)

	Capital	Share premium	Legal Reserve	Goodwill Reserve	Other Reserves	Treasury Shares	Losses brought forward	Profit/loss for the year	Adjustments for change in value	Subsidies, donations and bequests	Total
Balance at end of 2009	**29.905**	**199.185**	**-**	**-**	**(5.514)**	**(713)**	**(104.373)**	**27.777**	**178**	**914**	**147.359**
Adjustments for changes in criteria and errors	-	-	-	-	-	-	-	-	-	-	**-**
Adjusted balance at start of 2010	**29.905**	**199.185**	**-**		**(5.514)**	**(713)**	**(104.373)**	**27.777**	**178**	**914**	**147.359**
Distribution of profit (loss) for 2009	-	-	-	-	-	-	27.777	(27.777)	-	-	**-**
Total recognised income and expense	-	-	-	-	-	-	-	45.995	6.527	(505)	**52.017**
Final balance 2010 and adjusted balance at start of 2011	**29.905**	**199.185**	**-**	**-**	**(5.514)**	**(713)**	**(76.596)**	**45.995**	**6.705**	**409**	**199.376**
Distribution of profit (loss) for 2010	-	-	5.981	1.156	-	-	38.858	(45.995)	-	-	**-**
Total recognised income and expense	-	-	-	-	-	-	-	10.383	32.130	(382)	**42.131**
Balance at end of 2011	**29.905**	**199.185**	**5.981**	**1.156**	**(5.514)**	**(713)**	**(37.738)**	**10.383**	**38.835**	**27**	**241.507**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2011 total statement of changes in equity.

VUELING AIRLINES, S.A.

2011 CASH FLOW STATEMENT

(Thousand Euros)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**58.170**	**98.825**
Profit (loss) for the year before tax		**14.862**	**65.707**
Adjustments to profit (loss)-		**25.328**	**25.037**
Depreciation and amortisation	Notes 6 and 7	6.616	5.787
Change in provisions		22.149	24.668
Profit (loss) for retirements and disposals of fixed assets	Note 6	28	203
Financial income		(10.344)	(3.311)
Financial expenses		3.239	1.566
Exchange rate differences	Note 18	3.640	(3.876)
Changes in working capital-		**12.975**	**7.535**
Trade and other receivables		(14.989)	8.173
Change in inventories		(183)	-
Other current assets		(1.978)	1.051
Trade and other payables		27.357	14.024
Other current liabilities		6.410	(1.838)
Other non-current assets and liabilities		(3.642)	(13.875)
Other cash flows from operating activities-		**5.005**	**546**
Payment of interest		(3.239)	(1.566)
Interest received		8.244	2.112
CASH FLOWS FROM INVESTMENT ACTIVITIES (II)		**(56.478)**	**(195.525)**
Operating profit (loss):			
Payments for investments-		**(82.453)**	**(204.617)**
Intangible fixed assets	**Note 6**	(6.732)	(4.521)
Property, plant and equipment	**Note 7**	(67)	(359)
Other financial assets	**Note 9**	(75.654)	(199.737)
Proceeds for disposals		**25.975**	**9.092**
Other financial assets		25.975	9.092
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(22.717)**	**11.390**
Collections and payments for financial instruments-		**(21.633)**	**10.960**
Debts with credit institutions		(21.633)	10.960
EFFECT OF EXCHANGE RATE VARIATIONS (IV)	**Note 18**	**(1.084)**	**430**
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(21.025)**	**(85.310)**
Cash or equivalents at the start of the year		35.972	121.282
Cash or cash equivalents at the end of the year		14.947	35.972

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2011 cash flow statement

Vueling Airlines, S.A.

Annual Accounts for the
year ending 31 December 2011
and Management Report, together with
the Auditors' Report

Vueling Airlines, S.A.

Notes to the annual accounts
for the year ending
31 December 2011

1. Company Activity

The Company Vueling Airlines, S.A. (hereinafter, Vueling or the Company) is a company incorporated in Spain in 2004 in accordance with the Public Limited Companies Act, now the Capital Companies Act.

The Articles of Association state that the corporate purpose is to operate and manage the air passenger transport business under the commercial name of Vueling.

Its registered office is located in Barcelona, in the Mas Blau II Business Park, at plaza del Pla de l'Estany, No. 5 (El Prat de Llobregat). The Company mainly operates in Spain and the European Union.

2. Basis for presentation of the Annual accounts

2.1. Financial reporting legislation applicable to the Company

The Directors have prepared these annual accounts in accordance with the financial reporting legislation applicable to the Company, which is that established in:

a) The Code of Commerce and other commercial legislation.

b) The Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and its Sector Adaptations.

c) The mandatory standards approved by the Institute of Accounting and Account Auditing in implementation of the General Chart of Accounts and its complementary standards.

d) Other applicable Spanish accounting legislation.

2.2. True and Fair View

The accompanying annual accounts have been obtained from the Company's accounting records and are presented in accordance with the financial reporting legislation applicable to the company and, in particular, the accounting principles and criteria contained therein, so that they give a true and fair view of the Company's net worth, financial position, results and cash flow during the year. The annual accounts have been prepared by the Company's Directors and will be submitted for approval by the General Meeting of Shareholders. They are expected to be approved without any modifications thereto.

The 2010 annual accounts were approved by the General Meeting of Shareholders held on 27 May 2011.

2.3. Non-mandatory accounting principles applied

No non-mandatory accounting principles have been applied. Furthermore, the Directors have prepared these annual accounts in accordance with all mandatory accounting principles and standards which have a material effect on the aforementioned annual accounts.

There is no mandatory accounting principle which has not been applied.

2.4. Critical aspects for measuring and estimating uncertainty

In preparing the accompanying annual accounts, the Company's Directors have used estimates to measure some of the assets, liabilities, revenue, expenses and commitments which are recorded therein. These estimates basically refer to:

- The fair value and useful life assigned to Clickair, S.A.'s intangible fixed assets as a result of the merger carried out in 2009 (see Notes 5.1 and 6).

- The calculation of the impairment of intangible assets, goodwill and other assets (see Notes 5.1 and 6).

- The useful life of tangible assets and other intangible assets (see Notes 5.1 and 5.2).

- The calculation of provisions and the current value of the deposits submitted (see Notes 5.10 and 12.1).

- The market value of certain financial instruments (see Notes 5.4.4 and 15).

- The assessment of possible losses due to the impairment of certain financial assets (see Note 5.4).

Although these estimates are performed on the basis of the best information available as at the 2011 balance sheet date, it is possible that the events which may take place in the future require them to be modified (up or down) prospectively in the coming years.

2.5. Information comparison

For informative purposes, the information contained herein for 2011 is presented together with the 2010 information.

2.6. Aggregation of items

Certain items in the balance sheet, the income statement, the statement of changes in equity and the cash flow statement are grouped together so as to aid their understanding. However, material information has been broken down in the corresponding notes.

2.7. Changes in accounting criteria

There were no significant changes in accounting criteria in 2011 compared with the criteria applied in 2010.

2.8. Error correction

There were no error corrections in 2011 with regard to the figures for 2010.

3. Business combination

In 2009, the Company merged with Clickair, S.A.

The transaction was structured by the Company as a merger by takeover of Clickair, S.A.

The main economic reasons for the aforementioned merger were to obtain significant revenue and cost synergies.

The merger involved a capital increase in Vueling Airlines, S.A. of 14,952 thousand euros (corresponding to 14,952,259 new shares, each with a par value of one euro), with a share premium of 65,640 thousand euros, which was fully subscribed and paid up by means of a non-monetary contribution of all of Clickair S.A.'s shares.

Appendix I of the 2009 annual accounts includes disclosures required by Act 43/1995.

The cost of the aforementioned business combination was 87,216 thousand euros, of which 80,592 thousand euros corresponded to the fair value of Clickair, S.A., based on independent expert reports, while the remaining 6,623 thousand euros corresponded to costs associated with the business combination.

The definitive recording of the integration for accounting purposes took place on 30 June 2010, within the legal period of one year established in the General Chart of Accounts.

4. Distribution of profit

The Company's Directors' proposal for distributing the 2011 profit, which will be submitted for approval by the General Meeting of Shareholders, is as follows:

	Thousands of Euros
Offsetting losses from prior years	9,612
To reserve for goodwill	771
Total	**10,383**

5. Recognition and measurement

The main standards for recognition and measurement used by the Company in preparing the 2011 and 2010 annual accounts, in accordance with those established by the General Chart of Accounts, were as follows:

5.1. Intangible fixed assets

The intangible fixed assets are made up of goodwill, the slots and segments resulting from the merger with Clickair, S.A. and computer software.

As a general rule, intangible fixed assets are initially measured at their acquisition price, production cost or fair value if they come from a business combination. They are subsequently measured at their cost less the corresponding accumulated amortisation and, as the case may be, losses for impairment. These assets are amortised based on their useful lives, except goodwill.

Goodwill

Goodwill appears in the assets when its value is clearly based on an acquisition for consideration in the context of a business combination. Goodwill is assigned to each of the cash-generating units expected to receive the benefits of the business combination and is not amortised. Instead, these cash generating units undergo an impairment test, at least once per year, in accordance with the methodology indicated below. As the case may be, the corresponding value adjustment is recorded.

Impairment adjustments recorded in goodwill are not subject to review in subsequent years. The criteria for determining possible goodwill losses are described in the section "Impairment of property, plant and equipment and intangible assets".

Specifically, under this heading the Company records the goodwill resulting from the merger by takeover of Clickair, S.A., as described in Note 3.

Computer software

In this account, the Company records the costs incurred in the acquisition and development of computer software, including the costs of developing websites. The maintenance costs of computer software are charged to the income statement in the year in which they are incurred.

Computer software is amortised applying the straight line method over a period of five years.

The work which the Company performs for its own fixed assets is recorded at the accumulated cost resulting from adding external costs and internal costs based on the direct labour incurred.

Slots and segments

Under this heading, the Company records the fair value of the slots and segments resulting from the merger with Clickair, S.A. (see Note 3). Based on an analysis of all the significant factors, the Company's Directors have estimated that there is no foreseeable limit for the period over which these assets are expected to generate net cash flow. Therefore, these assets have been classified as having an indefinite useful life and are not amortised, but are subject to an impairment test in accordance with the methodology specified below. The useful life classification is reviewed at the end of each year and is consistent with the Company's corresponding business plans. The criteria to determine the possible loss of slots and segments is described below.

Impairment of property, plant and equipment and intangible assets

At the balance sheet date each year (in the case of goodwill or intangible assets with an indefinite useful life) or whenever there are signs of impairment (for other assets), the Company carries out an impairment test to estimate any possible losses in value which would reduce the recoverable value of said assets to an amount lower than their carrying amount.

The recoverable value is determined as the greater value between the fair value less costs to sell and the value in use.

The projections are prepared based on past experience, the business plan and the best available estimates for the next four years.

The procedure introduced by the Company to carry out the aforementioned test is as follows:

- The recoverable values are calculated for each cash-generating unit (CGU). Whenever possible, impairment calculations are carried out individually item by item.

- Every year, the Company prepares financial projections for revenue and profits for each cash-generating unit based on their business plan. For the 14 slots and segments measured, financial projections were carried out individually item-by-item taking into account each one as a single cash generating unit. For its part, the remaining goodwill was assigned to the Company's other existing slots, segments and routes from Clickair, S.A. together as one single CGU.

- The main assumptions and data considered by the Company for the impairment test are as follows:

    - Given that the slots and segments are associated with a right of flight at a specific time in a specific airport and as this time continuously varies as a result of the requests made by the Company to AENA to adapt the slot and segment to the different routes operated, the Management has considered that the slots and segments may have suffered changes with regard to the time initially considered in identifying said assets. Accordingly, in its impairment analysis the Company considers the daily revenue of a change to a specific time for each slot and segment corresponding to each one of the 14 identified CGUs.

    - The list of the 14 CGUs and their assigned value, in thousands of euros, is as follows:

Slots and segments	Thousand euros
CGU 1	6,572
CGU 2	4,798
CGU 3	4,007
CGU 4	3,729
CGU 5	3,634
CGU 6	3,516
CGU 7	2,376
CGU 8	2,205
CGU 9	1,776
CGU 10	1,576
CGU 11	863
CGU 12	860
CGU 13	708
CGU 14	113
Total	**36,733**

    - Financial forecasts have been prepared for the revenue and results of the next four years under an assumption of organic growth in capacity in a range of between -0.2% and +2.2% for the 14 CGUs with value assigned and in a range of between 8.6% and 9.7% for the other CGUs in the Company. These financial forecasts used the historic and forecast returns of the routes which the Company operates as a starting point.

    - The years from 2012 to 2015 have been based on the Company's Business Plan, prepared on the basis of the budget of revenue per available seat-kilometre (RASK) and costs per available seat kilometre (CASK) and a percentage increase in revenue and cost depending on the main market variables, also including both in the revenue and in the margin the assumptions used of aggressive growth in competition, in the price of fuel (average of 110 USD/barrel, average of 85 USD/barrel in the previous year) and the expected dollar-euro exchange rate (1.40 USD/euro, 1.33 USD/euro in the previous year), according to forecast data published in reliable sources of financial information. The forecasts for 2012 are identical to the Company's budget for 2012 approved by the Board of Directors.

- The Company has considered perpetual income without growth based on the income of the last forecast year.

- The discount rate to be applied. This is understood as the weighted average cost of capital, which is mainly affected by the cost of the liabilities and the risks specific to the assets. The discount rate used was 10.5% (9.7% in the previous year).

Sensitivity analysis

If the following were used in calculating the Company's financial forecasts:

- The lack of organic growth.

- The increase in the discount rate (WACC) of 1% (up to 11.5%).

- The increase in the price of fuel from $110 per barrel up to $140 per barrel.

- The increase in the dollar-euro exchange rate from 1.40 to 1.30,

then these new assumptions both separately and taken as a whole would also not imply the need for any impairment either for the slots and segments or for the goodwill.

When an impairment loss is subsequently reversed (which is not allowed in the specific case of goodwill), the carrying amount for the asset or the cash-generating unit is increased by the revised estimates of the recoverable value, but in such a way that the increased carrying amount does not exceed the carrying amount which would have been determined if no impairment loss had been recognised in previous years. This reversal of an impairment loss is recognised as income.

The Company's Directors do not expect problems of impairment loss of its intangible assets at the balance sheet date.

5.2. Property, plant and equipment

Property, plant and equipment are initially measured at the acquisition price or production cost and subsequently reduced by the corresponding accumulated depreciation and impairment losses, as the case may be, in accordance with the criteria mentioned in Note 5.1.

The conservation and maintenance costs of the different items which make up property, plant and equipment are charged to the income statement in the year in which they occur. On the other hand, amounts invested in improvements which contribute to increasing capacity or efficiency or extending the useful life are recorded as a greater cost of those assets.

The Company depreciates property, plant and equipment following the straight line method, applying annual depreciation percentages which are calculated based on the estimated useful life of the respective assets, as shown in the following table:

	Estimated years of useful life
Aircraft components	3 – 6 (*)
Handling equipment	3 – 10
Information processing equipment	5 – 7
Technical facilities	8 – 10
Furniture	8 – 10
Other facilities and equipment	9 – 10

(*) According to the useful life of the leasing agreement.

The Company's Directors do not expect problems of impairment loss of its property, plant and equipment at the balance sheet date.

5.3. Leases

The leases in which the agreement substantially transfers all the risks and benefits inherent to ownership of the assets to the Company are classified as finance leases, while other leases are classified as operating leases. The Company does not have any finance leases as at 31 December 2011 or 2010.

Operating leases

In 2011 and 2010 the Company only acted as a lessee.

Expenses arising from operating lease agreements are charged to the income statement in the year in which they accrue and mainly correspond to aircraft leases paid in dollars.

Any amount paid upon taking out an operating lease is treated as an advance payment which is allocated to the income statement over the lease period as the benefits of the leased asset are received.

Future operating lease payments mainly depend on the number of the Company's aircraft as well as the price of the dollar (see Note 8).

The incentives granted to date to the Company by the aircraft manufacturer Airbus are charged to the heading "Long-Term Financial Investments-Loans to third parties" (see Note 9.1) and are credited to the heading "Subsidies, donations and bequests received" (see Note 5.14) and consist of letters of credit received which will be paid through training of crew and mechanics and the acquisition of rotable components and consumables necessary for operating the aircraft. The Company charges the services received to expenses, recognising the amount corresponding to subsidies as income.

5.4. Financial Instruments

5.4.1. Financial assets

Classification

The financial assets held by the company are classified in the following categories:

- Loans, deposits and other receivables: financial assets arising from the sale of goods or provision of services as part of the company's operations (basically deposits given to aircraft lessors), or those which do not have a commercial origin and are not equity instruments or derivatives and from which the amounts received are fixed or determinable and which are not traded on an active market.

- Held-to-maturity investments*:* debt securities with fixed or determinable payments and a fixed maturity date, which are traded on an active market and for which the Company declares its intention and ability to hold them up to the maturity date.

Initial measurement

Financial assets are initially recorded at the fair value of the consideration plus the directly attributable transaction costs.

Subsequent measurement

Loans, receivables and investments held to maturity are valued at their amortised cost.

At least at the balance sheet date, the Company performs an impairment test for the financial assets which are not recorded at fair value. There is considered to be objective evidence for impairment if the recoverable value of the financial asset is lower than its carrying amount. When this occurs, the impairment is recorded in the income statement.

Specifically, and with respect to the value adjustments for trade and other receivables, the criteria used by the Company to calculate the corresponding value adjustments, as the case may be, is to analyse the age of the receivables and to apply an impairment to those outstanding receivables with a significant age or whose recovery is doubtful.

The Company de-registers financial assets when they expire or the right over the corresponding cash flows of the financial assets are assigned and the risks and benefits inherent to their ownership have been transferred, such as the firm sale of assets or assignments of commercial loans in factoring transactions in which the company does not retain any credit or interest rate risk.

5.4.2. Financial liabilities

Financial liabilities are the Company's payables which result from the purchase of goods and services for the company's operations, and also those which having a non-commercial origin, cannot be considered as derivative financial instruments.

Payables are initially measured at the fair value of the consideration received, adjusted for the directly attributable transaction costs. These liabilities are subsequently measured according to their amortised cost.

The Company de-registers financial liabilities when the obligations which they have generated expire.

5.4.3. Equity instruments

An equity instrument represents a residual holding in the Company's Equity, once all its liabilities have been deducted. Capital instruments issued by the Company are recorded in Net Equity at the amount received, net of issue costs.

The treasury shares which the Company acquires during the year are recorded directly as a lower value of Net Equity at the value of the consideration received. The results arising from the purchase, sale, issue or amortisation of treasury shares are directly recorded in Net Equity, with no result being recorded in the Income statement.

5.4.4. Derivative financial instruments

The company uses derivative financial instruments to hedge against the risks which its activities, operations and future cash flows are exposed to. These risks are basically variations in exchange rates, interest rates and the price of fuel. Within the context of these transactions, the Company uses hedging instruments (see Note 15).

For these instruments to be classified as hedging instruments for accounting purposes, they are initially designated as such by documenting the hedging relationship. Similarly, the Company verifies, initially and periodically throughout its life, that the hedging relationship is effective i.e. that it is prospectively expected that the changes in the hedged item's fair value or cash flows (applicable to the hedged risk) are almost fully offset by the hedging instrument and that, retrospectively, the results of the hedging have varied within a range of 80% to 125% with respect to the result of the hedged item.

The Company applies cash flow hedging. In this type of hedging, the gain or loss of the hedging instrument which has been determined as an effective hedge is temporarily recorded in Net Equity and allocated to the income statement in the period in which the hedged item affects the results, unless the hedging corresponds to a planned transaction which results in recognition of a non-financial asset or liability. In this case, the amounts recorded in Net Equity will be included in the cost of the asset or liability when it is acquired or assumed.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss corresponding to the hedging instruments recorded in net equity remains in net equity until the forecast transaction takes place. When a forecast hedging transaction is no longer expected to occur, the cumulative net gain or loss recorded in net equity is transferred to the profit or loss for the year.

5.5. Inventories

Inventories are mainly materials for aircraft maintenance and are measured at their acquisition price, production cost or net realisable value, whichever is lower. Commercial discounts, reductions obtained, other similar items and interest added to the nominal amount of the debt are deducted when determining the acquisition price.

When assigning value to its inventories, the Company uses the average weighted cost method.

The Company makes the appropriate value adjustments, and recognises them as an expense in the income statement when the net realisable value of inventories is lower than their acquisition price (or their production cost).

5.6. Classification between current and non-current

Current assets and liabilities make up those items which the company expects to sell, pay, consume or realise in the course of a normal operating cycle. They also includes those assets and liabilities whose maturity, disposal or realisation is expected to occur within a period of one year, as well as those classified as held for trading (except long-term derivatives) and cash and cash equivalents. Other assets are classified as non-current.

5.7. Foreign currency transactions

The functional currency used by the Company is the euro. Consequently, transactions in currencies other than the euro are considered as denominated in foreign currencies and are recorded according to the exchange rate in force on the transaction date.

At each balance sheet date, the monetary assets and liabilities denominated in foreign currencies are converted by applying the exchange rate applicable at that date. Any gains or losses are directly allocated to the income statement in the year in which they take place.

5.8. Corporation tax

The expense or revenue for corporation tax includes the part relating to the expense or revenue for current tax and the part corresponding to the expense or revenue for deferred tax.

The Company pays corporation tax in a financial year at the current tax rate on profit from the business. Deductions and other tax advantages in the tax payments, excluding withholdings and interim payments, as well as tax losses to be offset from previous years which are effectively applied in this year, lead to a lower amount for current tax.

The expense or revenue for deferred tax corresponds to recognition and cancellation of deferred tax assets and liabilities. These include the time differences which are identified as those amounts which are expected to be paid or received arising from differences between the carrying amount of the assets and liabilities and their tax value, as well as tax-loss carry-forwards to be offset and credits for tax deductions which have not been applied. These amounts are recorded by applying the tax rate at which the corresponding time or credit differences are expected to be recovered or paid.

Deferred tax liabilities are recognised for all taxable temporary differences, except those arising from the initial recognition of goodwill or from other assets and liabilities in a transaction which does not affect the taxable profit or the accounting profit and is not a business combination.

Deferred tax assets are only recognised to the extent that it is probable that the Company will have sufficient future taxable profit against which the temporary differences can be utilised.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity accounts are also recorded with a balancing entry in net equity.

Recorded deferred tax assets are reviewed at each balance sheet date in order to make the appropriate adjustments in accordance with the doubts about their future recovery. Similarly, the deferred tax assets not recorded in the balance sheet are reviewed at each balance sheet date and are recognised if it becomes probable that they will be recovered with future tax profits.

5.9. Revenue and expenses, and short-term accruals

Revenue and expenses are allocated based on the accrual principle, that is, when the real flow of goods and services that they represent takes place, regardless of the moment at which the resulting monetary or financial flow takes place. The Company recognises revenue for air transport services when the corresponding flight takes place. This revenue is measured at the fair value of the consideration received, after subtracting trade discounts and taxes.

The amount received from customers as advance payments for future flights for tickets which have been issued and paid for is recorded under the heading "Short-term accruals" under liabilities in the accompanying balance sheet.

The heading "Advance payments from customers" under liabilities in the balance sheet records the payments received for bookings and advance payments for certain tickets which have not yet been issued.

Interest received from financial assets is recorded using the effective interest method.

5.10. Provisions and contingencies

On preparing the accompanying annual accounts, the Company's Directors differentiate between:

- Provisions: Credit balances covering current obligations arising as a result of past events which will probably give rise to an outflow of resources, but for which the amount and/or time has not been determined.

- Contingent liabilities: Possible obligations arising from past events which will only be materialised if one or more future events outside the Company's control takes place.

The annual accounts include all the provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the annual accounts, although they are disclosed in the notes if they are considered as remote (see Note 12).

Provisions are valued using the best current estimates possible of the amount necessary to settle or transfer the obligation, bearing in mind available information about the event and its consequences. Adjustments resulting from updating the aforementioned provisions are recorded as a financial expense as they accrue.

The compensation to be received from a third party on settling the obligation, provided there are no doubts that this refund will be received, is recorded as an asset, unless there is a legal obligation which externalises part of the risk, and pursuant to which the Company is not liable. In this situation, the compensation is used to estimate, as the case may be, the amount of the corresponding provision.

Provisions for scheduled aircraft maintenance

The expense arising from scheduled maintenance checks (general aircraft and engine checks) is accrued based on the flight hours/cycle and days passed in accordance with the clauses contained in the aircraft lease agreements.

The Company records the expense for the aforementioned commitment based on flight hours/cycles and days passed. The amount of the provision for aircraft maintenance is calculated according to the approved maintenance schedule and based on flight hours/cycles or days passed, bearing in mind the moment of the aircraft's use cycle, and based on the estimated cost for the next scheduled check. Adjustments in provisions for maintenance arising from changes in the payment amount or time structure are recorded in the income statement prospectively.

For some of the agreements entered into by the Company and aircraft lessors, most of the costs of these checks are paid periodically to the lessor as a guarantee. As with the provision, the Company records the guarantees given at their current value. When the Company carries out the periodic checks and provides evidence to the lessors of the aircraft, the lessors return the amounts which the Company had previously paid in advance.

The Company considers the monthly amounts paid to lessors as advance payments, recording them under the heading "Long-term financial investments-loans to third parties". The Company recognises the corresponding estimated cost for the checks under the heading "Long-term provisions" based on the approved maintenance schedule for each aircraft and the flight hours/cycles or days passed.

5.11. *Severance pay*

Under current legislation, the Company is required to make severance payments to those employees dismissed under certain conditions. Therefore, severance pay which can be given a fair value is recorded as an expense in the year in which the decision is adopted and in which valid expectation of the dismissal is created. No significant provision for this item has been recorded in the accompanying annual accounts as no significant situations of this type are expected.

5.12. *Balance sheet environmental items*

Environmental assets are those which are used by the Company over the long-term. Their main purpose is to minimise environmental impact and to protect and improve the environment, including a reduction or elimination of future pollution.

Directive 2008/101, of 19 November 2008, amends Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the EU as from 1 January 2012. Aircraft operators will be responsible for complying with the obligations imposed by the Directive, including the obligation to prepare a monitoring plan, submit specific information as from 1 January 2010 and monitor and report emissions.

The Company has complied with each and every one of the obligations imposed by the Directive.

5.13. *Pension commitments and other obligations with employees*

Pension obligations

The Company has assumed certain commitments with its employees which can be classified as defined contribution schemes. However, the impact of these commitments with employees is not material.

The Company records the contributions to be made to the defined contribution scheme while employees offer their services. The amount of accrued contributions is recorded as an expense under employee remuneration.

The Company has outsourced these commitments as required by current legislation.

Share-based compensation

On 22 June 2007, the General Meeting of Shareholders approved two new incentive plans: “SAR Plan” and “Value Creation Plan”, as well as specific agreements for certain executives, whose remuneration is also based on shares in the Company. However, the impact of these incentive plans is not very significant as they terminate in March 2012.

According to the characteristics of the plans, the share options are consolidated when employees complete a specific period of time in the company and when certain events provided for in the plan occur.

The services received are recorded as a personnel expense in the income statement as they accrue. Accrual is based on the best estimates of the employees who will obtain the options and the probability that the events will take place.

5.14. *Subsidies, donations and bequests*

The Company uses the following criteria to account for subsidies, donations and bequests received:

- Non-refundable subsidies, donations and capital bequests: these are recorded at the fair value of the amount or asset granted, based on whether it is monetary or not, and are allocated to profit (loss) in proportion to the amortisation of the subsidised items in the year or, as the case may be, at the time of their disposal or impairment adjustment.

- Refundable subsidies: while they remain refundable, they are recorded as liabilities:

- Operating subsidies: these are credited to the profit (loss) at the time they are granted except if they are used for financing the operating deficit of future years, in which case they are allocated in those years. If they are granted in order to finance specific expenses, they will be allocated as the financial expenses accrue.

In addition, subsidies, donations and bequests received from shareholders or owners do not constitute revenue and must be directly recorded in capital and reserves, irrespective of the type of subsidy, providing it is not refundable.

5.15. Transactions with related parties

The Company considers IBERIA, Líneas Aéreas de España, Operadora S.A. and its subsidiaries as related companies (see Note 14).

The Company performs all its transactions with related parties at arm's length. The Company's Directors consider that the transfer pricing is duly documented and that there are no significant risks for this item which may result in material liabilities in the future.

6. Intangible fixed assets

Movements under this heading of the balance sheets for 2011 and 2010, as well as the most significant information which affects this heading, are as follows:

2011

	Thousand euros			
Cost	Opening Balance	Additions	Disposals	Closing Balance
Goodwill	15,419	-	-	15,419
Computer software	17,706	6,732	(167)	24,271
Slots and Segments	36,733	-	-	36,733
Total cost	**69,858**	**6,732**	**(167)**	**76,423**

	Thousand euros			
Amortisations	Opening Balance	Additions	Disposals	Closing Balance
Goodwill	-	-	-	-
Computer software	(7,927)	(3,955)	134	(11,748)
Slots and Segments	-	-	-	-
Total amortisation	**(7,927)**	**(3,955)**	**134**	**(11,748)**

	Thousand euros	
Total Intangible Fixed Assets	Opening Balance	Closing Balance
Cost	69,858	76,423
Amortisations	(7,927)	(11,748)
Net Total	**61,931**	**64,675**

2010

Cost	Thousand euros Opening Balance	Additions	Disposals	Transfers	Closing Balance
Goodwill	15,419	-	-	-	15,419
Computer software	13,689	4,525	(508)	-	17,706
Slots and Segments	36,733	-	-	-	36,733
Total cost	**65,841**	**4,525**	**(508)**	**-**	**69,858**

Amortisations	Thousand euros Opening Balance	Additions	Disposals	Transfers	Closing Balance
Goodwill	-	-	-	-	-
Computer software	(5,195)	(3,034)	302	-	(7,927)
Slots and Segments	-	-	-	-	-
Total amortisation	**(5,195)**	**(3,034)**	**302**	**-**	**(7,927)**

Total Intangible Fixed Assets	Thousand euros Opening Balance	Closing Balance
Cost	65,841	69,858
Amortisations	(5,195)	(7,927)
Net Total	**60,646**	**61,931**

Goodwill

The assumptions made and the calculations performed by the Company for the impairment test of segments and Goodwill are broken down in Note 5.1.

Computer software

The additions in 2011 mainly correspond to the introduction of operating system and website applications and software for 6,732 thousand euros (4,525 thousand euros in 2010), of which a total of 391 thousand euros correspond to work performed by staff of the Company itself (587 thousand euros in 2010).

The disposals in 2011 mainly correspond to web applications which have become obsolete and which have generated losses of 28 thousand euros (203 thousand euros in 2010).

Slots and segments

Under the heading "Other intangible fixed assets", the Company records 36,733 thousand euros as the fair value of the slots and segments resulting from the merger with Clickair, S.A. The Company's Directors have considered the useful life for the slots to be indefinite, and as such they are subject to the corresponding annual impairment test, as indicated in Note 5.1.

As at 31 December 2011, the Company has fully amortised intangible fixed assets (all of which refer to computer software) still in use for an amount of 1,211 thousand euros (389 thousand euros as at 31 December 2010).

7. Property, plant and equipment

Movements under this heading of the balance sheets for 2011 and 2010, as well as the most significant information which affects this heading, are as follows:

2011

	Thousand euros			
Cost	Opening Balance	Additions	Disposals	Closing Balance
Aircraft components	11,729	66	(12)	11,783
Handling equipment	448	-	(7)	441
Technical facilities	1,136	-	-	1,136
Furniture	789	1	-	790
Other facilities and equipment	1,152	-	(1,152)	-
Information processing equipment	1,214	-	-	1,214
Total cost	**16,468**	**67**	**(1,171)**	**15,364**

	Thousand euros			
Amortisations	Opening Balance	Additions	Disposals	Closing Balance
Aircraft components	(7,928)	(2,182)	-	(10,110)
Handling equipment	(326)	(40)	4	(362)
Technical facilities	(445)	(113)	-	(558)
Furniture	(362)	(76)	-	(438)
Other facilities and equipment	(479)	(57)	536	-
Information processing equipment	(774)	(194)	-	(968)
Total amortisation	**(10,314)**	**(2,662)**	**540**	**(12,436)**

Total Property, Plant and Equipment	Thousand euros Opening Balance	Closing Balance
Cost	16,468	15,364
Amortisations	(10,314)	(12,436)
Net Total	**6,154**	**2,928**

2010

Cost	Thousand euros Opening Balance	Additions	Closing Balance
Aircraft components	11,417	312	11,729
Handling equipment	448	-	448
Technical facilities	1,136	-	1,136
Furniture	786	3	789
Other facilities and equipment	1,152	-	1,152
Information processing equipment	1,172	42	1,214
Total cost	**16,111**	**357**	**16,468**

Amortisations	Thousand euros Opening Balance	Additions	Closing Balance
Aircraft components	(5,743)	(2,185)	(7,928)
Handling equipment	(266)	(60)	(326)
Technical facilities	(333)	(112)	(445)
Furniture	(288)	(74)	(362)
Other facilities and equipment	(364)	(115)	(479)
Information processing equipment	(567)	(207)	(774)
Total amortisation	**(7,561)**	**(2,753)**	**(10,314)**

Total Property, Plant and Equipment	Thousand euros Opening Balance	Closing Balance
Cost	16,111	16,468
Amortisations	(7,561)	(10,314)
Net Total	**8,550**	**6,154**

As at 31 December 2011 and 2010, the Company had property, plant and equipment which were fully depreciated and which continued in use as shown in the following table:

Description	Thousand euros	
	Carrying Amount (Gross)	
	31/12/2011	31/12/2010
Aircraft components	3,849	748
Furniture, equipment and other items	30	30
Information processing equipment	420	159
Total	**4,299**	**937**

The Company's policy is to take out insurance policies to cover the possible risks which the different property, plant and equipment items are exposed to. As at 31 December 2011 and 2010, there is no coverage deficit related to the aforementioned risks.

As at 31 December 2011 and 2010 there are no significant fixed asset purchase commitments.

8. Leases

The Company's most significant operating lease agreements correspond to aircraft operating leases.

On the 2011 and 2010 balance sheet dates, the Company had agreements with aircraft lessors for the following minimum lease payments according to the agreements currently in force, without taking into account the impact of other expenses, future CPI increases or future income updates contractually agreed:

Operating leases	Thousand USD	
	Nominal value	
	31/12/2011	31/12/2010
Less than one year	144,599	126,559
Between one and five years	368,423	314,590
More than five years	1,385	40,013
Total	**514,407**	**481,162**

The exchange value in euros of the committed payments as at 31 December 2011 is 397,563 thousand euros (360,151 thousand euros as at 31 December 2010).

The difference between the total of the lease payments committed in 2011 and 2010 results from the existence of one less year committed with the lessors of the aircraft in lease agreements in force as at 31 December 2010, the extension in 2011 of 13 lease agreements and the entry of 11 new aircraft (of which five aircraft have a maturity of less than 12 months).

The total amount of aircraft lease payments recorded as expenses and revenue in 2011 and 2010 are as follows:

	Thousand euros	
	2011	2010
Lease expenses	106,796	94,682
Total	**106,796**	**94,682**

The average number of aircraft operating in 2011 was 44 (with an average of 36 aircraft in 2010), with a total of 48 aircraft operating in the summer high season. As at 31 December 2011, the Company has 47 leased aircraft (36 aircraft as at 31 December 2010).

The Company reached an agreement with Iberia Líneas Aéreas de España, S.A. Operadora (informing the CNMV (Spanish Securities Market Commission) on 28 January 2011 whereby Vueling would increase its number of routes flown between Madrid and several other Spanish cities and the rest of Europe. This operation has involved an average of 4.3 aircraft operating over 2011, of which two aircraft are still operating as at 31 December 2011. This operation is expected to terminate through the return of said aircraft in March 2012.

In addition, in 2011 the Company also leased an average of two additional aircraft from Iberia Líneas Aéreas de España, S.A. Operadora.

No aircraft agreements have been signed in 2011 which will enter into force in 2012.

9. Financial investments (long- and short-term)

9.1. Long-term financial investments

Movements under long-term financial investments in 2011 and 2010 are as follows:

2011

Category	Thousand euros				
	01/01/2011	Additions	Disposals	Reclassifications to short-term	31/12/2011
Loans, deposits and other receivables	100.260	27.183	(15.633)	(22.552)	89.258
Hedge derivatives (Note 15)	2.265	26.159	(2.265)	-	26.159
Total	**102.525**	**53.342**	**(17.898)**	**(22.552)**	**115.417**

2010

Category	Thousand euros				
	01/01/2010	Additions	Disposals	Reclassifications to short term	31/12/2010
Loans, deposits and credit to third parties	85.640	27.044	(9.092)	(3.332)	100.260
Hedge derivatives (Note 15)	-	2.265	-	-	2.265
Total	**85.640**	**29.309**	**(9.092)**	**(3.332)**	**102.525**

The maturity breakdown of the heading "Long-term financial investments" is as follows:

2011

	Thousand euros					
	2013	2014	2015	2016	2017 and following years	Total
Loans, deposits and other receivables	28.560	37.215	7.283	7.625	8.575	89.258
Hedge derivatives	53	8.642	6.456	5.155	5.853	26.159
Total	**28.613**	**45.857**	**13.739**	**12.780**	**14.428**	**115.417**

2010

	Thousand euros					
	2012	2013	2014	2015	2016 and following years	Total
Loans, deposits and other receivables	30.738	29.970	9.367	15.542	14.643	100.260
Hedge derivatives	1.355	910	-	-	-	2.265
Total	**32.093**	**30.880**	**9.367**	**15.542**	**14.643**	**102.525**

“Loans, deposits and other receivables" basically cover the advance payments made to aircraft lessors for the maintenance schedule of leased aircraft for 72,942 thousand euros (see Note 12), guarantees for the payment of aircraft leases for 13,797 thousand euros and deposits given to airports for 2,519 thousand euros. As at 31 December 2010, the deposits given totalled 99,675 thousand euros for these items. The deposits given to aircraft lessors act as a guarantee for maintenance to be carried out on the operated aircraft, for which the Company is carrying out the corresponding provision under non-current liabilities (Note 12.1), and which will be recovered once the Company has carried out said maintenance and has provided the lessors with certified evidence that said maintenance has been carried out.

The additions in 2011 mainly correspond to the deposits given in cash to aircraft lessors in guarantee of aircraft maintenance for 27,183 thousand euros.

The disposals in 2011 mainly correspond to deposits returned over the year from aircraft lessors for the performance of events established in the fleet maintenance plan for 3,786 thousand euros and 9,804 thousand euros due to the conversion of said deposits to bank guarantees

The increase in deposits with maturity in 2014 is due to adjustments in the aircraft maintenance plan and extensions of 13 lease agreements with maturities in 2011 and 2012.

The reclassifications for 22,552 thousand euros mainly correspond to repairs of aircraft carried out over 2011 or which are expected to be carried out in 2012 for which it is estimated that the deposits will be recovered in a period of less than twelve months and therefore they have been reclassified to the heading “Short-term financial investments - Loans, deposits and other receivables”.

9.2. Short-term financial investments

The balance of the heading “Short-term financial investments" at the balance sheet dates of 2011 and 2010 is as follows:

Classes	Thousand euros							
	Short-term financial investments							
	Debt securities		Other financial assets		Derivatives (Note 15)		Total	
Categories	2011	2010	2011	2010	2011	2009	2011	2010
Held-to-maturity investments	-	2,000	234,899	192,988	-	-	234,899	194,988
Loans, deposits and other receivables	-	-	24,695	6,599	-	-	24,695	6,599
Derivatives (Note 15)	-	-	-	-	31,302	7,221	31,302	7,221
Total	**-**	**2,000**	**259,594**	**199,587**	**31,302**	**7,221**	**290,896**	**208,808**

The heading "Held-to-maturity investments" corresponds to time deposits with maturity of more than three months in banking institutions made in order to obtain a return on available cash surpluses, the amount of which does not materially differ from their fair value of 234,899 thousand euros (192,988 thousand euros as at 31 December 2010).

As at 31 December 2011, the part of these deposits which is pledged, and therefore, not available, is 1,000 thousand euros (12,664 thousand euros as at 31 December 2010), as aircraft lease and maintenance guarantees.

The increase in time deposits in banks in 2011 compared with 2010 is a result of the positive cash flows generated by the Company's activity over 2011, as well as the Company's cash policy of increasing the average term of the deposits to 8.3 months (6.5 months in 2010) so as to improve the return obtained (an average of 3% in 2011 and 2% in 2010).

The heading "Loans, deposits and other receivables" basically corresponds to the advance payments made to aircraft lessors as part of the maintenance programme for leased aircraft for an amount of 24,695 thousand euros (6,599 thousand euros in 2010), which are expected to be recovered in less than 12 months as the maintenance has been carried out or is expected to be carried out and recovered in less than one year. The increase under this heading is due to the higher number of aircraft operating on average in 2011 compared with 2010 and the maintenance necessary associated with this fleet and for the return of three aircraft in 2012.

9.3. *Cash and cash equivalents*

The heading "Cash and cash equivalents" records all the cash deposited in sight current accounts together with the sight bank deposits which are convertible into cash, have no restrictions and have a maturity of less than three months when acquired. As at 31 December 2011, 14,947 thousand euros were recorded under this heading (35,972 thousand euros as at 31 December 2010).

As at 31 December 2011 and 2010 there was no amount recorded under the heading "cash" which is pledged.

9.4. *Information about the risk type and level of financial instruments*

The Company's financial risk is managed by the Finance Department and the Board of Directors, which have established the mechanisms necessary to control exposure to changes in exchange rates, interest rates and fuel prices, as well as credit and liquidity risks. The main financial risks which the Company is exposed to are indicated below:

Credit risk

Except for the transactions performed to hedge against exchange rate risk and the balances payable to aircraft lessors, the Company has no significant credit risk concentrations. The transactions with currency derivatives are only executed with financial institutions with a high credit rating. Sales to retail customers are made in cash or through credit cards. Travel agency sales are also made in cash or through credit cards.

The Company’s receivables are higher mainly due to the increase in the average collection periods with Civil Aviation (outstanding balance as at 31 December 2011 of 15,230 thousand euros compared with 6,369 thousand euros as at 31 December 2010), the increase in receivables from public entities (outstanding balance as at 31 December 2011 of 5,503 thousand euros compared with 3,908 thousand euros as at 31 December 2010), and the increase in the Company's activity

The Company's Directors consider that there is no significant credit risk related to the accounts receivable as at 31 December 2011.

Liquidity risk

The Company carries out prudent management of liquidity risk based on holding enough cash, temporary financial investments and tradable securities, the availability of committed credit financing and sufficient capacity to liquidate market positions.

Market risk (including price, exchange rate and interest rate risks)

The Company is exposed to price risk from aviation fuel. The Company has contracted derivative instruments to hedge against the risk of future price fluctuations. The price risk management policy consists of hedging a specific percentage of Jet Fuel, the fuel used by aircraft (Note 15).

The Company is exposed to exchange-rate risks for currency transactions, mainly in dollars. Exchange-rate risk arises from commercial transactions, such as the purchase of fuel or the costs associated with aircraft operating leases. In order to control the exchange-rate risk which arises from commercial transactions denominated in dollars, the Company uses currency forward contracts. The Company's Finance Department is responsible for managing the net position in dollars using derivative financial instruments. The Company's policy for managing exchange-rate risk is based on hedging against a defined percentage of the currency needs for purchasing fuel, while the operations aimed at hedging against exchange-rate risk in leased aircraft expenses are based on specific decisions. Through budget management, the Company is able to determine the dates of future payments in dollars to a high degree of accuracy. Therefore, almost all the planned payments in dollars rate as firm commitments or highly probable forecast transactions for the purposes of hedge accounting.

The Company holds assets with short-term returns invested in deposits with a yield in accordance with financial markets. Revenues and cash flows from the Company's ordinary activities are mostly independent of variations in market interest rates.

The Directors ratify the main decisions regarding the Company's hedging policies.

10. Inventories

These mainly cover spare parts and other materials for aircraft maintenance. The breakdown for 31 December 2011 and 2010 is as follows:

	Thousand euros	
	31/12/2011	31/12/2010
Inventories	353	2,170
Impairment	-	(2,000)
Total	**353**	**170**

Movements in impairment adjustments under the heading "Inventories" in the accompanying balance sheet are as follows:

2011

	Thousand euros		
	01/01/2011	Disposals	31/12/2011
Impairment of inventories	(2,000)	2,000	-

2010

	Thousand euros		
	01/01/2011	Additions	31/12/2010
Impairment of inventories	(2,000)	-	(2,000)

11. Net Equity

11.1. Subscribed capital

As at the 2011 and 2010 balance sheet dates, the Company's share capital stood at 29,905,518 euros, represented by 29,904,518 shares, each with a par value of 1 euro, all of the same class and fully subscribed and paid up.

The Company's shares are admitted for trading on the Continuous Market of Spanish stock exchanges, all with the same voting and economic rights.

According to the information available to the Company, as at 31 December 2011 and 2010, the shareholders who have a stake greater than 10% of the share capital are as follows.

	Shareholding percentage	
Shareholder	31/12/2011	31/12/2010
IBERIA, Líneas Aéreas de España, S.A. Operadora	45.85	45.85

11.2. Legal Reserve

In compliance with the Capital Companies Act, 10% of the profit for the year of public limited companies must be allocated to the legal reserve until said reserve reaches at least 20% of the share capital. The part of the balance which exceeds 10% of the already increased capital may be used for further capital increases. Except for the above-mentioned purpose, and providing it does not exceed 20% of the share capital, this reserve may only be allocated to offset losses providing there are no other sufficient reserves available for this purpose.

As at 31 December 2011, the legal reserve is fully established.

11.3. Goodwill reserve

The Capital Companies Act requires that, when applying the profit (loss) for each year, an unavailable reserve equivalent to the goodwill appearing in the assets of the balance sheet must be created. A proportion of the profit representing at least 5% of the goodwill must be allocated to this reserve. If there is no profit, or the profit is not sufficient, freely available reserves will be used.

The amount established as the goodwill reserve in 2011 is 1,927 thousand euros (1,156 thousand euros in 2010.

11.4. Share Premium and limits to the payment of dividends

As a result of the merger with Clickair, S.A. in 2009 (see Note 3), together with the capital increase, the share premium was increased by 65,640 thousand euros. As at 31 December 2011, this reserve is freely available, except for 34,353 thousand euros (43,965 thousand euros as at 31 December 2010).

11.5. Treasury shares

In 2011, the Company has not acquired or transferred treasury shares.

As at the 2010 and 2011 balance sheet dates, the Company had treasury shares as shown in the following table:

			Euros		Thousand euros
	No. of Shares	Percentage of total	Nominal value	Average acquisition price	Total acquisition price
Treasury shares	216,083	0.72%	1	3.3	713

As at the preparation date of these annual accounts, the Company's Board of Directors has not taken a decision about the final use planned for the treasury shares mentioned above.

As at the 2011 and 2010 balance sheet dates, the Company held Treasury shares with a nominal value of 1 euro and acquisition cost of 713 thousand euros.

11.6. Subsidies

The information on the subsidies received by the Company, which form part of the Net Equity, as well as the resulting gains (losses) allocated to the income statement, is as follows:

2011

Company	Type	Thousand euros		
		01/01/2011	Transfer to profit (loss)	31/12/2011
Airbus (Note 5.3)	Private	409	(382)	27

2010

Company	Type	Thousand euros		
		01/01/2010	Transfer to profit (loss)	31/12/2010
Airbus (Note 5.3)	Private	914	(505)	409

As at 31 December 2011 and 2010, the Company had met all the requirements necessary to receive and enjoy the aforementioned subsidies.

12. Provisions and contingencies

12.1. Provisions

The breakdown of provisions at the balance sheet dates of 2011 and 2010, as well as the main movements recorded during the year, are as follows:

2011

Long-term provisions	Thousand euros				
	01/01/2011	Allocations	Applications	Reclassifications to short term	31/12/2011
Provisions for scheduled aircraft maintenance	128,636	52,196	(12,478)	(19,002)	149,352
Other provisions	1,212	1,700	(148)	(120)	2,644
Total long-term provisions	**129,848**	**53,896**	**(12,626)**	**(19,122)**	**151,996**

2010

Long-Term Provisions	Thousand euros				
	01/01/2010	Allocations	Applications	Reclassifications to short term	31/12/2010
Provisions for scheduled aircraft maintenance	109,419	50,165	(15,110)	(15,843)	128,636
Other provisions	2,406	-	(1,194)	-	1,212
Total long-term provisions	**111,825**	**50,165**	**(16,304)**	**(15,843)**	**129,848**

Provisions for scheduled aircraft maintenance

This account includes the provision to cover future aircraft checks, as part of the scheduled maintenance, to be performed before the aircraft are returned as stipulated in the lease agreements (see Note 5.10).

To calculate this provision, the Company differentiates between maintenance which must be carried out over the lease life of the aircraft and maintenance which must be carried out on a date subsequent to the termination of the lease. The Company makes the provision based on the prices established in the maintenance agreement signed with IBERIA, Líneas Aéreas de España, S.A. Operadora (see Note 14) for the first case, and based on the prices established in the aircraft lease agreement for the second case. In both cases, the company considers the hours/cycles and months of operation of each aircraft.

In addition, for those aircraft leased directly from IBERIA, Líneas Aéreas de España, S.A. Operadora (see Notes 8 and 14), the Company does not make an aircraft maintenance provision as future maintenance is already included in the periodic billing which the Company receives.

Allocations in the year were charged to the income statement under the heading "Other operating expenses - aircraft maintenance" (see Note 17.6) and correspond to the hours/cycles and months of operation of the aircraft based on the agreement price applicable in each case.

The allocations in 2010 relating to "Provisions for scheduled maintenance" amounted to 50,165 thousand euros, while in 2011 they amounted to 52,196 thousand euros. The following factors should be taken into consideration:

- Aircraft maintenance costs are, as a result of inflation, around 2% higher in 2011 compared with 2010.
- The average fleet in 2011 was 44 aircraft (38 aircraft on average without considering those leased from IBERIA, Líneas Aéreas de España, S.A. Operadora, which do not accrue a scheduled aircraft maintenance provision), while in 2010 the average fleet was 36 aircraft.
- The aircraft lease agreements and maintenance agreements establish payment in dollars of most of the provision, and so the average exchange value in euros of the allocation in 2011 compared with 2010 includes a rise in the value of the euro against the dollar.

The applications for the year correspond to the cost of the checks performed, as well as the amount attributable to the aircraft returned during the year.

The reclassifications for the year mainly correspond to aircraft maintenance carried out in 2011 pending payment or which is expected to be carried out in 2012, which have been reclassified to short-term payables with the supplier of aircraft maintenance, IBERIA, Líneas Aéreas de España, S.A. Operadora (see Note 14).

Other provisions

This heading includes the amounts which are estimated must be paid as a consequence of the resolution of certain disputes pending a firm legal ruling, as well as other lesser provisions. The Company's Directors estimate that the results of the aforementioned disputes will not lead to additional liabilities for the Company other than those for which a provision has been allocated in the accompanying balance sheet.

12.2. Contingencies

The Company's most significant contingencies as at 31 December 2011 are as follows:

On 10 November 2006, the company Aeroporti di Roma Handling SpA (“ADRH”) brought an action against Aviapartner Handing SpA and Vueling Airlines, S.A. before the *Tribunal Civile di Roma* [Civil Court of Rome] for damages suffered as a consequence of the alleged early termination of the agreement between ADRH and Aviapartner for the provision of ramp services in Rome airport. The joint and several claim against Aviapartner and the Company is for 2,237 thousand euros. Aviapartner has signed a letter in favour of the Company undertaking to hold the latter harmless against any possible ruling. Consequently, the company has not allocated any provision for this item.

Similarly, the Company has made the best possible estimate in order to quantify the potential impact of the consumer affairs proceedings before different Regional Authorities.

In addition, there are other less significant disputes and proceedings which the Company is aware of, and which are not expected to lead to material liabilities. At any event, the Directors have allocated what they consider to be sufficient amounts to the provisions.

13. Long- and short-term liabilities

13.1. Financial liabilities

The balance of the heading "Short-term liabilities" at the balance sheet dates of 2011 and 2010 is as follows:

Classes / Categories	Thousand euros					
	Short-Term Financial Instruments					
	Debts with Credit Institutions		Derivatives and Other Items		Total	
	2011	2010	2011	2010	2011	2010
Payables	2,294	23,926	-	-	2,294	23,926
Derivatives (Note 15)	-	-	2,247	1,212	2,247	1,212
Total	**2,294**	**23,926**	**2,247**	**1,212**	**4,541**	**25,138**

The Company has credit policies, referenced to market interest rates, with the following limits and amounts drawn down:

	Thousand euros			
	31/12/2011		31/12/2010	
	Limit	Amount Drawn down	Limit	Amount Drawn down
Credit policies	33,000	2,294	37,000	23,926
Total	**33,000**	**2,294**	**37,000**	**23,926**

13.2. Disclosure on delays of payment made to suppliers

The information required by the Third Additional Provision of Act 15/2010, of 5 July, is shown below:

	Payments made and outstanding payments on the balance sheet date		
	31/12/2011		31/12/2010
	Amount	%	Amount
Made within the maximum legal period	782,170	92%	-
Others	72,521	8%	
Total payments for the year	**854,691**	**100%**	
Weighted average days passed due	41		
Delays which exceed the maximum legal limit as at the balance sheet date	2,599	9%	-

The figures shown in the above table on payments to suppliers refer to those which by their nature are trade payables for debts with suppliers of goods and services and so include the figures relating to the headings "Suppliers" and Sundry payables" under current liabilities in the balance sheet. The average weighted days passed due is calculated as the ratio formed in the numerator by the sum of the products of each one of the payments to suppliers made in the year delayed for longer than the legal payment period and the number of days passed due, and in the denominator by the total amount of the payments made in the year delayed by more than the legal payment period.

The maximum legal payment period applicable to the Company in 2011 according to Act 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, is 85 days.

14. Related party transactions and balances

The breakdown of related party transactions in 2011 and 2010 is as follows:

2011

Company	Thousand euros	
	Services provided	Services received
IBERIA, Líneas Aéreas de España, S.A. Operadora	166,099	118,813
Total	**166,099**	**118,813**

2010

Company	Thousand euros	
	Services provided	Services received
IBERIA, Líneas Aéreas de España, S.A.	111,681	92,091
Total	**111,681**	**92,091**

The services provided to related companies basically correspond to sales made through the distribution channel of IBERIA for 163,018 thousand euros, while services received mainly correspond to the maintenance tasks for the aircraft fleet and ground handling services based on agreements for 56,850 and 52,132 thousand euros respectively (47,717 and 42,261 thousand euros respectively in 2010).

In addition, in 2011 the Company reached an agreement by which it leased 9 aircraft from Iberia and increased its routes flown between Madrid and different Spanish cities and the rest of Europe in 2011 and 2012 (see Note 8). The costs for the year of those leases amounted to 4,130 thousand euros. The net impact of this agreement on the income statement has not been material.

In 2010, Iberia leased one aircraft to the Company for a period of six months for 1,103 thousand euros.

The related party balances as at the 2011 and 2010 balance sheet dates are as follows:

2011

Related company	Thousand euros	
	Debit balances	Credit balances
IBERIA, Líneas Aéreas de España, S.A. Operadora	-	32,769
Total	-	**32,769**

2010

Related company	Thousand euros	
	Debit balances	Credit balances
IBERIA, Líneas Aéreas de España, S.A.	6,239	21,435
Total	**6,239**	**21,435**

The Corporate Governance Report accompanying these annual accounts lists the commercial, contractual and/or company relations existing between Iberia and the Company, which correspond to the shared code agreement, the Iberia Plus loyalty program, the aircraft maintenance service agreement and the ground handling agreement.

The Company performs all its transactions with related parties at arm's length. The Company's Directors consider that there are no significant risks for this item which may result in material liabilities in the future.

15. Derivative financial instruments

The Company uses derivative financial instruments on the over-the-counter market with national and international financial institutions with a high credit rating.

These instruments are used to reduce the impact of unfavourable development in the exchange rate of the US dollar, which must be used for fuel purchases, aircraft lease payments and the corresponding insurance policies, as well as to hedge against any negative change in the price of fuel. Similarly, in order to reduce the potential negative impact on the Company's profit of fluctuations in Jet Fuel prices, in 2011 and 2010 the Company used fixed-price swaps, referenced to the price of mT of Jet Fuel Cif NWE.

In 2010, the Company hedged against interest rate risk in the two fleet lease agreements by contracting two interest-rate swaps. This interest rate risk terminated in 2011 as the two aircraft joined the Company's fleet and therefore both derivatives have been cancelled. Given that they are classified for hedging accounting, the result of their cancellation is allocated to the income statement in proportion to the lease of said aircraft i.e. proportionally to the underlying asset.

The Company has contracted services relating to measuring and testing the effectiveness of the hedges with a company of recognised standing.

Given that the effectiveness of all accounting hedges has been verified, both at the start and during the life of the relationship, no amount for hedge inefficiency has been recorded in 2011 (or in 2010).

When assessing the effectiveness of the hedges, the Company designates both groups of elements and specific items based on the type of hedge. Accordingly, it differentiates between the hedge items of fuel, aircraft leases and interest rate hedges.

Fuel: the Company groups elements taking the total monthly fuel needs for its activity. This procedure is used both in the currency hedge and in the fuel hedge.

Aircraft lease: the Company designates both specific items, identifying the aircraft lease payments and based on these needs it takes out the currency hedge, and groups together elements considering the total monthly needs.

The Company does not hedge the full amount of monthly needs for either fuel purchases or aircraft leases. In the case of fuel purchases, the Board of Directors establishes a defined percentage which is always lower than the monthly needs.

Interest rate hedges: the Company only designates specific items, identifying the variation in interest rates which affect future aircraft lease payments.

There are no material differences In the hedges relating to aircraft lease payments (many of them are specific with the same maturity date) between the maturity of the hedged item and the maturity of the currency hedging instruments.

Neither are the differences in the fuel hedges material. If they do not coincide exactly, there is little difference in number of days between the maturity of the hedged item and the maturity of the currency and fuel hedging instruments.

2011

a) Exchange Rate Derivatives

In order to determine the fair value of exchange rate derivatives (forward exchange contracts), the Company uses the spot rate of the euro against the US dollar, as well as the forward points for the two currencies involved and, using discounted cash flow, determines the value of the contracted derivatives.

In 2011, the Company hedged against the exchange rate risk of part of it transactions denominated in US dollars.

The derivatives in effect as at 31 December 2011 and their fair values on said date are as follows:

	Thousand Dollars	Thousand euros	
		Fair Value	
Currency	Nominal 31/12/2011	Assets: Short-term financial investments	Assets: Long-term financial investments
Forwards USD 1st half-year 2012	207,624	13,377	-
Forwards USD 2nd half-year 2012	230,553	14,751	-
Forwards USD 2013 and subsequent years	368,425	-	25,279
Total	**806,602**	**28,128**	**25,279**

The net fair value as at 31 December 2011 of the exchange rate derivatives (forwards) is positive for 53,407 thousand euros, which is recorded in Net Equity, net of the tax effect.

The forward exchange contracts in US dollars ensure the purchase of US dollars at prices which vary between 1.37 and 1.46 USD/EUR

As at 31 December 2011, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Accounting Plan, all the forwards for US dollars in effect at that date, as cash flow hedges for payment of fuel purchases, payments of aircraft leases and the corresponding insurance policies, which are highly probable future transactions. The relationships of the designated cash flow hedges with the forward exchange contracts have been estimated as highly effective. Therefore, the Company has recorded their fair value in the Net Equity.

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2011 income statement (or in the 2010 income statement) for hedge inefficiency. See the criteria adopted and the methodology used in Note 5.4.4.

b) Fuel derivatives

The Company has used derivative financial instruments on the price of the mT of Jet Fuel Cif NWE (commodities) with the aim of hedging against fluctuations in the price of Jet Fuel referenced to fuel purchases. The commodity derivatives in effect as at 31 December 2011 and their fair values on said date are as follows:

Fuel	mT	Thousand euros		
		Fair Value		
	31/12/2011	Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Long- and short-term liabilities
Swaps 1st half-year 2012	111,500	1,787	-	1,450
Swaps 2nd half-year 2012	72,500	1,387	-	797
Swaps 2013 and subsequent years	16,000	-	880	-
Total	**200,000**	**3,174**	**880**	**2,247**

The net fair value as at 31 December 2011 of the mT Jet Fuel Cif NWE swaps is a positive amount of 1,807 thousand euros, which is recorded in Net Equity, net of the tax effect. The contracted prices for swaps on Jet Fuel Cif NWE range between 924.75 and 926.75 USD/mT.

As at 31 December 2011, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Chart of Accounts, all the Jet Fuel Cif NWE swaps as cash flow hedges in US dollars, resulting from fuel purchases referenced to Jet Fuel.

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2011 income statement (or in the 2010 income statement) for hedge inefficiency. See the criteria adopted and the methodology used in Note 5.4.4.

c) Interest-rate swaps

In 2010, the Company hedged against interest rate risk in the two fleet lease agreements by contracting two interest-rate swaps. This interest rate risk terminated in 2011 as the two aircraft joined the Company's fleet and therefore both derivatives have been cancelled. Given that they are classified for hedge accounting, the result of their cancellation is allocated to the income statement in proportion to the lease of said aircraft i.e. proportionally to the underlying asset.

The value in net equity of the interest-rate swaps which the Company has classified for hedge accounting as at 31 December 2011 is a loss of 188 thousand euros, net of the tax effect. These accounting hedges will be allocated to profit (loss) for the year in proportion to the aircraft lease up to 2017.

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2011 income statement (or in the 2010 income statement) for hedge inefficiency. See the criteria adopted and the methodology used in Note 5.4.4.

d) *Impact of derivatives on net equity*

The impact of the aforementioned derivatives on net equity as at 31 December 2011 are as follows, net of the tax effect (in thousands of euros):

	Thousand euros				
	Exchange-rate derivatives	Fuel derivatives	Interest-rate swaps	Change in value of derivatives following merger	Total
Balance at 01/01/11	**2,556**	**2,766**	**470**	**913**	**6,705**
All income and expenses directly allocated to net equity	31,599	11,552	(675)	(503)	41,973
Total transfers to the income statement	3,192	(13,052)	17	-	(9,843)
Balance at 31/12/11	**37,347**	**1,266**	**(188)**	**410**	**38,835**

In 2011, a positive amount of 31,599 thousand euros on exchange-rate derivatives was allocated to Net Equity, as the effective part of the hedge relationships over the year. A positive amount of 3,192 thousand euros was transferred from Net Equity to the income statement based on the type and increasing the cost of purchases and services received, all net of the corresponding tax effect.

In 2011, a positive amount of 11,552 thousand euros for fuel derivatives was allocated to Net Equity, as the effective part of the hedge relationships over the year. A positive amount of 13,052 thousand euros was "recycled" from Net Equity, reducing the cost of fuel purchases, all net of the corresponding tax effect.

In 2011, a positive amount of 675 thousand euros on exchange-rate derivatives was allocated to Net Equity, as the effective part of the hedge relationships over the year, all net of the corresponding tax effect. A positive amount of 17 thousand euros was transferred from Net Equity to the income statement based on the type and increasing the cost of purchases and services received, all net of the corresponding tax effect.

As result of the merger with Clickair, S.A., the fair value of the derivative financial instruments which Clickair, S.A. held on the merger date were included within the Company's Net Equity. A positive value was recorded under "Adjustments for changes in value" corresponding to the negative change in fair value which these derivative financial instruments had as at 1 July 2009 and which have not yet been settled.

e) *Analysis of exchange-rate sensitivity*

The variations in the fair value of the exchange-rate derivatives used by the Company mainly depend on the variation in the spot rate of the US dollar against the euro, as well as the development of short-term interest-rate curves. As at 31 December 2011, the fair value of these derivatives is positive for a gross amount of 53,420 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2011) and the fair values of the exchange-rate derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros
	31/12/2011
+10% (appreciation of Euro)	(55,954)
-10% (depreciation of Euro)	68,389

The sensitivity analysis shows that the euro/dollar exchange-rate derivatives will perform negatively if the euro rises, and positively if the euro falls. It is therefore recommendable to buy the US dollar at a fixed exchange rate.

f) Analysis of Brent oil price sensitivity

Variations in the fair value of the fuel derivatives used by the Company mainly depend on the variation in price of the underlying commodity, the mT of Jet Fuel Cif NWE, and the time to maturity. As at 31 December 2011, the fair value of these derivatives is positive for a gross amount of 1,807 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2011) of the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros
	31/12/2011
+30% (rise in the price of Brent)	41,943
-30% (fall in the price of Brent)	(41,943)

The sensitivity analysis shows that fuel derivatives will perform positively if the price of Jet Fuel Cif NWE rises. The Company has therefore set a purchase price and is covered against rises in Jet Fuel Cif NWE.

2010

a) Exchange Rate Derivatives

In order to determine the fair value of exchange rate derivatives (forward exchange contracts), the Company used the spot rate of the euro against the US dollar, as well as the forward points for the two currencies involved and, using discounted cash flow, determined the value of the contracted derivatives.

In 2010, the Company had hedged against the exchange rate risk of part of it transactions denominated in US dollars.

The derivatives in effect as at 31 December 2010 and their fair values on said date were as follows:

Currency	Thousand Dollars	Thousand euros		
		Fair Value		
	Nominal 31/12/2010	Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Short-term liabilities
Forwards USD 1st half-year 2011	113,371	1,586	-	981
Forwards USD 2nd half-year 2011	34,688	804	-	22
Forwards USD 2012 and subsequent years	61,595	-	2,265	-
Total	**209,654**	**2,390**	**2,265**	**1,003**

The net fair value as at 31 December 2010 of the exchange rate derivatives (forwards) was positive for 3,652 thousand euros, which is recorded in Net Equity, net of the tax effect.

The forward exchange contracts in US dollars ensure the purchase of US dollars at prices which vary between 1.25 and 1.43 USD/EUR

As at 31 December 2010, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Chart of Accounts, all the forwards for US dollars in effect at that date, as cash flow hedges for payment of fuel purchases, payments of aircraft leases and the corresponding insurance policies, which are highly probable future transactions. The relationships of the designated cash flow hedges with the forward exchange contracts were estimated as highly effective. Therefore, the Company recorded their fair value in Net Equity.

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2011 income statement (or in the 2010 income statement) for hedge inefficiency. See the criteria adopted and the methodology used in Note 5.4.4.

b) Fuel derivatives

The Company used derivative financial instruments on the price of the mT of Jet Fuel Cif NWE (commodities) with the aim of hedging against fluctuations in the price of Jet Fuel referenced to fuel purchases.

The commodity derivatives in effect as at 31 December 2010 and their fair values on said date were as follows:

Fuel	mT 31/12/2010	Thousand euros	
		Fair Value	
		Assets: Short-term financial investments	Liabilities: Short-term liabilities
Swaps 1st half-year 2011	86,000	4,042	116
Swaps 2nd half-year 2011	13,000	118	93
Total	**99,000**	**4,160**	**209**

The net fair value as at 31 December 2011 of the mT Jet Fuel Cif NWE swaps was a positive amount of 3,952 thousand euros, which is recorded in Net Equity, net of the tax effect.

The contracted prices for swaps on Jet Fuel Cif NWE range between 677.50 and 876.04 USD/mT.

As at 31 December 2010, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Chart of Accounts, all the Jet Fuel Cif NWE swaps as cash flow hedges in US dollars, resulting from fuel purchases referenced to Jet Fuel.

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2011 income statement (or in the 2010 income statement) for hedge inefficiency. See the criteria adopted and the methodology used in Note 5.4.4.

c) Interest-rate swaps

In order to determine the fair value of interest-rate swaps, the Company used hedges on the “5-year swap” and the “5-year treasury note”.

In 2010, the Company hedged against interest rate risk in the two fleet lease agreements contracted in 2010 for new aircraft in the fleet in 2011.

The swaps in effect as at 31 December 2010 and their fair values on said date were as follows:

	Thousand dollars	Thousand euros	
		Fair Value	
Interest rates	Nominal 31/12/2010	Assets: Short-term financial investments	Liabilities: Short-term liabilities
IRS 1st half-year 2011	70,500	671	-
Total	**70,500**	**671**	**-**

The net fair value as at 31 December 2010 of the interest-rate swaps was positive for 671 thousand euros, which is recorded in Net Equity, net of the tax effect.

The interest-rate swaps contracted over the year range from the US dollar "5-year swap " at 2.23% and for the "5-year treasury note" at 1.92%.

As at 31 December 2010, the Company has classified for hedge accounting, as allowed by the new General Chart of Accounts, all the interest-rate swaps as cash flow hedging.

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2011 income statement (or in the 2010 income statement) for hedge inefficiency. See the criteria adopted and the methodology used in Note 5.4.4.

d) Impact of swaps on net equity

The impact of the aforementioned swaps on net equity as at 31 December 2011 are as follows, net of the tax effect (in thousands of euros):

	Thousand euros				
	Exchange-rate derivatives	Fuel derivatives	Interest-rate swaps	Change in value of derivatives following merger	Total
Balance at 01/01/10	(1,667)	381	-	1,464	178
All income and expenses directly allocated to net equity	11,390	2,557	470	(165)	14,252
Total transfers to income statement	(7,167)	(172)	-	(386)	(7,725)
Final balance at 31/12/10	**2,556**	**2,766**	**470**	**913**	**6,705**

In 2010, a positive amount of 11,390 thousand euros on exchange-rate derivatives was allocated to Net Equity, as the effective part of the hedge relationships over the year. A positive amount of 7,167 thousand euros was transferred from Net Equity to the income statement based on the type and reducing the cost of purchases and services received, all net of the corresponding tax effect.

In 2010, a positive amount of 2,557 thousand euros for fuel derivatives was allocated to net equity, as the effective part of the hedge relationships over the year. A positive amount of 172 thousand euros was "recycled" from Net Equity, reducing the cost of fuel purchases, all net of the corresponding tax effect.

In 2010, a positive amount of 470 thousand euros for interest-rate swaps was allocated to Net Equity, as the effective part of the hedge relationships over the year, all net of the corresponding tax effect.

As a result of the merger with Clickair, S.A., the fair value of the derivative financial instruments which Clickair, S.A. held on the merger date were included within the Company's Net Equity. Consequently, a positive amount of 913 thousand euros corresponding to the negative change in fair value of these derivative financial instruments as at 1 July 2009 was recorded under the heading "Adjustments for changes in value". These instruments had not been liquidated as at 31 December 2010. Accordingly, the heading “Adjustment for changes in value" includes the change in value of these derivatives from 1 July 2009 up to the 2010 balance sheet date.

e) Analysis of exchange-rate sensitivity

The variations in the fair value of the exchange-rate derivatives used by the Company mainly depend on the variation in the spot rate of the US dollar against the euro, as well as the development of short-term interest-rate curves. As at 31 December 2010, the fair value of these derivatives was positive for 3,652 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2010) and the fair values of the exchange-rate derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros 31/12/2010
+10% (appreciation of Euro)	(14,188)
-10% (depreciation of Euro)	17,341

The sensitivity analysis shows that the euro/dollar exchange-rate derivatives perform negatively if the euro rises, and positively if the euro falls. It is therefore recommendable to buy the US dollar at a fixed exchange rate.

f) Analysis of Brent oil price sensitivity

Variations in the fair value of the fuel derivatives used by the Company mainly depend on the variation in price of the underlying commodity, the mT of Jet Fuel Cif NWE, and the time to maturity. As at 31 December 2010, the fair value of these derivatives is positive for 3,951 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2011) of the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros 31/12/2010
+30% (rise in the price of Brent)	16,170
-30% (fall in the price of Brent)	(16,170)

The sensitivity analysis shows that fuel derivatives perform positively if the price of Jet Fuel Cif NWE rises, and therefore the Company has set a purchase price and is therefore hedged against rises in Jet Fuel Cif NWE. Any falls in the Jet Fuel Cif NEW see a consequent increase in the negative value.

g) Analysis of interest rate sensitivity

Variations in the fair value of the fuel derivatives used by the Company mainly depend on the variation in the 5-year rate swap of the USD and the 5-year treasury note at the maturity of the derivative. As at 31 December 2010, the fair value of these derivatives is positive for 671 thousand euros. The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2010) of the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros 31/12/2010
+10% bp	249
-10% bp	(249)

The sensitivity analysis shows that fuel derivatives performed positively if the price of Jet Fuel Cif NWE rises, and therefore the Company has set a purchase price and is therefore hedged against rises in Jet Fuel Cif NWE. Any falls in the Jet Fuel Cif NEW see a consequent increase in the negative value.

16. Public authorities and tax position

16.1. Current balances with Public Authorities

The breakdown of current balances with Public Authorities on the balance sheet dates for 2011 and 2010 is as follows

Debit balances	Thousand euros 31/12/2011	Thousand euros 31/12/2010
Tax Agency, withholdings and interim payments	2,488	722
Total	**2,488**	**722**

Credit balances	Thousand euros	
	31/12/2011	31/12/2010
Credit balances with the Social Security	1,097	925
Credit balance with Tax Agency for personal income tax	921	1,240
Credit balance with Tax Agency for VAT	987	1,238
Total	**3,005**	**3,403**

16.2. Reconciliation of accounting profit and taxable base

The reconciliation between the accounting profit and the Corporation Tax base on the 2011 and 2010 balance sheet dates is as follows:

2011

	Thousand euros		
	Increases	Decreases	Total
Accounting profit after tax	-	-	10,383
Permanent differences:			
Corporation Tax	4,479	-	4,479
Other permanent differences	246	(61)	186
Temporary differences:			
From the year (provisions)	1,829	(3,362)	(1,433)
Previous tax base	6,654	(3,423)	13,614
Offsetting 50% of tax loss carry-forwards	-	-	(6,807)
Tax base	**-**	**-**	**6,807**
Payment at 30%			2,042
Withholdings and interim payments			(4,048)
Corporation Tax to recover	**-**	**-**	**(2,006)**

2010

	Thousand euros		
	Increases	Decreases	Total
Accounting profit after tax	-	-	45,995
Permanent differences:			
Corporation Tax	19,712	-	19,712
Temporary differences:			
From the year (provisions)	4,801	(12,374)	(7,573)
Previous tax base	24,513	(12,374)	58,134
Offsetting tax-loss carry-forwards	-	-	(58,134)
Tax base	**-**	**-**	**-**

16.3. Reconciliation between the accounting profit and the Corporation Tax expense

The reconciliation between the accounting profit and the Corporation Tax expense for 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Accounting profit before Corporation Tax	**14,862**	**65,707**
Tax payable at 30% of the tax base	(2,042)	(17,440)
Impact of temporary differences and offsetting tax-loss carry-forwards	(2,472)	(2,272)
Adjustment CT previous years	35	-
Total (expense) or income for tax recognised in the income statement	(4,479)	(19,712)
Accounting profit after Corporation Tax	**10,383**	**45,995**

16.4. Tax recognised in Net Equity

The breakdown of tax recognised directly in Net Equity is as follows:

2011

	Thousand euros		
	Increases	Decreases	Total
For current tax:			
Cash flow hedges (net of currency and Brent)	-	(13,770)	(13,770)
Subsidies	164	-	164
Total tax recognised directly in Equity (current tax)	**164**	**(13,770)**	**(13,606)**

2010

	Thousand euros		
	Increases	Decreases	Total
For current tax: Cash flow hedges (net of currency, jet fuel and interest rate)	-	(3,021)	(3,021)
Subsidies	216	-	216
Total tax recognised directly in Equity (current tax)	**216**	**(3,021)**	**(2,805)**

16.5 Deferred tax assets

The breakdown of movements and balance of this account in 2011 and 2010 is as follows:

2011

	Thousand euros				
	01/01/2011	2011 Corporation Tax	For variations in derivative financial instruments	Reclassifications	31/12/2011
Tax credits to offset losses	**55,970**	**(2,042)**	**-**	**456**	**54,384**
Total temporary differences:	**2,905**	**(394)**	**458**	**(456)**	**2,513**
For temporary differences in CT	2,541	(394)	-	(456)	1,691
For temporary differences of derivatives (Note 15)	364	-	458	-	822
Total deferred tax assets	**58,875**	**(2,436)**	**458**	**-**	**56,897**

2010

	Thousand euros					
	31/12/2009	2010 Corporation Tax	For variations in derivative financial instruments	For adjustments in goodwill (Note 6)	Reclassifications	31/12/2010
Tax credits to offset losses	**73,490**	**(17,440)**	**-**	**290**	**(370)**	**55,970**
Total temporary differences:	**5,800**	**(2,272)**	**(993)**	**-**	**370**	**2,905**
Temporary Differences in CT	4,443	(2,272)	-	-	370	2,541
For temporary differences of derivatives (Note 15)	1,357	-	(993)	-	-	364
Total deferred tax assets	**79,290**	**(19,712)**	**(993)**	**290**	**-**	**58,875**

The breakdown and maturity of the tax-loss carry-forwards, the tax effect of which is recorded in the accompanying annual accounts, is as follows:

	Thousand euros		Maturity
	31/12/2011	31/12/2010	
Tax loss carry-forwards:			
2007	74,614	81,421	2025
2008	90,748	90,748	2026
2009	15,916	15,916	2027
TOTAL	**181,278**	**188,084**	

The tax loss carry-forwards offset in 2011 amounted to 6,807 thousand euros.

There are no tax loss carry-forwards which have not been recorded in the Company's balance sheet.

The Company has 18 tax years from the first year with positive tax bases to offset the aforementioned tax loss carry-forwards. However, in the accounting recognition of tax credits the Company has taken into consideration consultation 10 of the BOICAC 80 (official gazette of Spain's accounting and audit institute). In this regard, as at 31 December 2011, said tax credits remain activated given that the Company's Directors believe that it is likely that future profits will be obtained so as to offset said tax loss carry-forwards.

The factors that have been taken into account for their activation are as follows:

- In the years ended 31 December 2011 and 2010, the Company obtained a profit before tax of 14,862 and 65,707 thousand euros respectively, which has allowed it to offset tax loss carry-forwards for 6,807 and 58,400 thousand euros respectively.

- The Company's Business Plan approved by the Board of Directors forecasts profit for 2012 and subsequent years to offset all the tax-loss carry-forwards over the next five years.

- There is a mandate from the Board of Directors to Management to execute the actions contained in the aforementioned Business Plan.

- There is considered to be a high probability that the Plan will be met given its execution as at the preparation date of these annual accounts.

16.6. Deferred tax liabilities

The breakdown of the this account at the balance sheet dates for 2011 and 2010 is as follows:

	Thousand euros	
	31/12/2011	31/12/2010
Temporary differences	28,339	14,041
Total deferred tax liabilities	**28,339**	**14,041**

Within the temporary differences as at 31 December 2011, a total of 11,020 thousand euros was recorded associated with the tax effect of the assets at fair value identified as “slots and segments” resulting from the merger with Clickair, S.A. (see Notes 3 and 6), a total of 17,306 thousand euros for temporary differences of the derivative financial instruments with a favourable measurement (see Note 15) and a total of 13 thousand euros for temporary differences in the subsidies recorded under Net Equity.

Within the temporary differences as at 31 December 2010, a total of 11,020 thousand euros was recorded associated with the tax effect of the assets at fair value identified as “slots” resulting from the merger with Clickair, S.A. (see Notes 3 and 6), a total of 2,846 thousand euros for temporary differences of the derivative financial instruments with a favourable measurement and a total of 235 thousand euros for temporary differences in the subsidies recorded under Net Equity.

16.7. Years pending verification and inspection

In accordance with current legislation, taxes may not be considered as definitively settled until the filed returns have been inspected by the tax authorities or the prescription period of four years has passed. As at the 2011 balance sheet date, the Company has 2007 and subsequent years open for inspection relating to Corporation Tax and 2008 and following years for other applicable taxes. The Company's Directors consider that the aforementioned taxes have been paid appropriately. Therefore, in the event of discrepancies in the interpretation of current legislation resulting from the tax treatment given to the Company's operations, any possible resulting liabilities, should they occur, will not have a material effect on the accompanying annual accounts.

17. Revenues and expenses

17.1. Net turnover

The Company's sole ordinary activity is passenger air transport. All other activity categories are complementary and are not significantly different from one another. Therefore, the notes only break down information by geographic market segments.

The breakdown of turnover by geographic market for 2011 and 2010 is as follows:

Geographical Market	Thousand euros	
	2011	2010
Spain	527,284	363,869
Other European Union countries	328,886	425,754
Total	**856,170**	**789,623**

17.2. Procurement

The heading "Procurement" for 2011 and 2010 corresponds exclusively to the consumption of fuel.

17.3. Breakdown of purchases by origin

The breakdown of the purchases made by the Company in 2011 and 2010 according to their origin is as follows:

2011

	Thousand euros		
	National	Intra-community	Extra-community
Purchases	183,922	65,656	3,962

2010

	Thousand euros		
	National	Intra-community	Extra-community
Purchases	141,605	37,912	4,107

17.4. Other operating revenue

The balance under the heading "Other operating revenue" in the 2011 and 2010 income statement corresponds to advertising revenue of 6,895 and 6,304 thousand euros respectively.

17.5. Personnel

The breakdown of the heading "Personnel Expenses" in the income statement for 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Salaries, wages and similar items	67,167	63,702
Severance pay	1,661	1,315
Social contributions (Social Security)	11,562	9,863
Other personnel expenses	427	156
Total	**80,817**	**75,036**

The average number of employees in 2011 and 2010, broken down by category and gender, is as follows:

2011

Category	2011		
	Men	Women	Total
Senior Management	3	2	5
Pilots	376	20	396
Flight attendants	155	582	737
Operational support personnel	70	59	129
Administrative support personnel	74	85	159
Sales personnel	10	16	26
Total	**689**	**763**	**1.452**

2010

Category	2010		
	Men	Women	Total
Senior Management	5	1	6
Pilots	343	9	352
Flight attendants	101	569	670
Operational support personnel	81	32	113
Administrative support personnel	80	75	155
Sales personnel	9	13	22
Total	**619**	**699**	**1.318**

Company staff as at 31 December 2011 and 2010, broken down by category and gender, is as follows:

2011

Category	2011		
	Men	Women	Total
Senior Management	3	2	5
Pilots	396	17	413
Flight attendants	136	523	659
Operational support personnel	68	56	124
Administrative support personnel	77	85	162
Sales personnel	10	16	26
Total	**690**	**699**	**1.389**

2010

Category	2010		
	Men	Women	Total
Senior Management	5	1	6
Pilots	337	9	346
Flight attendants	111	515	626
Operational support personnel	58	53	111
Administrative support personnel	75	79	154
Sales personnel	9	14	23
Total	**595**	**671**	**1.266**

As at 31 December 2011, the Company's Board of Directors consisted of eleven men and one woman (the same as at the end of last year).

As at 31 December 2011, the senior management consisted of four men and one woman (five men and one woman as at 31 December 2010).

17.6. Other operating expenses

The breakdown of the heading "Other operating Expenses" in the income statement for 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
External services:		
Ground handling service	105,081	106,667
Aircraft and other leases	108,786	96,574
Aircraft maintenance	84,548	77,492
Air Traffic Control	65,236	62,528
Airport fees	80,252	61,335
Supplies and other expenses	24,530	26,192
Independent professional services	17,325	17,696
Advertising	15,548	17,215
Insurance, banking services and other items	9,392	9,365
Taxes	360	213
Losses, impairment and change in provisions for commercial operations	-	(3,498)
Total other operating expenses	**511,058**	**471,778**

17.7. Provision for bad debts

Movements under provisions for bad debts in 2011 and 2010 is as follows:

2011

	Thousand euros			
	01/01/2011	Allocations	Applications	31/12/2011
Impairment of loans for commercial operations	592	-	-	592

2010

	Thousand euros			
	01/01/2010	Allocations	Applications	31/12/2010
Impairment of loans for commercial operations	4,090	25	(3,523)	592

18. Foreign Currency

The breakdown of the most significant balances and transactions in foreign currencies in 2011 and 2010, measured at the balance sheet date exchange rate and average exchange rate respectively is as follows:

	Thousand euros	
	2011	2010
Balances:		
Long- and short-term deposits	105,203	106,112
Receivables and other assets	4,972	6,072
Long-term provisions	151,595	119,063
Payables and other liabilities	16,607	7,020
Transactions:		
Other revenue	64	20
Purchases	240,049	186,642
Services received	173,910	145,716

Both the balances at the balance sheet date and the purchases and services received in foreign currency were mainly carried out in US dollars.

All services were performed in euros.

These transactions and balances in foreign currency led to exchange differences in 2011 and 2010 as broken down in the following table:

	Thousand euros	
	2011	2010
Exchange rate differences profit (loss)	(3,640)	3,876

The exchange rate differences corresponding to the year ended 31 December 2011 consist of unrealised exchange rate differences and realised exchange rate differences for (2,556) and (1,084) thousand euros respectively (as at 31 December 2010, a total of 3,446 and 430 thousand euros respectively).

19. Balances and Other Information Relating to the Members of the Board of Directors and Senior Management

The total number of Company shares owned directly by the Board of Directors and related persons as at 31 December 2011 is 1,299,533 shares, which represent 4.346% of the total shares (the same amount as at the 2010 balance sheet date).

The remuneration received in 2011 and 2010 by the Company's Directors and Senior Management, classified by item, is as follows:

2011

	Thousand euros			
	Remuneration	Other	Payments based on equity instruments	Total
Board of Directors	891	-	-	891
Chief Executive Officer	463	-	-	463
Senior Management	1,415	-	-	1,415
Total	**2,769**	**-**	**-**	**2,769**

2010

	Thousand euros			
	Remuneration	Other	Payments based on equity instruments	Total
Board of Directors	962	-	-	962
Chief Executive Officer	495	-	-	495
Senior Management	1,228	-	-	1,228
Total	**2,685**	**-**	**-**	**2,685**

This remuneration received coincides with that accrued in said years.

The remuneration received in 2011 and 2010 only corresponds to wages and salaries, with no allowances or other remuneration.

As at 31 December 2011, there are no obligations agreed with the aforementioned Directors relating to pensions or any outstanding balances with the Company. The Company has only undertaken the obligation to pay life insurance premiums to some Directors.

In addition, some of the Company's senior managers have incentive plans, “SAR Plan" and Value Creation Plan", as well as other specific agreements with remuneration based on shares in the Company. However, the impact of these incentive plans is not material.

The Company's Directors, and certain related persons, with shares, and/or those who hold positions or work, in companies whose business purpose is identical, similar or complementary to that performed by the Company are as follows.

Name	Regime governing the provision of the activity	Company through which the activity is provided/Company in which a stake is held	Activity	Positions held or duties performed in the company	% stake in said company
Mr. José María Fariza Batanero	Employment relations	IBERIA Lineas Aereas de España, S.A. Operadora, Sociedad Unipersonal	Air passenger transport	Finance Director and Control	
	Mercantile relations	IBERIA Lineas Aereas de España, S.A. Operadora, Sociedad Unipersonal	Air passenger transport	Member of the Board	
	Mercantile relations	IB OPCO Holding, S.L.	Holding, management and administration of shares in IBERIA, Lineas Aereas de España, S.A. Operadora, Sociedad Unipersonal	Member of the Board	
	N/A	International Consolidated Airlines Group, S.A.	Air passenger transport	N/A	0.001% (17,210 shares)
Mr. Manuel López Colmenarejo	Employment relations	IBERIA Lineas Aereas de España, S.A. Operadora, Sociedad Unipersonal	Air passenger transport	Corporate Affairs Director	
	N/A	International Consolidated Airlines Group, S.A.	Air passenger transport	N/A	0.001% (27,705 shares)
Mr. Jorge Pont Sanchez	Mercantile relations	IBERIA Lineas Aereas de España, S.A. Operadora, Sociedad Unipersonal	Air passenger transport	Deputy Chairman of the Board of Directors	
	Mercantile relations	IB OPCO Holding, S.L.	Holding, management and administration of shares in IBERIA, Lineas Aereas de España, S.A. Operadora, Sociedad Unipersonal	Deputy Chairman of the Board of Directors	
	Mercantile relations	GARANAIR, S.L.	Holding, management and administration of shares in IB OPCO Holding, S.L.	Deputy Chairman of the Board of Directors	
	N/A	International Consolidated Airlines Group, S.A.	Air passenger transport	N/A	0.000% (401 shares)

There are no direct or indirect conflicts of interests reported by the Directors and/or persons related to the Board of Directors.

20. Information on the environment

The Company's Directors consider that the environmental risks resulting from its activity are minimum and, at any rate, appropriately covered, and consider that no additional liabilities will arise relating to these risks (see Note 5.12).

The Company did not incur any significant expenses or receive any subsidies relating to these risks in 2011 or 2010.

21. Guarantees extended to third parties

In addition to the deposits (see Note 9.1), several financial institutions have presented bank guarantees in favour of the aircraft lessors for the lease agreements and for other items, basically in favour of airports and fuel supply companies.

As at 31 December 2011, the guarantees extended by the Company to aircraft lessors stood at 106,405 thousand euros at the exchange rate at the balance sheet date (61,909 thousand euros as at 31 December 2010), and the guarantees extended to ground handling companies, airports and for fuel purchases stood at 51,720 thousand euros (48,382 thousand euros as at 31 December 2010).

The Company's Directors do not consider that additional liabilities other than those already recorded in the accompanying annual accounts will arise as a consequence of these guarantees.

22. Auditors' Fees

In 2011 and 2010, the fees for account auditing services and other services provided by the Company's auditor, Deloitte, S.L., or by a company from the same group or related to the auditor were as follows:

Description	Thousand euros	
	2011	2010
Audit services	110	110
Other verification services	30	30
Total Audit and Related Services	**140**	**140**
Tax Advisory Services	-	-
Other services	12	15
Total Professional Services	**152**	**155**

23. Comparative impact with IFRS

Section 525 of the Capital Companies Act establishes that companies which have issued securities admitted to trading on a regulated market of any Member State of the European Union and which, in accordance with current legislation, only publish individual annual accounts, are required to include in the annual report the main variations that would occur in capital and reserves and the income statement if the International Financial Reporting Standards (hereinafter, IFRS-EU) adopted by the European Union had been applied. In this regard, there are no material differences in the Company's Net Equity as at 31 December 2011 or in its income statement for the year ending on that date between the General Chart of Accounts and the IFRS-EU.

24. Subsequent events

Due to the changes in the market situation, on 30 January 2012, Vueling announced an increase in its seat capacity in the 2012 summer season of up to 25% on the capacity of last year and up to 50% at Barcelona El Prat airport compared with last year. In order to meet this increase in activity, in the first few months of 2012 the Company has contracted eight new aircraft for a period of between three and five years with certain aircraft lessors.

No other significant events have taken place subsequent to the balance sheet date which may affect information contained in the Company's annual accounts.