Vueling Airlines, S.A.

Annual Accounts for the
year ending 31 December 2012
and Management Report, together with
the Auditors' Report

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the shareholders of Vueling Airlines, S.A.

1. We have audited the financial statements of Vueling Airlines, S.A., which comprise the balance sheet as at 31 December 2012, 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, in particular, with the accounting principles and criteria contained therein. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying financial statements for 2012 present fairly, in all material respects, the equity and financial position of Vueling Airlines, S.A. at 31 December 2012, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

3. The accompanying directors' report for 2012 contains the explanations which the Directors consider appropriate about the situation of the Company, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2012. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

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Ana Maria Gibert

February 25, 2013

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VUELING AIRLINES, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2012

(Thousand euros)

ASSETS	Notes	31/12/2012	31/12/2011
NON-CURRENT ASSETS:			
Intangible fixed assets-	**Note 6**	**73.769**	**64.675**
Goodwill		15.419	15.419
Computer software		14.603	12.523
Segments		36.733	36.733
CO2 allowances		7.014	-
Property, plant and equipment -	**Note 7**	**2.680**	**2.928**
Aircraft components		1.374	1.673
Furniture and equipment		1.306	1.255
Long-term financial investments-	**Note 9.1**	**111.831**	**115.417**
Other financial assets		103.649	89.258
Derivatives	Note 15	8.182	26.159
Deferred tax assets	**Note 16.5**	**59.718**	**56.897**
Total non-current assets		**247.998**	**239.917**
CURRENT ASSETS:			
Inventories-	**Note 10**	**-**	**353**
Trade		-	353
Trade and other receivables-		**64.089**	**47.188**
Receivables for sales and services rendered		47.869	40.397
Receivables, related companies	Note 14	688	-
Sundry receivables		9.884	4.303
Credits with Public Authorities	Note 16.1	5.648	2.488
Short-term financial investments-	**Note 9.2**	**41.030**	**290.896**
Derivatives	Note 15	9.155	31.302
Other financial assets		31.875	259.594
Prepayments and acrrued income		**7.748**	**7.111**
Cash and cash equivalents-	**Note 9.3**	**322.377**	**14.947**
Cash		66.865	14.947
Cash equivalents		255.512	-
Total current assets		**435.244**	**360.495**
TOTAL ASSETS		**683.242**	**600.412**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2012	31/12/2011
SHAREHOLDERS' EQUITY:	**Note 11**		
Capital-		**29.905**	**29.905**
Authorised capital		29.905	29.905
Share premium		**199.185**	**199.185**
Reserves-		**2.394**	**1.623**
Legal		5.981	5.981
Other reserves		(3.587)	(4.358)
Treasury shares		**(713)**	**(713)**
Prior years' losses		**(28.127)**	**(37.738)**
Loss for the year		**28.332**	**10.383**
Total Capital and Reserves		**230.976**	**202.645**
Adjustments for changes in value	**Note 15**	**6.193**	**38.835**
Subsidies, donations and bequests received	**Note 11.6**	**75**	**27**
Total net equity		**237.244**	**241.507**
NON-CURRENT LIABILITIES:			
Long-term provisions -	**Note 12.1**	**193.450**	**151.996**
Other provisions		193.450	151.996
Derivatives	**Note 15**	**6.393**	-
Deferred tax liabilities	**Note 16.6**	**18.890**	**28.339**
Total non-current liabilities		**218.733**	**180.335**
CURRENT LIABILITIES:			
Short-term provisions	**Note 12.1**	**6.708**	**-**
Short-term liabilities-	**Note 13.1**	**10.750**	**4.541**
Debts with credit institutions		-	2.294
Derivatives	Note 15	10.526	2.247
Other financial liabilities		224	-
Debts with related companies	**Note 14**	**28.015**	**32.769**
Trade and other payables-		**127.392**	**101.715**
Suppliers		82.263	64.948
Sundry payables		32.986	26.118
Personnel		7.263	5.177
Other debts with Public Authorities	Note 16.1	4.105	3.005
Advance payments from customers	Note 5.9	775	2.467
Short-term accruals and deferred income	**Note 5.9**	**54.400**	**39.545**
Total current liabilities		**227.265**	**178.570**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**683.242**	**600.412**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the balance sheet as at 31 December 2012.

VUELING AIRLINES, S.A.

2012 Income Statement
(Thousand euros)

	Notes to the annual accounts	2012	2011
CONTINUING OPERATIONS:			
Net turnover-	**Note 17.1**	**1.091.074**	**856.170**
Provision of services		1.091.074	856.170
Work performed on assets	**Note 6**	**735**	**391**
Procurement-	**Note 17.2**	**(339.996)**	**(253.540)**
Consumption of raw materials and other consumables		(339.996)	(253.540)
Other operating revenue	**Note 17.4**	**10.777**	**6.895**
Personnel Expenses-	**Note 17.5**	**(95.001)**	**(80.817)**
Salaries, wages and similar items		(81.061)	(68.828)
Social contributions		(13.940)	(11.989)
Other operating expenses-	**Note 17.6**	**(627.195)**	**(511.058)**
External services		(626.977)	(510.698)
Taxes		(218)	(360)
Depreciation and amortisation	**Notes 6 and 7**	**(6.415)**	**(6.616)**
Results from disposals and other items	**Note 6**	**(741)**	**(28)**
OPERATING PROFIT (LOSS)		**33.238**	**11.397**
Financial income-		**10.402**	**10.344**
From tradable securities and other financial instruments with third parties		10.402	10.344
Financial expenses-		**(5.924)**	**(3.239)**
For debts with third parties		(5.924)	(3.239)
Exchange differences	**Note 18**	**2.411**	**(3.640)**
FINANCIAL PROFIT (LOSS)		**6.889**	**3.465**
Profit (loss) before tax		**40.127**	**14.862**
Corporation tax	Note 16.3	(11.795)	(4.479)
Profit (loss) for the year from continuing operations		**28.332**	**10.383**
DISCONTINUED OPERATIONS:			
Profit (loss) for the year from discontinued operations net of tax		-	-
PROFIT FOR THE YEAR		**28.332**	**10.383**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2012 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	2012	2011
RESULT FROM THE INCOME STATEMENT (I)		**28.332**	**10.383**
Income and expenses recognised directly in equity:			
For cash flow hedging	Note 15	(15.291)	59.961
Tax effect		4.587	(17.988)
Total income and expenses directly attributable to net equity (II)		**(10.704)**	**41.973**
Transfers to the income statement:			
For cash flow hedging	Note 15	(31.341)	(14.061)
Tax effect		9.402	4.218
Subsidies, donations and legacies received	Note 11.6	68	(546)
Tax effect		(20)	164
Total transfers to the income statement (III)		**(21.891)**	**(10.225)**
Total recognised income and expense (I+II+III)		**(4.263)**	**42.131**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2012 statement of recognised income and expense

VUELING AIRLINES, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012
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
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**
Final balance 2011 and adjusted balance at start of 2012	**29.905**	**199.185**	**5.981**	**1.156**	**(5.514)**	**(713)**	**(37.738)**	**10.383**	**38.835**	**27**	**241.507**
Distribution of profit (loss) for 2011	-	-		771	-	-	9.612	(10.383)	-	-	**-**
Total recognised income and expense	-	-	-	-	-	-	-	28.332	(32.643)	48	**(4.263)**
Balance at end of 2012	**29.905**	**199.185**	**5.981**	**1.927**	**(5.514)**	**(713)**	**(28.127)**	**28.332**	**6.193**	**75**	**237.244**

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2012 total statement of changes in equity.

VUELING AIRLINES, S.A.

2012 CASH FLOW STATEMENT

(Thousand euros)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**107.134**	**58.170**
Profit (loss) for the year before tax		**40.127**	**14.862**
Adjustments to profit (loss)-		**44.765**	**25.328**
Depreciation and amortisation	Notes 6 and 7	6.415	6.616
Change in provisions		43.654	22.149
Profit (loss) for retirements and disposals of fixed assets	Note 6	741	28
Financial income		(10.402)	(10.344)
Financial expenses		5.924	3.239
Exchange rate differences	Note 18	(2.411)	3.640
Impairment CO2 allowances	Note 17.2	844	-
Changes in working capital-		**28.729**	**12.975**
Trade and other receivables		(17.447)	(14.989)
Change in inventories		353	(183)
Other current assets		(287)	(1.978)
Trade and other payables		20.923	27.357
Other current liabilities		14.855	6.410
Other non-current assets and liabilities		10.332	(3.642)
Other cash flows from operating activities-		**(6.487)**	**5.005**
Payment of interest		(3.108)	(3.239)
Interest received		8.148	8.244
Payments for corporation tax		(11.527)	
CASH FLOWS FROM INVESTMENT ACTIVITIES (II)		**201.388**	**(56.478)**
Operating profit (loss):			
Payments for investments-		**(11.784)**	**(82.453)**
Intangible fixed assets	Note 6	(9.952)	(6.732)
Property, plant and equipment	Note 7	(1.832)	(67)
Other financial assets	Note 9	-	(75.654)
Proceeds for disposals		**213.172**	**25.975**
Other financial assets		213.172	25.975
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(2.294)**	**(21.633)**
Collections and payments for financial instruments-		**(2.294)**	**(21.633)**
Debts with credit institutions		(2.294)	(21.633)
EFFECT OF EXCHANGE RATE VARIATIONS (IV)	**Note 18**	**1.202**	**(1.084)**
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS (I+II+III+IV)		**307.430**	**(21.025)**
Cash or equivalents at the start of the year		14.947	35.972
Cash or cash equivalents at the end of the year		322.377	14.947

Notes 1 to 24 in the accompanying notes to the annual accounts form an integral part of the 2012 cash flow statement.

Vueling Airlines, S.A.

Notes to the annual accounts
for the year ending
31 December 2012

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 at 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 2011 annual accounts were approved by the General Meeting of Shareholders held on 25 May 2012.

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 2012 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 2012 is presented together with the 2011 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 2012 compared with the criteria applied in 2011.

2.8. Error correction

There were no error corrections in 2012 with regard to the figures for 2011.

3. Business combination and other information

a) Merger with Clickair, S.A.

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.

b) Takeover bid by Veloz Holdco, S.L.U.

On 8 November 2012, a significant event was published whereby Veloz Holdco, S.L.U (a subsidiary fully owned by International Consolidated Airlines Group, S.A. "IAG" or the "Bidder") made a takeover bid for 100% of the share capital of Vueling Airlines, S.A.

However, Iberia Líneas Aéreas de España, S.A. Operadora declared to the Bidder its unconditional and irrevocable commitment to not accept the bid with regard to any of the 13,711,221 shares of Vueling which it owns, representing 45.85% of the share capital, and, consequently, Veloz Holdco published a significant event dated 8 November 2012, informing of the corresponding shareholders' agreement to that effect.

Therefore, the number of shares to which the Bid effectively extends amounts to 16,193,297 shares, representing 54.15% of the share capital, with the same proportion of voting rights.

On 10 December 2012, IAG reported as a significant event that Veloz Holdco, S.L.U. had presented on that same day the authorisation request for a takeover bid for the shares of Vueling Airlines, S.A.

On 20 December 2012, the takeover bid for Vueling Airlines, S.A. was admitted for processing by the CNMV (Spanish Securities Market Commission).

The bid is currently being processed for acceptance by the CNMV.

4. Distribution of profit

The Company's Directors' proposal for distributing the 2012 profit, which will be submitted for approval by the General Meeting of Shareholders, is as follows:

	Thousands of Euros
Offsetting losses from prior years	27,561
To reserve for goodwill	771
Total	**28,332**

5. Recognition and measurement

The main standards for recognition and measurement used by the Company in preparing the 2012 and 2011 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 segments resulting from the merger with Clickair, S.A., computer software and greenhouse gas emission allowances (hereinafter, CO2).

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 and greenhouse gas emission allowances.

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.

Segments

Under this heading, the Company records the fair value of the 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 segments is described below.

CO2 allowances

Under this heading, the Company registers the value of the CO2 allowances necessary for its operations in accordance with the 2008 EU agreement whereby all flights taking off and landing in the EU will be included within the EU Emissions Trading System (EU ETS) as from 1 January 2012. CO2 allowances cannot be amortised but they are subject to possible impairment in the event that the closing price of the allowances is lower than the average price at which the Company has recorded them (see Note 6).

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 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 segments 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 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 segment to the different routes operated, the Management has considered that the 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 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:

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 no organic growth in capacity for the 14 CGUs with value assigned and in a range of between 8.54% and 10.44% 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 2013 to 2016 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 119 USD/barrel, average of 110 USD/barrel in the previous year) and the expected dollar-euro exchange rate (1.30 USD/euro, 1.40 USD/euro in the previous year), according to forecast data published in reliable sources of financial information. The forecasts for 2013 are identical to the Company's budget for 2013 approved by the Board of Directors.

- The Company has considered the forecast for the next four years, plus perpetual income without growth based on the income of the last year included in the forecast.

- 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 10.8% (10.5% 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 11.8%).
- The increase in the price of fuel from $119 per barrel up to $129 per barrel.
- The increase in the dollar-euro exchange rate from 1.30 to 1.20,

then these new assumptions both separately and taken as a whole would also not imply the need for any impairment either for the individualised 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

(*) 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 2012 or 2011.

Operating leases

In 2012 and 2011 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).

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. Related-party transactions

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

The Company performs all its transactions with related parties at arm's length. The Company's Directors believe that the transfer prices are duly documented and that there are no significant risks for this aspect which could lead to material liabilities in the future.

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.

Provision for greenhouse gas emission allowances

The metric tons of carbon dioxide emitted are calculated by multiplying the tons of fuel consumed by a factor of 3.15.

The Company registers the expense incurred for greenhouse gas emission allowances based on its fuel consumption. The amount of the provision is calculated in accordance with monthly fuel consumption by the Company according to the average price of the allowance at the end of each month, adjusted by the last quoted price of the allowance. In the event that the price of the allowance is lower than the average price recorded by the Company, an impairment must be recorded in the asset and in the corresponding original provision. Said provision will be settled in the month of the year following that in which it was generated.

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. Other obligations with employees

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, there was no impact in 2012 as a result of these incentive plans as they all expired in March 2012.

According to the features of the plans, the rights granted over equity instruments were consolidated when the employees completed a specific period of time in the company and the events set forth in the plan took 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. Under this heading, the Company has recorded the amount of the subsidy resulting from CO_2 allowances assigned free of charge (see Note 6).

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.

6. Intangible fixed assets

Movements under this heading of the balance sheets for 2012 and 2011, as well as the most significant information which affects this heading, are as follows:

2012

Cost	Thousand euros				
	Opening Balance	Additions	Disposals	Transfers (Note 7)	Closing Balance
Goodwill	15,419	-	-	-	15,419
Computer software	24,271	7,446	(3,914)	(207)	27,596
Segments	36,733	-	-	-	36,733
CO2 allowances	-	7,858	-	-	7,858
Total cost	**76,423**	**15,304**	**(3,914)**	**(207)**	**87,606**

Amortisations	Thousand euros				
	Opening Balance	Additions	Disposals	Transfers (Note 7)	Closing Balance
Computer software	(11,748)	(4,867)	3,581	41	(12,993)
Total amortisation	**(11,748)**	**(4,867)**	**3,581**	**41**	**(12,993)**

Impairment	Thousand euros		
	Opening Balance	Additions	Closing Balance
CO2 allowances	-	(844)	(844)
Total impairment	**-**	**(844)**	**(844)**

Total Intangible Fixed Assets	Thousand euros	
	Opening Balance	Closing Balance
Cost	76,423	87,606
Amortisation	(11,748)	(12,993)
Impairment	-	(844)
Net Total	**64,675**	**73,769**

2011

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

Amortisation	Thousand euros			
	Opening Balance	Additions	Disposals	Closing Balance
Computer software	(7,927)	(3,955)	134	(11,748)
Total amortisation	**(7,927)**	**(3,955)**	**134**	**(11,748)**

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

Goodwill

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

Computer software

The additions in 2012 mainly correspond to the introduction of operating system and website applications and software for 7,446 thousand euros (6,732 thousand euros in 2011), of which a total of 735 thousand euros correspond to work performed by staff of the Company itself (391 thousand euros in 2011).

The disposals in 2012 mainly correspond to web applications which have become obsolete and which have generated losses of 333 thousand euros (28 thousand euros in 2011).

Segments

Under the heading "Other intangible fixed assets", the Company records 36,733 thousand euros as the fair value of the 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.

CO2 allowances

Under the heading "CO2 allowances", the Company registers the value of the CO2 allowances, both those received free of charge (697 allowances, with a value as at 1 January 2012 of 4,356 thousand euros) and those purchased on the market (595 thousand allowances at an average price for 2012 of €5.88/allowance). At year-end, the allowances are valued at the latest available quoted price of 31 December 2012. Additions over the year totalled 7,858 thousand euros, after applying an impairment loss of 844 thousand euros as a result of the lower quoted price at year-end.

As at 31 December 2012, the Company had no intangible fixed assets which were fully amortised and which remained in use (1,211 thousand euros at 31 December 2011).

7. Property, plant and equipment

Movements under this heading of the balance sheets for 2012 and 2011, as well as the most significant information which affects this heading, are as follows:

2012

Cost	Thousand euros				
	Opening Balance	Additions	Disposals	Transfers (Note 6)	Closing Balance
Aircraft components	11,783	900	(8,317)	-	4,366
Handling equipment	441	-	(225)	-	216
Technical facilities	1,136	-	(488)	-	648
Furniture	790	104	(277)	-	617
Other facilities and equipment	1,214	479	(888)	207	1,012
Property, plant and equipment under construction	-	350	(350)	-	-
Total cost	**15,364**	**1,833**	**(10,545)**	**207**	**6,859**

Amortisation	Thousand euros				
	Opening Balance	Additions	Disposals	Transfers (Note 6)	Closing Balance
Aircraft components	(10,110)	(1,167)	8,285	-	(2,992)
Handling equipment	(362)	(24)	225	-	(161)
Technical facilities	(558)	(107)	293	-	(372)
Furniture	(438)	(79)	212	-	(305)
Other facilities and equipment	-	-	-	-	-
Information processing equipment	(968)	(171)	831	(41)	(349)
Total amortisation	**(12,.436)**	**(1,548)**	**9,846**	**(41)**	**(4,179)**

Total Property, Plant and Equipment	Thousand euros	
	Opening Balance	Closing Balance
Cost	15,364	6,859
Amortisation	(12,436)	(4,179)
Net Total	**2,928**	**2,680**

The disposals for 2012 primarily relate to plant which has become obsolete and which has generated losses of 348 thousand euros (a gain of 6 thousand euros in 2011).

2011

Cost	Thousand euros			
	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

Amortisation	Thousand euros			
	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
Amortisation	(10,314)	(12,436)
Net Total	**6,154**	**2,928**

As at 31 December 2012 and 2011, 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) 31/12/2012	 31/12/2011
Aircraft components	494	3,849
Furniture, equipment and other items	47	30
Information processing equipment	-	420
Total	**541**	**4,299**

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 2012 and 2011, there is no coverage deficit related to the aforementioned risks.

As at 31 December 2012 and 2011 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 2012 and 2011 balance sheet dates, the Company had agreements with aircraft lessors for the following minimum lease payments in dollars, 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 31/12/2012	 31/12/2011
Less than one year	161,516	144,599
Between one and five years	324,584	368,423
More than five years	1,385	1,385
Total	**487,485**	**514,407**

The exchange value in euros of the committed payments as at 31 December 2012 at the year-end exchange rate is 369,465 thousand euros (397,563 thousand euros at 31 December 2011).

At 31 December 2012, the Company has entered into agreements for seven aircraft with entry in 2013. The breakdown of the minimum lease payments, in thousands of dollars, is as follows:

Operating leases	Thousand USD
	Nominal value
Less than one year	15,766
Between one and five years	97,004
Over five years	32,511
Total	**145,281**

The difference between the total committed lease payments for 2012 and 2011 derives from the existence of one less year committed with the lessors of the aircraft in the lease agreements in force at 31 December 2011 and the entry of 14 new aircraft (with an average lease term of three years).

The total amount of aircraft lease payments recorded as expenses in 2012 and 2011 are as follows:

	Thousand euros	
	2012	2011
Lease expenses	120,279	106,796
Total	**120,279**	**106,796**

The average number of aircraft operating in 2012 was 53 (with an average of 44 aircraft in 2011), with a total of 59 aircraft operating in the summer high season. As at 31 December 2012, the Company has 53 leased aircraft (47 aircraft as at 31 December 2011).

In 2012, the Company leased an average of two aircraft with Iberia Líneas Aéreas de España, S.A. Operadora.

In 2011, 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) through which Vueling would increase the number of routes flown between Madrid and several Spanish cities and the rest of Europe. This operation involved an average of 4.3 aircraft operating over 2011, of which two aircraft were still in operation as at 31 December 2011. This operation was completed in March 2012 with the return of the aforementioned aircraft.

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

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

9.1. Long-term financial investments

Movements under long-term financial investments in 2012 and 2011 are as follows:

2012

Category	Thousand euros				
	01/01/2012	Additions	Disposals	Reclassifications to short-term	31/12/2012
Loans, deposits and other receivables	89,258	42,565	(21,509)	(6,665)	103,649
Derivatives (Note 15)	26,159	-	(17,977)	-	8,182
Total	**115,417**	**42,565**	**(39,486)**	**(6,665)**	**111,831**

2011

Category	Thousand euros				
	01/01/2011	Additions	Disposals	Reclassifications to short-term	31/12/2011
Loans, deposits and credit to third parties	100,260	27,183	(15,633)	(22,552)	89,258
Derivatives (Note 15)	2,265	23,894	-	-	26,159
Total	**102,525**	**51,077**	**(15,633)**	**(22,552)**	**115,417**

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

2012

	Thousand euros					
	2014	2015	2016	2017	2018 and following years	Total
Loans, deposits and credit to third parties	47,141	28,216	13,793	6,068	8,431	103,649
Hedge derivatives	3,387	2,382	1,610	755	48	8,182
Total	**50,528**	**30,598**	**15,403**	**6,823**	**8,479**	**111,831**

2011

	Thousand euros					
	2013	2014	2015	2016	2017 and following years	Total
Loans, deposits and credit to third parties	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**

“Loans, deposits and other receivables" basically cover the advance payments made to aircraft lessors for the maintenance schedule of leased aircraft for 84,408 thousand euros (see Note 12), guarantees for the payment of aircraft leases for 13,961 thousand euros and deposits given to airports for 5,280 thousand euros. As at 31 December 2011, the deposits given totalled 89,258 thousand euros for these three 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 2012 mainly correspond to the deposits given in cash to aircraft lessors in guarantee of aircraft maintenance for 22,794 thousand euros.

The disposals in 2012 mainly correspond to deposits returned over the year from aircraft lessors for the performance of events established in the fleet maintenance plan for 7,428 thousand euros and 14,081 thousand euros due to the conversion of said deposits to bank guarantees

The reclassifications for 5,569 thousand euros mainly correspond to repairs of aircraft carried out over 2012 or which are expected to be carried out in 2013 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 2012 and 2011 is as follows:

Categories \ Classes	Thousand euros					
	Short-term financial investments					
	Other financial assets		Derivatives (Note 15)		Total	
	2012	2011	2012	2011	2012	2011
Held-to-maturity investments	17,894	234,899	-	-	**17,894**	**234,899**
Loans, deposits and other receivables	13,981	24,695	-	-	**13,981**	**24,695**
Derivatives (Note 15)	-	-	9,155	31,302	**9,155**	**31,302**
Total	**31,875**	**259,594**	**9,155**	**31,302**	**41,030**	**290,896**

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 17,894 thousand euros (234,899 thousand euros as at 31 December 2011).

As at 31 December 2012, the part of these deposits which is pledged, and therefore, not available, is 1,234 thousand euros (1,000 thousand euros as at 31 December 2011), as aircraft lease and maintenance guarantees.

The reduction in time deposits in banks in 2012 compared with 2011 is a result of the Company's cash policy of reducing the average term of the deposits to 3 months (8.3 months in 2011) with the aim of improving cash availability. The return obtained on these time deposits amounted to an average of 1.9% in the year (an average of 3% in 2011).

The heading "Loans, deposits and other receivables" basically corresponds to the advance payments made to aircraft lessors and interim payments of the maintenance programme for leased aircraft for an amount of 13,981 thousand euros (24,695 thousand euros at 31 December 2011). These are expected to be recovered in a period of less than 12 months as the maintenance has already been carried out or is planned to be carried out and recovered within one year. The reduction in this heading is the result of the replacement of cash given by letter of credit and the return of three aircraft in 2012.

9.3. Cash and cash equivalents

The heading "Cash and cash equivalents" records all cash deposited in sight current accounts together with the sight bank deposits which are convertible into cash and which have no restrictions and which have a maturity of less than three months when acquired. The total amount recorded under this heading at 31 December 2012 stood at 322,377 thousand euros (14,947 thousand euros at 31 December 2011). The increase in this heading is the result of a reduction in the average period of time deposits in accordance with the Company's new cash policy.

As at 31 December 2012 and 2011, there was no amount recorded under the heading "Cash and cash equivalents" which was 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 2012 of 20,642 thousand euros compared with 15,230 thousand euros as at 31 December 2011) and the increase in the Company's activity.

At 31 December 2012 there are no significant balances which are more than 180 days past due.

The Company's Directors consider that there is no significant credit risk related to the accounts receivable as at 31 December 2012.

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

In 2011, the Company recorded spare parts for aircraft under this heading.

11. Net Equity

11.1. Subscribed capital

As at the 2012 and 2011 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 2012 and 2011, the shareholders who have a stake greater than 10% of the share capital are as follows.

Shareholder	Shareholding percentage	
	31/12/2012	31/12/2011
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 2012 and 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 2012 is 2,698 thousand euros (1,927 thousand euros in 2011.

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 2012, this reserve is freely available, except for 6,793 thousand euros (34,353 thousand euros as at 31 December 2011).

11.5. Treasury shares

In 2012 and 2011, the Company has not acquired or transferred treasury shares.

As at the 2012 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.

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:

2012

		Thousand euros			
Company	Scope	01/01/2012	Additions	Transfer to profit or loss	31/12/2012
CO2 allowances (Note 6)	European	-	4,357	(4,357)	-
Airbus (Note 5.3)	Private	27	96	(48)	75

2011

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

As at 31 December 2012 and 2011, 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 2012 and 2011, as well as the main movements recorded during the year, are as follows:

2012

	Thousand euros				
Long-term provisions	01/01/2012	Allocations	Applications	Reclassifications to short term	31/12/2012
Provisions for scheduled aircraft maintenance	149,352	61,605	(17,034)	(12,402)	181,521
Other provisions	2,644	9,285	-	-	11,929
Total long-term provisions	**151,996**	**70,890**	**(17,034)**	**(12,402)**	**193,450**

Short-term provisions	01/01/2012	Allocations	31/12/2012
Provision for CO2 allowances	-	6,708	6,708
Total short-term provisions	**-**	**6,708**	**6,708**

The Company allocates a provision for the consumption of CO2 allowances until their subsequent settlement in April of the following year (See Note 5.10).

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**

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 2011 relating to "Provisions for scheduled maintenance" amounted to 52,196 thousand euros, while in 2012 they amounted to 61,605 thousand euros. The following factors should be taken into consideration:

- Aircraft maintenance costs are, as a result of inflation, around 2% higher in 2012 compared with 2011.

    - The average fleet in 2012 was 53 aircraft (51 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 2011 it 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).

    - The aircraft lease agreements and maintenance agreements establish payment of most of the provision in dollars, and therefore the average exchange value in euros of the provision in 2012 compared with 2011 included a rise in the value of the euro against the dollar. These foreign currency changes with regard to the previous year had a positive impact of approximately 5 million euros (a negative impact of approximately 6 million euros in 2011).

- The average exchange rate in 2012 was $1.28=€1 ($1.39=€1 in 2011).

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 2012 pending payment or which is expected to be carried out in 2013, 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 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 2012 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. In addition, on 20 July 2012, the Ordinary Court of Civitavecchia ruled in favour of the Company. However, the period for appeals will remain open until September 2013.

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 2012 and 2011 is as follows:

Classes / Categories	Thousand euros							
	Short-Term Financial Instruments							
	Debts with Credit Institutions		Derivatives and Other Items		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Payables	-	2,294	-	-	224	-	224	2,294
Derivatives (Note 15)	-	-	10,526	2,247	-	-	10,526	2,247
Total	**-**	**2,294**	**10,526**	**2,247**	**224**	**-**	**10,750**	**4,541**

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

	Thousand euros			
	31/12/2012		31/12/2011	
	Limit	Amount drawn down	Limit	Amount drawn down
Credit policies	11,000	-	33,000	2,294
Total	**11,000**	**-**	**33,000**	**2,294**

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			
	31/12/2012		31/12/2011	
	Amount	%	Amount	%
Made within the maximum legal period	1,071,635	90%	782,170	92%
Others	118,987	10%	72,521	8%
Total payments for the year	**1,190,622**	**100%**	**854,691**	**100%**
Weighted average days passed due	48		41	
Delays which exceed the maximum legal limit as at the balance sheet date	919	3%	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 2012 according to Act 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, is 75 days.

14. Related party transactions and balances

The breakdown of related party transactions in 2012 and 2011 is as follows:

2012

	Thousand euros	
Company	Services provided	Services provided
IBERIA, Líneas Aéreas de España, S.A. Operadora	210,023	132,825
IBERIA, Express, S.A.	521	-
Total	**210,544**	**132,825**

2011

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

The services provided to related companies basically correspond to sales made through the distribution channel of IBERIA for 206,100 thousand euros (163,018 thousand euros in 2011), while services received mainly correspond to the maintenance tasks for the aircraft fleet and ground handling services based on agreements for 65,303 and 61,832 thousand euros respectively (56,850 and 52,132 thousand euros respectively in 2011).

In 2012, an addendum to the maintenance agreement was signed whereby Iberia Líneas Aéreas de España, S.A. Operadora set the maintenance prices for the 14 aircraft in the Company's fleet with different motorisation to that of the existing aircraft. In addition, the above addendum provides for various bonuses based on the fleet's size, age and other factors.

In 2012, an average of two aircraft were leased from Iberia Líneas Aéreas de España, S.A. Operadora.

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 up to March 2012 (see Note 8). The expense for the year for these leases amounted to 4,130 thousand euros. The net impact of this agreement on the income statement was not material.

The related party balances as at the 2012 and 2011 balance sheet dates are as follows:

2012

Related company	Thousand euros	
	Debit balances	Debit balances
IBERIA, Líneas Aéreas de España, S.A. Operadora	534	28,015
IBERIA, Express, S.A.	154	-
Total	**688**	**28,015**

2011

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

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 2012 and 2011 the Company used fixed-price swaps, referenced to the price of mT of Jet Fuel Cif NWE.

In 2010, the Company hedged the interest rate risk in the two fleet lease agreements by arranging 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. In addition, the Company arranged two new derivatives in 2012 to hedge the interest-rate risk of its lease agreements.

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 2012 (or in 2011).

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.

2012

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 2012, the Company hedged against the exchange rate risk of part of it transactions denominated in dollars. .

The derivatives in effect as at 31 December 2012 and their fair values on said date are as follows::

Currency	Thousand Dollars	Thousand euros			
		Fair Value			
	Nominal 31/12/2012	Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Short-term liabilities	Liabilities: Long-term liabilities
Forwards USD 1st half-year 2013	155,938	2,371	-	1,962	-
Forwards USD 2nd half-year 2013	220,050	2,096	-	4,552	-
Forwards USD 2014 and subsequent years	536,492	-	8,160	-	5,808
Total	**912,480**	**4,467**	**8,160**	**6,514**	**5,808**

The net fair value as at 31 December 2012 of the exchange rate derivatives (forwards) is positive for 306 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 1.21 and 1.43 USD/EUR

As at 31 December 2012, 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.

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 2012 and their fair values on said date are as follows:

Fuel	mT 31/12/2012	Thousand euros			
		Fair Value			
		Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Short-term liabilities	Liabilities: Long-term liabilities
Swaps 1st half-year 2013	157,738	2,570	-	2,295	-
Swaps 2nd half-year 2013	166,097	2,118	-	1,527	-
Swaps 2014 and subsequent years	96,168	-	6	-	349
Total	**420,003**	**4,688**	**6**	**3,822**	**349**

The net fair value as at 31 December 2012 of the mT Jet Fuel Cif NWE swaps is a positive amount of 536 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 919 and 1,105 USD/mT.

As at 31 December 2012, 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.

c) Interest-rate swaps

In 2012, the Company hedged the interest-rate risk existing from the fleet lease agreements by arranging two interest-rate swaps.

The derivatives in force at 31 December 2012 and their fair values at said date were as follows:

Interest rate	Thousand Dollars		
	Nominal 31/12/2012	Assets: Long-term financial investments	Liabilities: Long-term liabilities
IRS 2018	58,200	16	216
Total	**58,200**	**16**	**216**

The net fair value at 31 December 2012 of the interest-rate derivatives was negative and stood at 200 thousand euros, which was recorded under Equity, net of tax effects.

The interest rate swaps contracted in 2012 range for the “5-year USD Swap” from 1.18% to 0.945% and receive a variable rate referenced to the 3-month USD Libor.

d) **CO2 allowance derivatives**

In 2012, and in line with its operating needs to acquire greenhouse gas emission allowances based on the tonnes of fuel consumed (see Note 17.2), the Company arranged various derivatives on the underlying asset, as broken down below:

CO2	T.CO2 31/12/2012	Thousand euros	
		Fair Value	
		Liabilities: Short-term liabilities	Liabilities: Long-term liabilities
Swaps 1st Half 2013	126,665	89	-
Swaps 2nd Half 2013	153,284	101	-
Swaps 2014 and subsequent years	30,485	-	20
Total	**310,434**	**190**	**20**

The CO2 allowance swaps ensure the purchase of CO2 allowances at prices which range between 7.13 and 8.6 euros for EUA allowances, and 5.16 and 5.2 euros for CER allowances.

The net fair value at 31 December 2012 of the greenhouse gas emission allowance derivatives was negative and stood at 210 thousand euros, which has been registered under Equity, net of tax effects.

At 31 December 2012, the Company has designated as hedging instruments, as permitted by the Spanish General Chart of Accounts, all its derivatives as cash flow hedges.

The effectiveness of the four types of hedging instruments (exchange rate, fuel, interest rate and CO2 allowances) has been verified and no amount was recorded in 2012 (or in 2011) for ineffective hedges. See the criteria adopted and the methodology used in Note 5.4.4.

e) Impact of derivatives on net equity

The impact of the aforementioned derivatives on net equity as at 31 December 2012 are as follows, net of the tax effect (in thousands of euros):

	Thousand euros					
	Exchange-rate derivatives	Fuel derivatives	Interest-rate swaps	CO2 allowance derivatives	Change in value of derivatives following merger	Total
Balance at 01/01/12	**37,347**	**1,266**	**(188)**	**-**	**410**	**38,835**
All income and expenses directly allocated to net equity	(8,704)	(1,088)	48	(604)	(355)	(10,704)
Total transfers to the income statement	(22,594)	197	-	458	-	(21,939)
Balance at 31/12/12	**6,049**	**375**	**(140)**	**(146)**	**55**	**6,193**

In 2012, a negative amount of 8,704 thousand euros of exchange rate derivatives was removed from Equity as the effective part of the hedge relationships over the year. An amount of 22,594 thousand euros was transferred from Equity to the income statement based on its nature, reducing the cost of purchases and services received, all net of the corresponding tax effect.

In 2012, a negative amount of 1,088 thousand euros for fuel derivatives was removed from Equity, as the effective part of the hedge relationships over the year. A positive amount of 197 thousand euros was "recycled" from Equity, raising the cost of fuel purchases, all net of the corresponding tax effect

In 2012, a positive amount of 48 thousand euros on exchange-rate derivatives was allocated to Equity, as the effective part of the hedge relationships over the year, all net of the corresponding tax effect.

In 2012, a negative amount of 604 thousand euros of greenhouse gas emission allowances was removed from Equity as the effective part of the hedge relationships over the year. An amount of 458 thousand euros was "recycled" from Equity, raising the cost of purchases of allowances, 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.

f) *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 2012, the fair value of these derivatives is positive for a gross amount of 305 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2012) and the fair values of the exchange-rate derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros 31/12/2012
+10% (appreciation of euro)	(62,327)
-10% (depreciation of euro)	76,178

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.

g) *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 2012, the fair value of these derivatives is positive for a gross amount of 523 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2012) of the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros 31/12/2012
+30% (rise in the price of Brent)	94,292
-30% (fall in the price of Brent)	(94,292)

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.

h) *Analysis of interest-rate 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 time to maturity. The fair value of these derivatives at 31 December 2012 is negative for a gross amount of 201 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2012) of the interest-rate derivatives recorded in Equity as hedging instruments.

Sensitivity in Equity	Thousand euros 31/12/2012
+10bp (rise in interest rate)	428
-10bp (fall in interest rate)	(429)

The sensitivity analysis shows that the interest rate derivatives will perform positively in the event of an interest rate rise and, therefore, the Company is hedged against interest rate rises. In the event of downward movements in the interest rate, the negative value would increase.

i) Analysis of greenhouse gas emission allowance sensitivity

Variations in the fair value of the greenhouse gas emission allowance derivatives arranged by the Company mainly depend on the variation in the underlying price at the maturity period of the derivative. The fair value of the derivatives at 31 December 2012 is negative for a gross amount of 210 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2012) of the greenhouse gas emission allowances, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Thousand euros 31/12/2012
+30% (rise in the price of CO_2)	611
-30% (fall in the price of CO_2)	(611)

The sensitivity analysis shows that greenhouse gas emission allowances will perform positively if the price of the allowance rises, and therefore the Company has set a purchase price and is hedged against rises in the allowance. Any falls in the allowance see a consequent increase in the negative value.

2011

The Company's policy for arranging derivatives in 2011 was the same as that applied in 2012.

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 2012 and 2011 is as follows

Debit balances	Thousand euros	
	31/12/2012	31/12/2011
Tax Agency, withholdings and interim payments	5,375	2,488
Tax Agency, VAT	273	-
Total	**5,648**	**2,488**

Credit balances	Thousand euros	
	31/12/2012	31/12/2011
Credit balances with the Social Security	1,400	1,097
Credit balance with Tax Agency for personal income tax	1,285	921
Credit balance with Tax Agency for VAT	1,420	987
Total	**4,105**	**3,005**

16.2. Reconciliation of accounting profit and taxable base

The reconciliation between the accounting profit and the Corporation Tax base on the 2012 and 2011 balance sheet dates is as follows:

2012

	Thousand euros		
	Increases	Decreases	Total
Accounting profit after tax	-	-	28,332
Permanent differences:			
Corporation Tax	11,795	-	11,795
Other permanent differences	567	-	567
Temporary differences:			
From the year (provisions)	9,761	(3,097)	6,664
Previous tax base	22,123	(3,097)	47,358
Offsetting 25% of tax loss carry-forwards			(11,840)
Tax base	**-**	**-**	**35,519**
Payment at 30%			10,656
Withholdings and interim payments			(13,612)
Deductions			(205)
Corporation Tax to recover	**-**	**-**	**(3,161)**

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)	185
Temporary differences:			
From the year (provisions)	1,829	(3,362)	(1,433)
Previous tax base	6,554	(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)**

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

The reconciliation between the accounting profit and the Corporation Tax expense for 2012 and 2011 is as follows:

	Thousand euros	
	2012	2011
Accounting profit before Corporation Tax	**40,127**	**14,862**
Tax payable at 30% of the tax base	(10,656)	(2,042)
Impact of temporary differences and offsetting tax-loss carry-forwards	(1,553)	(2,472)
Deductions	205	-
Adjustment CT previous years	209	35
Total (expense) or income for tax recognised in the income statement	(11,795)	(4,479)
Accounting profit after Corporation Tax	**28,332**	**10,383**

16.4. *Tax recognised in Net Equity*

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

2012

	Thousand euros		
	Increases	Decreases	Total
For current tax:			
Cash flow hedges	13,989	-	13,989
Subsidies	-	(20)	(20)
Total tax recognised directly in Equity (current tax)	**13,989**	**(20)**	**13,969**

2011

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

16.5 Deferred tax assets

The breakdown of movements and balance of this account in 2012 and 2011 is as follows:

2012

	Thousand euros			
	01/01/2012	2012 Corporation Tax	For variations in derivative financial instruments	31/12/2012
Tax credits to offset losses	**54,384**	**(3,552)**	**-**	**50,832**
Total temporary differences:	**2,513**	**1,999**	**4,374**	**8,886**
Temporary Differences in CT	1,691	1,999	-	3,690
For temporary differences of derivatives (Note 15)	822	-	4,374	5,196
Total deferred tax assets	**56,897**	**(1,553)**	**4,374**	**59,718**

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**
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**

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

	Thousand euros		Expiry
	31/12/2012	31/12/2011	
Tax loss carry-forwards:			
2007	62,775	74,614	2025
2008	90,748	90,748	2026
2009	15,916	15,916	2027
TOTAL	**169,439**	**181,278**	

The tax loss carry-forwards offset in 2012 amounted to 11,839 thousand euros (6,807 thousand euros in 2011).

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

The Company has 18 tax years 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 2012, 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 2012 and 2011, the Company obtained a profit before tax of 40,127 and 14,862 thousand euros respectively, which has allowed it to offset tax loss carry-forwards for 11,839 and 6,807 thousand euros respectively. This offsetting would have been much higher without the restriction of a 25% maximum in offsetting established in Royal Decree 20/2012, of 13 July.

- The Company's Business Plan approved by the Board of Directors forecasts profit for 2013 and subsequent years to offset all the tax-loss carry-forwards over the next five years, considering that as from 2014 it will again be possible to offset 100% of the tax loss carry-forwards.

- 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 2012 and 2011 is as follows:

	Thousand euros	
	31/12/2012	31/12/2011
Temporary differences	18,890	28,339
Total deferred tax liabilities	**18,890**	**28,339**

The temporary differences registered at 31 December 2012 include a total of 11,020 thousand euros associated with the tax effect of the assets at fair value identified as "segments" resulting from the merger with Clickair, S.A. (see Notes 3 and 6), a total of 7,836 thousand euros for temporary differences of the derivative financial instruments with a favourable measurement (see Note 15) and a total of 34 thousand euros for temporary differences in the subsidies recorded in Equity.

The temporary differences recorded at 31 December 2011 included a total of 11,020 thousand euros was recorded associated with the tax effect of the assets at fair value identified as “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.

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 2012 balance sheet date, the Company has 2008 and subsequent years open for inspection relating to Corporation Tax and 2009 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 2012 and 2011 is as follows:

	Thousand euros	
Geographical Market	2012	2011
Spain	476,035	527,284
Other European Union countries	615,039	328,886
Total	**1,091,074**	**856,170**

17.2. Procurement

The heading "Procurement" in 2012 and 2011 relates primarily to the consumption of fuel and, to a lesser extent, to the purchase of greenhouse gas emission allowances.

17.3. Breakdown of purchases by origin

The breakdown of the purchases made by the Company in 2012 and 2011 according to their origin is as follows:

2012

	Thousand euros			
	National	Intra-community	Extra-community	**Total**
Purchases	236,405	90,325	13,266	**339,996**

2011

	Thousand euros			
	National	Intra-community	Extra-community	**Total**
Purchases	183,922	65,656	3,962	**253,540**

17.4. Other operating revenue

The balance under the heading "Other operating revenue" in the 2012 and 2011 income statement corresponds to advertising revenue of 5,118 and 6,895 thousand euros respectively. In 2012, the Company received additional income for the subsidy of the free of charge assignment of greenhouse gas emission allowances for a value of 4,356 thousand euros (see Note 11.6) and other passenger transport subsidies for 1,303 thousand euros.

17.5. Personnel

The breakdown of the heading "Personnel Expenses" in the income statement for 2012 and 2011 is as follows:

	Thousand euros	
	2012	2011
Salaries, wages and similar items	80,348	67,167
Severance pay	713	1,661
Social contributions (Social Security)	13,722	11,562
Other personnel expenses	218	427
Total	**95,001**	**80,817**

The average number of employees in 2012 and 2011, broken down by category and gender, is as follows:

2012

	2012		
Category	Men	Women	Total
Senior Management	5	1	6
Pilots	476	22	498
Flight attendants	187	706	893
Operational support personnel	67	69	136
Administrative support personnel	86	105	191
Sales personnel	10	18	28
Total	**831**	**921**	**1,752**

2011

	2011		
Category	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	**688**	**764**	**1,452**

Company staff as at 31 December 2012 and 2011, broken down by category and gender, is as follows:

2012

Category	2012		
	Men	Women	Total
Senior Management	5	1	6
Pilots	522	24	546
Flight attendants	179	675	854
Operational support personnel	70	72	142
Administrative support personnel	89	109	198
Sales personnel	10	18	28
Total	**875**	**899**	**1,774**

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**

As at 31 December 2012, 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 2012, the senior management consisted of five men and one woman (three men and two women as at 31 December 2011).

17.6. Other operating expenses

The breakdown of the heading "Other operating Expenses" in the income statement for 2012 and 2011 is as follows

	Thousand euros	
	2012	2011
External services:		
Ground handling service	122,190	105,081
Aircraft and other leases	121,478	108,786
Aircraft maintenance	115,439	84,548
Air Traffic Control	78,360	65,236
Airport fees	96,958	80,252
Supplies and other expenses	38,920	24,530
Independent professional services	22,327	17,325
Advertising	19,568	15,548
Insurance, banking services and other items	11,737	9,392
Taxes	218	360
Total other operating expenses	**627,195**	**511,058**

17.7. Provision for bad debts

Movements under provisions for bad debts in 2012 and 2011 is as follows:

2012

	Thousand euros			
	01/01/2012	Allocations	Applications	31/12/2012
Impairment of loans for commercial operations	592	167	(214)	545

2011

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

18. Foreign Currency

The breakdown of the most significant balances and transactions in foreign currencies in 2012 and 2011, measured at the balance sheet date exchange rate and average exchange rate respectively is as follows:

	Thousand euros	
	2012	2011
Balances:		
Long- and short-term deposits	109,978	105,203
Receivables and other assets	17,432	4,972
Long-term provisions	169,520	151,595
Payables and other liabilities	33,614	16,607
Transactions:		
Other revenue	150	64
Purchases	289,951	240,049
Services received	204,689	173,910

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 2012 and 2011 as broken down in the following table:

	Thousand euros	
	2012	2011
Exchange rate differences profit (loss)	2,411	(3,640)

The exchange rate differences corresponding to the year ended 31 December 2012 consist of unrealised exchange rate differences and realised exchange rate differences for (1,210) and (1,201) thousand euros respectively (as at 31 December 2011, a total of 2,556 and 1,084 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 2012 is 58,505 shares, which represent 0.196% of the total shares.

The remuneration received in 2012 and 2011 by the Company's Directors and Senior Management, classified by item, is as follows:

2012

	Thousand euros			
	Remuneration	Other	Payments based on equity instruments	Total
Board of Directors	920	-	-	920
Chief Executive Officer	589	-	-	589
Senior Management	1,159	-	-	1,159
Total	**2,900**	**-**	**-**	**2,900**

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**

This remuneration received coincides with that accrued in said years.

The remuneration received in 2012 and 2011 only corresponds to wages and salaries, with no allowances or other remuneration.

As at 31 December 2012, 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, these incentive plans had no impact in 2012 as they all expired in March 2012.

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	Type of scheme for activity rendered	Company through which activity is rendered	Activity	Positions held or performed in the aforementioned company	% holding in said company *
José María Fariza Batanero	Work relationship	IBERIA LÍNEAS AÉREAS DE ESPAÑA S.A. IB OPCO HOLDING S.L.	Passenger air transport	Finance and Control Director Board Member	0.000927578009193346% (17,210 shares)
Manuel López Colmenarejo	Work relationship	IBERIA L.A.E. S.A. Operadora S.U.	Passenger air transport	Corporate Affairs Director	0.00149323351218487% (27,705 shares)
Jorge Pont Sanchez	Work relationship	IBERIA LÍNEAS AÉREAS DE ESPAÑA S.A. IB OPCO HOLDING S.L. GARANAIR, S.L.	Passenger air transport	Vice-Chairman of the Board of Directors	0,000022044125843119% (409 shares)
Pedro Jesús Mejía Gómez	Work relationship	IBERIA LÍNEAS AÉREAS DE ESPAÑA S.A.	Passenger air transport	Special Projects Director	-
Josep Piqué Camps	Work relationship	EADS NV	Aeronautics and space sector	Board Member	-

* The shareholdings are in the company International Consolidated Airlines Group (IAG).

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 2012 or 2011, except for the use over 2012 of CO2 allowances for an amount of 6.7 million euros.

21. Guarantees extended to third parties

As an alternative to the deposits established (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 2012, the guarantees extended by the Company to aircraft lessors stood at 156,471 thousand euros at the exchange rate at the balance sheet date (106,405 thousand euros as at 31 December 2011), and the guarantees extended to ground handling companies, airports and for fuel purchases stood at 60,457 thousand euros (51,720 thousand euros as at 31 December 2011).

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 2012 and 2011, 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	
	2012	2011
Audit services	85	110
Other verification services	18	30
Total Audit and Related Services	**103**	**140**
Tax Advisory Services	-	-
Other services	25	12
Total Professional Services	**128**	**152**

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 2012 or in its income statement for the year ending on that date between the General Chart of Accounts and the IFRS-EU, except for the accounting treatment of CO2 emission allowances, which, in line with international standards, may be offset as a lower expense (for those received free of charge), while the Company has registered a revenue for said allowances (see Note 17.4).

24. Subsequent events

On 6 February 2013, International Consolidated Airlines Group, S.A. reported as a significant event that its fully owned subsidiary, Veloz Holdco, S.L., had declined its intention for the consideration offered in the takeover bid for shares of Vueling Airlines, S.A. of 7 euros per share to be considered as an equitable price in accordance with Article 9 of Royal Decree 1066/2007.

Vueling Airlines, S.A.

Management report
for the financial year ending
31 December 2012

Business Performance and Company Position

Vueling Airlines S.A. was set up in Spain in accordance with the Spanish Capital Companies Act. The Company's commercial activity consists of the operation and management of scheduled passenger air transport under the commercial name of Vueling.

Vueling was set up with the aim of becoming the leading new generation European airline, combining the seemingly irreconcilable advantages of the low cost model together with the highest standards of customer service.

In 2012, the Company operated an extensive network of flights which mostly link its bases - located at Barcelona, Madrid, Seville, Bilbao, Alicante, Malaga, Valencia, Las Palmas, A Coruña, Majorca, Ibiza, Toulouse, Amsterdam, Paris and Rome - with domestic and international destinations spread over Spain, Europe, North Africa and the Middle East.

Vueling provides all its services with the aim of meeting the needs and expectations of its customers and providing its shareholders with a growing and sustainable return.

The Company significantly increased its activity over 2012 and improved profitability on the previous year and strengthened its leadership at Barcelona El Prat Airport.

Activity and traffic

Vueling carried 14,794,857 passengers in 2012, the highest number of passengers since the company was founded. This represents an increase of 20.1% on the previous year. The Company operated 108,433 flights (17.6% more than in the previous year), reaching a load factor of 77.7%.

These traffic figures have allowed it to consolidate its leadership at Barcelona El Prat Airport and at Bilbao Airport, with a 30% passenger share at both airports. Furthermore, Vueling has continued to increase its presence at international airports such as Paris-Orly and Rome-Fiumicino, where it is now the third largest airline in terms of activity.

In 2012, Vueling extended its range of connecting flights at Barcelona Airport. In addition, Vueling made connections for Iberia flights at Madrid Barajas Airport in the first quarter of 2012. The Company carried over 1.6 million connecting passengers at Barcelona Airport, 2.5 times more than in the previous year.

Results

Vueling achieved a net profit of 28.3 million euros in 2012. This is an increase of 173% on the figure for the previous year (10.4 million euros). The net margin was 2.6%, 1.4 percentage points higher than the margin in 2011 (1.2%).

The balance of Cash and cash equivalents amounted to 322 million euros at 31 December 2012.

Revenue

Vueling achieved total revenue of 1,103 million euros in 2012. This figure represents an increase of 27.7% on the previous year. This rise in revenue is due both to the improvement in unit revenue and the increase in activity in 2012.

Both the revenue for transport and the ancillary revenue increased compared with the figures recorded in the previous year. Fare revenue rose by 28.4% on the previous year, while ancillary revenue rose by 21.9%. There was no change in the distribution by type of revenue. The relative weight of the fare revenue stood at 89% (the same as in the previous year) and the relative weight of ancillary revenue was 11% (the same as in the previous year).

As a result of the increase in the supply of flights (+17.6%) and the increase in the load factor (which rose by 2.1 percentage points), the number of passengers carried rose by 20.1%. The unit revenue per available seat kilometre (RASK) stood at 6.23 euro cents in 2012, 3.3% up on the previous year. This was thanks to the implementation of revenue optimisation measures and the aforementioned improvement in the load factor.

Expenses

Total costs rose by 25.5% on 2011. The main increase was seen in the fuel expense, which rose by 34.1%. The other (ex-fuel) costs rose by 21.9%, a lower rise than the growth in the company's activity (+23.2% ASKs).

The average price of jet fuel in the period from January to December 2012 was $1017/mT, while in the same period of 2011 it stood at $1,020mT, a slight fall of 0.3%. However, the euro depreciated by 9% against the dollar. This depreciation of the euro led to the price of fuel in euros rising by 9% compared with last year. The price of fuel in euros rose from €728/tonne in 2011 to €794/tonne in 2012.

This rise led to an increase in Vueling's cost base. The total unit fuel cost per available seat kilometre (ASK) rose by 1.5% in 2012 on the previous year.

Other costs grew at a lower rate than the increase in the company's activity. The unit cost per available seat kilometre excluding fuel (CASK ex-fuel) stood at 4.14 euro cents, 1% down on last year.

The cost reduction programme implemented by the company enabled savings of 21.5 million euros in 2012.

Outlook

Vueling has set the short-term objective of continued growth. To do this, in 2013, Vueling plans to increase its supply of available seat kilometres by between 10% and 15% on 2012. In addition, the Company expects to continue increasing the volume of connecting passengers at Barcelona El Prat Airport, from where it will offer flights to 100 destinations over the summer season.

Research and Development

The Company has not performed significant research and development in 2012.

Risk and Uncertainty Policy and Management

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 exchange rate risk, fuel and the balances payable to aircraft lessors, the Company has no significant credit risk concentrations. The transactions with currency and fuel 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.

Liquidity risk

The Company carries out prudent management of liquidity risk based on holding enough cash, short-term 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 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 future 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 future 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 risk management policy is based on using hedging instruments for a defined percentage of its currency needs. 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.

In 2012, the Company hedged the interest-rate risk existing from the fleet lease agreements by arranging two interest-rate swaps.

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.

Treasury shares

This heading, which reduces Equity as at 31 December 2012 in accordance with the presentation requirements established in the Spanish General Chart of Accounts, includes 216,083 shares each with a par value of 1 euro.

The total amount of the Company's treasury shares as at 31 December 2012 accounts for 0.72% of the total issued capital at that date, with no changes as regards the previous year.

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 managers, whose remuneration is also based on shares in the Company. However, these incentive plans had no impact in 2012 as they all expired in March 2012 (Note 5.13).

Significant Events after the Balance Sheet Date

On 6 February 2013, International Consolidated Airlines Group, S.A. reported as a significant event that its fully owned subsidiary, Veloz Holdco, S.L., had declined its intention for the consideration offered in the takeover bid for shares of Vueling Airlines, S.A. of 7 euros per share to be considered as an equitable price in accordance with Article 9 of Royal Decree 1066/2007.