

*PEDRO FERRERAS DIEZ, IN HIS CAPACITY AS NON-DIRECTOR SECRETARY OF THE BOARD OF DIRECTORS OF VUELING AIRLINES, S.A. (THE "COMPANY") WITH REGISTERED ADDRESS AT PLA DE L'ESTANY N° 5, EL PRAT DE LLOBREGAT (BARCELONA) AND C.I.F. (Tax Identification Code): A-6342214I*

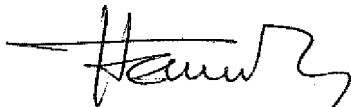
In accordance with the provisions of article 35 of the Securities Market Act 24/1988, of 28 July, and the provisions of article 8.1 b of Royal Decree 1362/2007, of 19 October, whereby the aforementioned Act is developed in terms of transparency requirements in regard to the information provided on the issuers whose securities are admitted to trading on an official secondary market or on any other market regulated by the European Union.

**I HEREBY ATTEST:**

That all the members of the Board of Directors, with the exception of Mr. Daniel Villalba Vila (absent due to illness), have signed the annual financial statements at 31 December 2010 stating that, to the best of their knowledge, these have been prepared by the Company in accordance with the applicable accounting principles, thus rendering a true and fair view of the equity, financial situation and results thereof, including the management report, which offers a fair analysis of its performance, business results and position, in addition to a description of the main risks and uncertainties faced by the company.

In witness whereof, and for the purposes deemed appropriate, I issue this certificate in Barcelona, on 25 March 2011.

THE SECRETARY OF THE  
BOARD OF DIRECTORS



PEDRO FERRERAS DÍEZ

## **VUELING AIRLINES, S.A.**

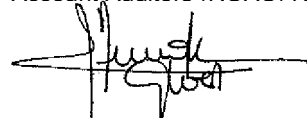
Notes to the financial statements for the year ending 31 December 2010 and the management report, together with the Auditors' Report

## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Vueling Airlines, S.A.

1. We have audited the financial statements of Vueling Airlines, S.A., which include the balance sheet as at 31 December 2010, the income statement, the statement of changes in net equity, the cash flow statement and the notes corresponding to the financial year ending on said date. The preparation of these financial statements is the responsibility of the Company's Directors in accordance with the financial information regulatory framework applicable to the company (identified in Note 2.1 of the attached Management Report) and, specifically, with the accounting principles and criteria contained therein. Our responsibility is to express an opinion about the above-mentioned financial statements as a whole, based on the work performed in accordance with generally accepted auditing standards, which require examination, through the performance of selective tests, of the justifying evidence for the financial statements and the evaluation of their presentation, of the accounting principles applied and of the estimations made.
2. In our opinion, the accompanying 2010 financial statements present, in all material aspects, a true and fair view of the net worth and financial position of Vueling Airlines, S.A. as at 31 December 2010 and of the results of its operations, of the changes in net equity and cash flows corresponding to the financial year ending on that date. They contain necessary and sufficient information for their proper interpretation and understanding, in accordance with the applicable generally accepted accounting principles and standards accepted in Spanish legislation applied on a basis consistent with that of the previous year
3. The accompanying management report for 2010 contains the explanations which the Directors consider appropriate relating to the company's situation, the development of its businesses and other issues, and does not form an integral part of the annual report. We have verified that the accounting information contained in the aforementioned management report is consistent with that contained in the financial statements for 2010. Our work is confined to checking the management report with the above-mentioned scope, and does not include a review of any information other than that drawn from the Company's accounting records.

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



Ana Maria Gibert  
28 March 2011

Deloitte S.L. Entered in the Mercantile Registry of Madrid, at volume 13,650, section 8, folio 188, page M-54414, Entry 96. C.I.F (Tax Identification Code): 8-79104469. Registered Office: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.  
Member of Deloitte Touche Tohmatsu

**VUELING AIRLINES, S.A.**  
**BALANCE SHEET AT 31 DECEMBER 2010**

(Thousands of Euros)

ASSETS	Notes in report	31/12/2010	31/12/2009	LIABILITIES	Notes in report	31/12/2010	31/12/2009
<b>NON-CURRENT ASSETS:</b>				<b>NET EQUITY:</b>	<b>Note 11</b>		
<b>Intangible fixed assets-</b>	<b>Note 6</b>	<b>61,931</b>	<b>60,646</b>	<b>Capital-</b>		<b>29,905</b>	<b>29,905</b>
Goodwill		15,419	15,419	Authorised capital		29,905	29,905
Computer software applications		9,779	8,494	<b>Issue premium</b>		<b>199,185</b>	<b>199,185</b>
Slots		36,733	36,733	<b>Reserves-</b>		<b>(5,514)</b>	<b>(5,514)</b>
<b>Tangible fixed assets-</b>	<b>Note 7</b>	<b>6,154</b>	<b>8,550</b>	Other reserves		(5,514)	(5,514)
Aircraft components		3,801	5,874	<b>Own shares and stocks</b>		<b>(713)</b>	<b>{713}</b>
Other tangible fixed assets		2,353	2,876	Results from previous years		(76,596)	(104,373)
Long-term financial investments	Note 9.1	102,925	<b>85,840</b>	<b>Year's results</b>		<b>45,995</b>	<b>27,777</b>
Other financial assets		100,260	85,840	Total shareholder equity		192,282	148,288
Derivatives	Note 15	2,265	-	Adjustments due to value changes	<b>Note 15</b>	<b>6,705</b>	<b>178</b>
<b>Deferred tax assets</b>	<b>Note 16.5</b>	<b>58,875</b>	<b>79,290</b>	<b>Subsidies, donations and bequests received</b>	<b>Note 11.8</b>	<b>409</b>	<b>914</b>
<b>Total non current assets</b>		<b>229,485</b>	<b>234,126</b>	<b>Total net equity</b>		<b>199,376</b>	<b>147,360</b>
				<b>NON CURRENT LIABILITIES:</b>			
				Long term provisions	Note 12.1	129,848	111,825
				Other provisions		129,848	111,825
				<b>Long term debt</b>		<b>-</b>	<b>2,570</b>
				Derivatives		-	2,570
				<b>Deferred tax liabilities</b>	<b>Note 16.6</b>	<b>14,041</b>	<b>12,219</b>
				<b>Total non-current liabilities</b>		<b>143,889</b>	<b>126,614</b>
<b>CURRENT ASSETS:</b>							
<b>Stock-</b>	<b>Note 10</b>	<b>170</b>	<b>170</b>	<b>CURRENT LIABILITIES:</b>			
Trade		170	170	<b>Short-term debt</b>	Note 13.1	25,138	<b>14,918</b>
<b>Trade debtors and other accounts receivable</b>		<b>31,678</b>	<b>33,628</b>	Debt with credit institutions		23,926	12,066
Customers from sales and provision of services		23,866	27,877	Derivatives	Note 15	1,212	1,952
Customers, related companies	<b>Note 14</b>	5,239	1,716	Debt with related companies	Note 14	<b>21,435</b>	<b>10,641</b>
Miscellaneous debtors		851	3,536	<b>Trade creditors and other accounts payable</b>		<b>87,608</b>	<b>88,027</b>
Credits with Public Administration	Note 16.1	722	499	Suppliers		58,466	56,101
Short-term financial investments	Note 9.2	208,808	27,807	Miscellaneous creditors		<b>17,695</b>	20,193
Debt securities		2,000	-	Personnel		6,017	3,403
Derivatives	Note 15	7,221	2,685	Other debt with Public Administration	Note 16.1	3,403	6,194
Other financial assets		199,587	25,122	Customer pre-payments	Note 5.9	2,027	2,136
Short-term accruals		5,133	6,184	<b>Short-term accruals</b>	<b>Note 5.9</b>	<b>33,800</b>	35,638
Cash and equivalents	<b>Note 9.3</b>	<b>35,972</b>	<b>121,282</b>	Total current liabilities		<b>167,981</b>	149,224
Cash and banks		14,509	46,007	<b>TOTAL NET EQUITY AND LIABILITIES</b>		<b>511,246</b>	<b>423,198</b>
Other equivalent liquid assets		21,463	75,275				
Total current assets		281,761	189,072				
<b>TOTAL ASSETS</b>		<b>511,248</b>	<b>423,198</b>				

Notes 1 to 24 described in the attached Report are an integral part of the Balance Sheet at 31 December 2010.

**VUELING AIRLINES, S.A.**  
**INCOME STATEMENT FOR FINANCIAL YEAR 2010**  
(Thousands of Euros)

	Notes in report	Year 2010	Year 2009
<b>ONGOING OPERATIONS:</b>			
<b>Net Business turnover</b>	<b>Note 17.1</b>	<b>789,23</b>	<b>597,962</b>
Services rendered		789,623	597,962
<b>Self-constructed assets</b>	<b>Note 6</b>	<b>587</b>	<b>-</b>
<b>Supplies</b>	<b>Note 17.2</b>	<b>(183,624)</b>	<b>(105,863)</b>
Consumption of raw materials and other consumables		(183,624)	(105,863)
<b>Other operating income</b>	<b>Note 17.4</b>	<b>6,304</b>	<b>5,042</b>
<b>Personnel expenses</b>	<b>Note 17.5</b>	<b>(75,036)</b>	<b>(67,094)</b>
Wages, salaries and similar		(65,017)	(57,596)
Social contributions		(10,019)	(9,498)
<b>Other operating expenses</b>	<b>Note 17.6</b>	<b>(471,778)</b>	<b>(381,142)</b>
External services		(471,540)	(380,464)
Duties		(213)	(221)
Losses, impairment and variation of trade operation provisions		(25)	(457)
<b>Fixed asset amortisation</b>	<b>Notes 6 y 7</b>	<b>(5,787)</b>	<b>(4,136)</b>
<b>Results from sales and other</b>	<b>Note 6</b>	<b>(203)</b>	<b>(4,540)</b>
<b>OPERATING PROFIT</b>		<b>60,086</b>	<b>40,229</b>
<b>Financial income-</b>		<b>3,311</b>	<b>1,624</b>
<b>From</b> negotiable securities and other third party financial instruments		3,311	1,624
<b>Financial expenses-</b>		<b>(1,566)</b>	<b>(211)</b>
From third party debt		(1,566)	(211)
<b>Exchange differences</b>	<b>Note 18</b>	<b>3,876</b>	<b>(1,489)</b>
<b>FINANCIAL RESULT</b>		<b>5,621</b>	<b>(76)</b>
<b>Result before taxes</b>		<b>65,707</b>	<b>40,153</b>
Tax on profit	Note 16	(19,712)	(12,376)
<b>Result of year from ongoing operations</b>		<b>45,995</b>	<b>27,777</b>
<b>DISCONTINUED OPERATIONS:</b>			
Year's results from discontinued operations net of taxes		-	-
<b>YEAR'S RESULTS (PROFIT)</b>		<b>45,995</b>	<b>27,777</b>

Notes 1 to 24 described in the attached Report form an integral part of the income statement for financial year 2010.

## VUELING AIRLINES, S.A.

### STATEMENT OF CHANGES IN NET EQUITY PERTAINING TO THE FINANCIAL YEAR ENDING 31 DECEMBER 2010

#### A) RECOGNISED INCOME AND EXPENSES STATEMENT

(Thousands of Euros)

	Notes in report	Year 2010	Year 2009
<b>RESULT OF THE PROFIT AND LOSS ACCOUNT (I)</b>		<b>45,995</b>	<b>27,777</b>
<b>Income and expenses allocated directly to net equity:</b>			
Cash flow hedges		20,582	(18,425)
Tax effect	Note 15	(6,331)	5,527
<b>Total income and expenses directly allocated to net equity (II)</b>		<b>14,251</b>	<b>(12,898)</b>
<b>Transfers to profit and loss account:</b>			
For cash flow hedges	Note 15	(11,034)	10,306
Effect of taxation	Note 11.6	3,310	(3,092)
Subsidies, donations and bequests received	Note 11.6	(721)	(2,114)
Effect of taxation		216	634
<b>Total transfers to profit and loss account (III)</b>		<b>(8,229)</b>	<b>5,734</b>
<b>Total recognised income and expenses (1+11+111)</b>		<b>52,017</b>	<b>20,613</b>

Notes 1 to 24 of the attached Report form an integral part of the statement of recognised income and expenses for 2010.

## VUELING AIRLINES, S.A.

### STATEMENT OF CHANGES IN NET EQUITY PERTAINING TO THE FINANCIAL YEAR ENDING 31 DECEMBER 2010

#### B) OVERALL STATEMENT OF CHANGES IN NET EQUITY

(Thousands of Euros)

	Capital	Issue premium	Reserves	Shareholder equity	Results from previous years	Year's results	Value change adjustments	Subsidies, donations and bequests	Total
Final balance year 2008	14,952	133,545	(5,514)	(713)	(112,911)	8,539	5,862	2,394	46,154
Adjustments- errors and criteria changes						-	-	-	
Balance adjusted start year 2009	14,952	133,545	(5,514)	(713)	(112,911)	8,539	5,862	2,394	46,154
Distribution of 2008 results					8,539	(8,539)			
Total recognised income and expenses	-	-	-	-	-	27,777	(5,684)	(1,480)	20,613
Capital and net equity increase due to merger (Note 3)	14,953	65,640	-	-	-				80,593
Final balance 2009 and adjusted balance at start of 2010	29,905	199,185	(5,514)	(713)	(104,373)	27,777	178	914	147,380
Distribution of 2009 results					27,777	(27,777)			
Total recognised income and expenses	-	-	-	-	-	45,995	6,527	(505)	52,017
Final balance at end of 2010	29,905	199,185	(5,514)	(713)	(76,596)	45,995	6,705	409	199,376

Notes 1 to 24 of the attached Annual Report form an integral part of the overall statement of changes in net equity in 2010.

# VUELING AIRLINES, S.A.

## CASH FLOW STATEMENT FOR FINANCIAL YEAR 2010

(Thousands of Euros)

	Notes	Year 2010	Year 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES(I):</b>		<b>98,825</b>	<b>57,796</b>
<b>Results for the year before taxes</b>		<b>65,707</b>	<b>40,153</b>
<b>Adjustments-</b>		<b>25,037</b>	<b>39,692</b>
Fixed asset amortisation	Notes 6 & 7	5,787	4,136
Variation in provisions		24,668	30,980
Results from write-offs and sales of fixed assets	Note 6	203	4,540
Financial income		(3,311)	(1,624)
Financial expenses		1,566	211
Exchange rate differences	Note 18	(3,876)	1,449
<b>Changes in current capital -</b>		<b>7,535</b>	<b>(23,462)</b>
Debtors and other accounts receivable		8,173	34,536
Other current assets		1,051	1,386
Creditors and other accounts payable		14,024	(22,382)
Other current liabilities		(1,838)	(26,880)
Other non-current assets and liabilities		(13,875)	(10,122)
<b>Other cash flows from operating activities-</b>		<b>546</b>	<b>1,413</b>
Interest paid		(1,566)	(211)
Interest collected		2,112	1,624
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES (II)</b>		<b>(195,525)</b>	<b>16,004</b>
<b>Operating result:</b>		<b>(204,617)</b>	<b>(13,023)</b>
<b>Payments for investments-</b>		<b>(204,617)</b>	<b>(13,023)</b>
Intangible fixed assets	Notes 6 & 7	(4,521)	(2,440)
Tangible fixed assets	Notes 6 & 7	(359)	(1,197)
Other financial assets	Note 9	(199,737)	(9,386)
<b>Inflows from disinvestments</b>		<b>9,092</b>	<b>-</b>
Other financial assets		9,092	-
<b>Other inflows-</b>		<b>-</b>	<b>29,027</b>
Business combination (merger with Clickair, S.A.)		-	29,027
<b>CASH FLOWS FROM FINANCING ACTIVITIES (III)</b>		<b>11,390</b>	<b>4,800</b>
<b>Payments and collections from financial instruments-</b>		<b>10,960</b>	<b>4,800</b>
Debts with credit institutions		10,960	4,800
<b>EFFECT OF EXCHANGE RATE VARIATIONS (IV)</b>	<b>Note 18</b>	<b>430</b>	<b>40</b>
<b>NET INCREASE/REDUCTION OF CASH OR EQUIVALENTS (I+II+III+IV)</b>		<b>(85,310)</b>	<b>78,640</b>
Cash or equivalents at start of financial year		121,282	42,642
Cash or equivalents at end of financial year		35,972	121,282

Notes 1 to 24 described in the attached Report form an integral part of the cash flow statement for 2010.



**Vueling Airlines, S.A.**  
Notes to the financial statements  
for the year ending  
31 December 2010

**1. Company Activity**

The Company Vueling Airlines, S.A. (hereinafter, Vueling or the Company) is a company incorporated in Spain in accordance with the Public Limited Companies Act, currently 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 business address is in Barcelona, in the Mas Blau II Business Park, in 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 Financial Statements**

***2.1. Regulatory framework for financial information applicable to the Company***

These financial statements have been prepared by the Directors in accordance with the regulatory framework for financial information applicable to the Company, which is that set forth in:

- a) Code of Commerce and other mercantile legislation.
- b) General Chart of Accounts approved by Royal Decree 1514/2007 and its industry adaptations.
- c) The mandatory rules approved by the Accountancy and Accounts Audit Institute as part of the General Chart of Accounts and additional rules.
- d) Other applicable accounting regulations in Spain.

***2.2. True and Fair View***

The accompanying financial statements have been obtained from the Company's accounting records and are presented in accordance with R.D. 1514/2007, which approves the General Accounting Plan 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 financial statements 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 amendment.

The 2009 financial statements were approved by the General Meeting of Shareholders held on 28 May 2010.

***2.3. Non-mandatory accounting principles applied***

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

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

***2.4. Critical aspects for measuring and estimating uncertainty***

In preparing the accompanying financial statements, 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.
- Calculation of goodwill impairment (see Notes 5.1 and 6).
- The useful life of tangible assets and the other intangible assets (see Notes 5.1 and 5.2).

- Calculation of provisions (see Notes 5.10 and 12).
- 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 at the 2010 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 2010 is presented together with the 2009 information.

On 24 September 2010, Royal Decree 1159/2010, of 17 September, was published in the BOE, introducing a number of modifications to the General Chart of Accounts approved by Royal Decree 1514/2007.

In accordance with the transition rules established, these modifications have been applied prospectively as of 1 January 2010, and have had no significant impact. Likewise, in accordance with such rules, the Company has elected to present the comparative data without adapting it to the new criteria, so that these financial statements are considered as the initial ones for the purposes of the principles of uniformity and comparability.

In addition, as described in Note 3, the Company merged with Clickair, S.A. for accounting purposes as from 1 July 2009. This Merger by takeover has meant that all the assets and liabilities of the acquired company, Clickair, S.A., as at 1 July 2009 have been included in the accompanying balance sheet. The accompanying income statement includes the Company's individual profit from the first half of the year plus the profit from the second half of the year for the Company resulting from the merger. If the aforementioned business combination had taken place at the start of 2009, the income and result for the Company for said year would have been as follows:

	Thousands of Euros
Net Business turnover	752,968
Year's results after taxes (Profit)	24,347

## **2.6. Aggregation of items**

Certain items in the balance sheet, the income statement, the statement of changes in net 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 2010 compared with the criteria applied in 2009

## **2.8. Correction of errors**

During 2010 no corrections of errors have been made on the amounts pertaining to financial year 2009.

## **3. Business combination**

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

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

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

The merger was executed by means of a capital increase in Vueling Airlines, S.A. (see Note 11.1), for 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 has been fully subscribed and paid up by means of a non-monetary contribution of all of Clickair S.A.'s shares.

Appendix I of the financial statements of 2009 includes the information required by Law 43/1995.

The cost of the aforementioned business combination was 87,216 thousand euros, of which 80,593 thousand euros correspond to the fair value of Clickair, S.A., based on independent expert reports, while the remaining 6,623 thousand euros correspond to costs associated with the business combination.

Certain assets and liabilities have been recognised at their fair value on the merger date, which are shown in the following table (in thousands of euros):

TOTAL ASSETS	Fair Value	TOTAL LIABILITIES	Fair Value
<b>NON-CURRENT ASSETS:</b>		<b>NON-CURRENT LIABILITIES</b>	
Intangible fixed assets:			
- Slots	36,733		
- Other intangible fixed assets	5,461		
Property, plant and equipment	5,535	Long-term provisions	36,178
Long-term financial investments	37,920	Long-term liabilities	1,891
Deferred tax assets	42,968	Deferred tax liabilities	13,062
<b>Total non-current assets</b>	<b>128,617</b>	<b>Total non-current liabilities</b>	<b>51,131</b>
<b>CURRENT ASSETS:</b>		<b>CURRENT LIABILITIES:</b>	
Trade and other receivables	53,112	Short-term liabilities	8,459
Short-term financial investments	22,867	Trade and other payables	61,356
Short-term prepayments and accrued income	3,301	Short-term accruals and deferred income	45,297
Cash and cash equivalents	29,027		
<b>Total current assets</b>	<b>108,307</b>	<b>Total current liabilities</b>	<b>115,112</b>
<b>TOTAL ASSETS</b>	<b>236,924</b>	<b>TOTAL LIABILITIES</b>	<b>165,127</b>

Deferred tax liabilities correspond mainly to the effect of taxation on the valuation of assets and slots at fair value (see Note 16.6).

The definitive accounting of the integration has been carried out on 30 June 2010, within the legally stipulated period in a financial year established in the General Chart of Accounts, having carried out the adjustments in goodwill for a net amount of 438 thousand euros as shown in Note 6. This has led to a modification of the balance sheet at 31 December 2009.

#### 4. Distribution of profit

The Company's Directors' proposal for distributing the 2010 profit, which will be submitted for approval by the General Meeting of Shareholders, is as follows:

	Thousand Euros
To offsetting " Previous years' losses"	38,858
To legal reserve	5,981
To goodwill reserve	1,156
<b>Total</b>	<b>45,995</b>

## 5. **Recognition and measurement**

The main rules for recognition and measurement used by the Company in preparing the 2010 and 2009 financial statements, in accordance with those established by the General Accounting Plan, were as follows:

### 5.1. ***Intangible fixed assets***

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

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

#### *Goodwill*

Goodwill appears in the assets when its value is clear 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 tangible and intangible assets".

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

#### *Computer software*

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

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

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

#### *Slots*

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

#### *Impairment of property, plant and equipment and intangible assets*

At the balance sheet date each year (in the case of goodwill, intangible assets with an indefinite useful life and other assets) or whenever there are signs of impairment (in the case of goodwill and intangible assets with an indefinite useful life), 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 procedure introduced by the Company's Management to carry out the aforementioned test is as follows:

- The recoverable values are calculated for each cash-generating unit. Whenever possible, impairment calculations are carried out individually item by item.
  
- Every year, the Management prepares financial projections for revenue and profits for each cash-generating unit based on their business plan. Item by item individualised financial projections are carried out for the 14 slots assessed taking each slot (time of arrival or departure) as the only cash generating unit. For its part, the goodwill remaining

after the value allocation of the aforementioned 14 slots has been jointly allocated to the remaining existing slots and routes of the Company from Clickair, S.A. and viewed as a single CGU.

The main assumptions and data considered by the Management of the Company for impairment tests are the following:

Given that the slots are associated with a flight right at a certain time and that this time has continuously been changing as a result of the requests made by the Company to AENA in order to adapt the slot to the various routes operated, the Management has considered that the slots have undergone variations of plus/minus one hour with regard to the time initially considered in the identification of such assets. Moreover, for one specific slot, the Company requested from the airport authority the change of the time of said slot, which is the new time taken into account in the impairment test.

- The list of the 14 CGUs or slots and their allocated value, in thousands of units, is as follows:

Slots	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
TJGE 11	863
TJGE 12	860
CGU 13	708
CGU 14	113
Total	36,733

Financial projections of income and results for the next four years have been performed, under an assumption of organic growth in capacity equal to 1% both for the Company as a whole and the 14 CGUs with assigned values. These financial projections are based on historic and forecast returns on the routes operated by the Company:

- The financial years 2011 and 2012 have been based on the Corporate Business Plan, carried out on the basis of the budget for Revenue per Available Seat Kilometre (RASK) and Cost per Available Seat Kilometre (CASK) and a percentage increase of income and expenses depending on main market variables, also including, both in income and the margin, the assumptions used of aggressive growth of the competition, fuel prices (an average of 85 USD/barrel) and the expected exchange rate Dollar-euro (1.33 USD/E), according to data published in reliable financial information sources. The projections for financial year 2011 are identical to those of the Company Budget for said year approved by the Board of Directors.
- The projections for the years 2013 and 2014 are identical to those for 2012 but under the assumption of an organic growth in capacity (Revenue per Available Seat Kilometre – RASK) of 1% and maintenance of the Costs per Available Seat Kilometre (CASK).
- A no growth perpetual return based on the return of the last projected financial year has been taken into consideration.
- Discount rate to be applied, understood as the weighted average cost of capital, where the cost of liabilities and the specific risks of the assets are some of the most influential variables in the calculation. The discount rate applied was 9.7%.

Projections are prepared on the basis of past experience, the business plan and according to the best available estimates for the next four years.

If financial projections were considered without taking into account the 1% organic growth and if the discount rate (wacc) were increased by 1%, there would be no need for impairment. The 10% increase in the price of fuel or in the dollar-

euro exchange rate would likewise remove the need for any impairment whatsoever, neither for the slots nor goodwill.

If an impairment loss should be recognised for a cash-generating unit to which all or part of the goodwill has been allocated, then firstly the carrying amount for the goodwill corresponding to that unit is reduced. If the impairment exceeds that amount, then the carrying amount of the other assets of the cash-generating units are reduced *pro rata* up to the greater of the following values: its fair value minus costs to sell, its value in use and zero.

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 property, plant and equipment and 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 the previous section.

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
Plant and machinery	8 - 10
Furniture and equipment	8 - 10
Other facilities and equipment	9 - 10

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

The Company Directors do not anticipate problems of impairment in the value of tangible fixed assets at the close of the financial year.

## **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 financial leases, while the other leases are classified as operating leases. The Company does not have any financial leases as at 31 December 2010 or in 2009.

### *Operating leases*

During 2010 and 2009 the Company has only acted as a lessee.

The 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 collected or paid upon taking out an operating lease is treated as an advance collection or payment which is allocated to the income statement over the lease period as the benefits of the leased asset are assigned or received.

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

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

## **5.4. Financial Instruments**

### *5.4.1. Financial assets*

#### *Classification*

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

- Loans, deposits and other receivables: financial assets arising from the sale of goods or provision of services as part of the company's operations (basically deposits given to aircraft lessors), or those which do not have a commercial origin and are not equity instruments or derivatives and from which the amounts received are fixed or determinable and which are not traded on an active market.
- Held-to-maturity investments: debt securities with fixed or determinable payments and 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, assignments of commercial loans in factoring transactions in which the company does not retain any credit or interest rate risk or the sales of financial assets with a repurchase agreement at their fair value.

On the other hand, the Company does not de-register financial assets, and recognises a financial liability for an amount equal to the consideration received, in assignments of financial assets in which it substantially retains the risks and benefits inherent to ownership, such as forfeiting, factoring with recourse, or the sale of financial assets with repurchase agreements at a fixed price or at the sale price plus interest.

### *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 and fuel prices. 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 (at least at the end of each accounting period) that the hedging relationship is efficient, that is, 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 efficient hedge is temporarily recorded in Net Equity and allocated to the income statement in the period in which the hedged item affects the results, unless the hedging corresponds to a planned transaction which results in recognition of a non-financial asset or liability. In this case, the amounts recorded in Net Equity will be included in the cost of the asset or liability when it is acquired or assumed.

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

### **5.5. Inventories**

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

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

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

### **5.6. Classification between current and non-current**

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

### **5.7. Foreign currency transactions**

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

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



## **5.8. Corporation tax**

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

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

The expense or revenue for deferred tax corresponds to recognition and cancellation of deferred tax assets and liabilities. These include the time differences which are identified as those amounts which are expected to be paid or received arising from differences between the carrying amount of the assets and liabilities and their tax value, as well as tax-loss carryforwards 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 cover all taxable temporary differences, except those arising from the initial recognition of goodwill and 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 on 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 accrual accounts**

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 is recorded under the heading "Short-term accruals and deferred income" under liabilities in the accompanying balance sheet.

The heading "Advance payments from customers" 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 rate method.

## **5.10. Provisions and contingencies**

On preparing the accompanying financial statements, 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 financial Statements 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 financial statements, 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 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. 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. The Company pays for these periodic checks through the lessor refunding part of the amounts which the Company has paid in advance.

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

#### **5.11. Severance pay**

Under current legislation, the Company is required to make severance payments to those employees dismissed under certain conditions. Therefore, severance pay which can be given a fair value is recorded as an expense in the year in which the decision is adopted and in which valid expectation of the dismissal is created.

#### **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, modifies Directive 2006/87/EC with regard to including aircraft operators in the Community system of greenhouse gas emission trading as of 1 January 2012. Aircraft operators shall be responsible for meeting the obligations established by the Directive, including the obligation to prepare a follow-up plan, to provide certain information as of 1 January 2010 and to supervise and notify of emissions produced.

The Company has suitably met each and every one of the obligations established by the aforementioned Directive.

#### **5.13. Pension commitments and other obligations with employees**

##### *Pension obligations*

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

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

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

##### *Share-based compensation*

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

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

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

#### 5.14. Subsidies, donations and bequests

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

- Non-refundable subsidies, donations and capital bequests: These are recorded at the fair value of the amount or asset granted, based on whether it is monetary or not, and are allocated to profit (loss) in proportion to the amortisation of the subsidised items in the year or, as the case may be, at the time of their disposal or impairment adjustment, except for those received from shareholders or owners, which are directly recorded under capital and reserves and do not constitute income.
- 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.

On the other hand, subsidies, donations and bequests received from partners or owners do not comprise income, and must be directly recognised as shareholder equity, irrespective of the type of subsidy in question, provided it is non-refundable.

#### 5.15. Transactions with related parties

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

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

### 6. Intangible fixed assets

Movements under this section of the balance sheets for 2010 and 2009, as well as the most significant information which affects this heading are as follows:

2010

Cost	Thousands of Euros				
	Initial Balance	Additions	Deletions	Transfers	Final Balance
Goodwill (Note 3)	15,419	-	-	-	15,419
Software Applications	13,689	4,525	(508)	-	17,706
Slots	36,733	-	-	-	36,733
<b>Total cost</b>	<b>65,841</b>	<b>4,525</b>	<b>(508)</b>	<b>-</b>	<b>69,858</b>
Amortisations	Thousands of Euros				
	Initial Balance	Additions	Deletions	Transfers	Final Balance
Goodwill (Note 3)	(5,195)	(3,034)	-	-	(7,927)
Software applications	-	-	302	-	-
<b>Total amortisation</b>	<b>(5,195)</b>	<b>(3,034)</b>	<b>302</b>	<b>-</b>	<b>(7,927)</b>

Total intangible fixed assets	Thousands of Euros	
	Initial Balance	Final Balance

Cost	65,841	69,858
Amortisations	(5,195)	(7,927)
<b>Net Total</b>	<b>60,646</b>	<b>61,931</b>

2009

Cost	Thousands of Euros				
	Initial Balance	Additions through merger	Additions	Deletions	Final Balance
Goodwill	-	15,419	-	-	15,419
Software applications	11,227	7,895	2,440	(7,873)	13,689
Brands and patents	-	332	-	(332)	-
Slots	-	36,733	-	-	36,733
<b>Total cost</b>	<b>11,227</b>	<b>60,379</b>	<b>2,440</b>	<b>(8,205)</b>	<b>65,841</b>

Amortisations	Thousands of Euros				
	Initial Balance	Additions through merger	Additions	Deletions	Final Balance
Goodwill	(3,418)	-	-	-	-
Software applications	-	(2,581)	(2,425)	3,229	(5,195)
Brands and patents	-	(185)	(31)	216	-
Slots	-	-	-	-	-
<b>Total amortisation</b>	<b>(3,418)</b>	<b>(2,766)</b>	<b>(2,456)</b>	<b>3,445</b>	<b>(5,195)</b>

Total Intangible fixed assets	Thousands of Euros	
	Initial Balance	Final Balance
Cost	11,227	65,841
Amortisations	(3,418)	(5,195)
<b>Net Total</b>	<b>7,809</b>	<b>60,646</b>

### Goodwill

The final allocation of the heading "Goodwill" in 2010 was as follows:

	Thousands of Euros			
	Provisional Balance	Regularisation of deferred tax (Note 16.6)	Other adjustments	Final Balance
Goodwill	15,857	(1,116)	678	15,419
<b>Total Goodwill</b>	<b>15,857</b>	<b>(1,116)</b>	<b>678</b>	<b>15,419</b>

The heading "Regularisations of deferred tax" for the amount of 1,116 thousand euros includes the regularisation associated with a high initial valuation of the slots which, by application of a criterion of prudence, was eventually reduced in the accounting close at 31 December 2009, without mistakenly having varied the pertaining deferred tax. At 30 June 2010, this amount has been adjusted, having retroactively reduced the liabilities for deferred taxes and the assets for goodwill in the same amount, with no variation in the net equity of the Company.

The other adjustments made throughout the year mainly correspond to the cost of maintenance carried out on the Aircraft and the aircraft return expenses attributable to the company Clickair, S.A. prior to 30 June 2009 that were not recognised in the merger balance sheet on said date. Both amounts are net of the pertaining effect of tax. (See Note 16.5).

All of the adjustments made in the goodwill have been made prior to 30 June 2010, within the stipulated period of one year for goodwill adjustment and applied retroactively, as set forth by accounting regulations. The assumptions considered and the calculations made by the Company in the slot and goodwill impairment tests, as well as in the breakdown of identified cash generating units, are included in Note 5.1.

### **Software applications**

The additions in 2010 mainly consist of the implementation of applications and software to improve the systems and the web totalling 4,525 thousand euros (2,440 thousand euros in 2009), of which a total of 587 thousand euros pertain to work carried out by in-house technical personnel of the Company.

The write-offs in 2010 mainly pertain to web applications rendered obsolete and have generated losses of 203 thousand euros. For its part, during 2009 there were write-offs of assets no longer used following the merger of the Company, generating losses and profit from sales of 4,717 and 177 thousand euros, respectively.

### **Slots**

The heading "Slots" includes the amount of 36,733 thousand euros, the fair value of the slots originating from the merger with Clickair, S.A., for which the Directors of the Company have estimated an indefinite useful life and which are submitted to the pertaining annual impairment test, as mentioned in Note 5.1.

At 31 December 2010, the Company had fully amortised but still in use intangible fixed assets (all IT applications) amounting to 389 thousand euros (252 thousand euros at 31 December 2009).

## 7. Property, plant and equipment

Movements under this heading of the balance sheets for 2010 and 2009, as well as the most significant information which affects this heading are as follows:

2010

Cost	Thousands of Euros		
	Initial balance	Additions	Final balance
Aircraft parts	11,417	312	11,729
Handling equipment	448	-	448
Technical installations	1,136	-	1,136
Furniture	786	3	789
Other plants and machinery	1,152	-	1,152
Information processing equipment	1,172	42	1,214
<b>Total cost</b>	<b>16,111</b>	<b>357</b>	<b>16,468</b>

Amortisations	Thousands of Euros		
	Initial balance	Additions	Final balance
Aircraft parts	(5,743)	(2,185)	(7,928)
Handling equipment	(266)	(60)	(326)
Technical installations	(333)	(112)	(445)
Furniture	(288)	(74)	(362)
Other plant and machinery	(364)	(115)	(479)
Information processing equipment	(567)	(207)	(774)
<b>Total cost</b>	<b>(7,561)</b>	<b>(2,753)</b>	<b>(10,314)</b>

Total Property, Plant and Equipment	Thousands of Euros	
	Initial balance	Final balance
Cost		
Amortisations	16,111 (7,561)	16,468 (10,314)
<b>Net total</b>	<b>8,550</b>	<b>6,154</b>

2009

Cost	Thousands of Euros				Final balance
	Initial balance	Additions through merger	Additions	Deletions	
Aircraft parts	1,840	8,462	1,158	(43)	11,417
Handling equipment	483	-	-	(35)	448
Technical installations	977	150	9	-	1,136
Furniture	698	86	2	-	786
Equipment and other items	1,150	9	2	( <sup>9</sup> )	1,152
Information processing equipment	487	667	26	( <sup>8</sup> )	1,172
<b>Total cost</b>	<b>5,635</b>	<b>9,374</b>	<b>1,197</b>	<b>(95)</b>	<b>16,111</b>

Amortisations	Thousands of Euros				Final balance
	Initial balance	Additions through merger	Additions	Deletions	
Aircraft parts	(984)	(3,637)	(1,165)	43	(5,743)
Handling equipment	(200)	-	(78)	12	(266)
Technical installations	(207)	(22)	(104)	-	(333)
Furniture	(201)	(15)	(72)	-	(288)
Equipment and other items	(249)	( <sup>3</sup> )	(116)	4	(364)
Information processing equipment	(260)	(162)	(145)	-	(567)
<b>Total cost</b>	<b>(2,101)</b>	<b>(3,839)</b>	<b>(1,680)</b>	<b>59</b>	<b>(7,561)</b>

	Thousands of Euros	
	Initial balance	Final balance
Total Property, plant and equipment		
Cost	5,635	16,111
Amortisations	(2,101)	(7,561)
<b>Net total</b>	<b>3,534</b>	<b>8,550</b>

As at 31 December 2009 and 2008, the Company had property, plant and equipment which was fully depreciated and which continued in use as shown in the following table:

Description	Thousands of Euros	
	Carrying Amount (Gross)	
	31/12/2010	31/12/2009
Aircraft components	748	705
Furniture, equipment and other items	30	30
Information processing equipment	159	104
<b>Total</b>	<b>839</b>	<b>839</b>

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 2009, there is no coverage deficit related to the aforementioned risks.

At 31 December 2010 and 2009 there are no significant purchase commitments of fixed assets.

## 8. Leases

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

As at the 2010 and 2009 balance sheet dates, the Company had agreements with aircraft lessors for the following minimum lease payments according to the agreements currently in force, without taking into account the impact of other expenses, future Consumer Price Index increases or future income updates contractually agreed:

Operating leases	Thousands of Euros	
	Nominal value	
	31/12/2010	31/12/2009
Less than one year	126,559	132,209
Between one and five years	314,590	373,840
More than five years	40,013	88,896
<b>Total</b>	<b>481,162</b>	<b>594,945</b>

The value in euros of payment commitments at 31 December 2010 is 360,151 thousand euros (413,156 thousand euros at 31 December 2009).

The difference between the minimum lease payments for 2010 and those for 2009 is due to it fewer commitments in 2010 with aircraft lessors and the extension of two lease contracts.

The total amount of aircraft lease and sublease payments recorded as expenses and revenue in 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	2009
Lease expenses	95,382	73,672
Sublease income	-	2,689

During 2009, the Company made adjustments in available capacity, subleasing two aircraft to third parties which generated income of 2,689 thousand euros, which were not subleased during 2010.

The average number of aircraft operated in 2010 was 36 (an average of 26 aircraft in 2009), having operated a total of 37 aircraft during the summer high season. At 31 December 2010, the Company has 36 leased aircraft (37 aircraft at 31 December 2009).

During 2010, the Company has entered into lease agreements of three Airbus A-320-200 aircraft which will become operative in 2011, with a term of 72 monthly payments. The amount to be paid for the lease of these aircraft shall be determined when these become operative, which is estimated to happen during the first half of 2011. The payments for the lease of said aircraft are not deemed to be lease payment commitments until said aircraft become operative.

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

### 9.1. *Long-term financial investments*

Movements under long-term financial investments over 2010 and 2009 in thousands of euros are as follows:



2010

Categories	Thousands of Euros				
	01/01/2010	Additions	Deletions	Short term reclassifications	31/12/2010
Loans, deposits and other receivables	85,640	27,044	(9,092)	(3,332)	100,260
Hedge derivatives	-	2,265	-	-	2,265
<b>Total</b>	<b>85,640</b>	<b>29,309</b>	<b>(9,092)</b>	<b>(3,332)</b>	<b>102,525</b>

2009

Categories	Thousands of Euros					
	01/01/2009	Additions through merger	Additions	Other additions (Note 12.1)	Deletions	31/12/2009
Loans, deposits and other receivables	19,519	36,395	5,360	24,366	-	85,640
Held-to-maturity investments	5,319	1,525	-	-	(6,844)	-
<b>Total</b>	<b>24,838</b>	<b>37,920</b>	<b>5,360</b>	<b>24,366</b>	<b>(6,844)</b>	<b>85,640</b>

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

2010

	Thousands of Euros					
	2012	2013	2014	2015	2016 and following years	Total
Loans, deposits and other receivables	30,738	292,970	9,367	15,542	14,643	100,260
Hedge derivatives	1,355	910	-	-	-	2,265
<b>Total</b>	<b>32,093</b>	<b>30,880</b>	<b>9,367</b>	<b>15,542</b>	<b>14,643</b>	<b>102,525</b>

2009

	Thousands of Euros					
	2011	2012	2013	2014	2015 and following years	Total
Loans, deposits and other receivables	38,355	15,732	6,554	10,395	14,604	85,640
<b>Total</b>	<b>38,355</b>	<b>15,732</b>	<b>6,554</b>	<b>10,395</b>	<b>14,604</b>	<b>85,640</b>

"Loans, deposits and other receivables" basically cover the advance payments made

to aircraft lessors for the maintenance schedule of leased aircraft for 99,675 thousand euros (see Note 12) and the credit given by Airbus for 585 thousand euros (see Note 5.14). At 31 December 2009, the total amount of deposits delivered was 84,292 thousand euros by way of pre-payments to lessors and 1,348 thousand euros in loans granted by Airbus.

The deposits made to aircraft lessors serve as a guarantee for the maintenance to be carried out on the leased aircraft, for which the Company is making the appropriate provision in non-current liabilities (Note 12.1) and which shall be recovered once the Company has carried out such maintenance and has provided proof of the performance thereof to the lessors.

The additions of 2010 pertain to deposits paid in cash to the aircraft lessors as guarantee of maintenance thereof amounting to 27,044 thousand euros.

The deletions in 2010, amounting to 9,092 thousand euros, pertain to deposits recovered during the year from the aircraft lessors as a result of completion of scheduled maintenance events of the fleet. Due to the difficulty in calculating the deposits to be recovered during 2010 once said events have been performed, the deposits are held in the long term until effective recovery thereof.

The reclassifications amounting to 3,332 thousand euros pertain to aircraft repairs carried out during 2010 for which recovery is estimated within less than twelve months, and have thus been reclassified under the heading "Short-term financial investments - loans, deposits and other receivables".

The increase in deposits held to maturity in 2012 and 2013 is due to changes in the design of the maintenance plan of the Company, leading to a delay in the recovery of deposits in 2011 made to the aircraft lessors and the increase of the deposits to be paid due to the normal activity of the aircraft.

## 9.2. Short-term financial investments

The balance of the heading "Short-term financial investments" at the balance sheet dates of 2010 and 2009 is as follows:

Classes  Categories	Thousands of Euros							
	Short-term financial investments							
	Debt securities		Other financial assets		Derivatives (Note 15)		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Held-to-maturity investments	2,000	-	192,988	22,256	-	-	194,988	22,256
Loans, deposits and other receivables	-	-	6,599	2,866	-	-	6,599	2,866
Derivatives (Note 15)	-	-	-	-	7,221	2,685	7,221	2,685
<b>Total</b>	<b>2,000</b>	<b>-</b>	<b>199,587</b>	<b>25,122</b>	<b>7,221</b>	<b>2,685</b>	<b>208,808</b>	<b>27,807</b>

The heading "Held-to-maturity investments" corresponds to time deposits with maturities over 3 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 amounting to 192,988 thousand euros (22,256 thousand euros at 31 December

2009) and to promissory notes purchased by the Company amounting to 2,000 thousand euros.

As at 31 December 2010, the part of these deposits which is pledged, and therefore, not available, is 12,664 thousand euros (20,987 thousand euros as at 31 December 2009), as aircraft lease and maintenance guarantees.

The increase in time deposits made in banking institutions in 2010 compared with 2009 is due to the positive cash flows generated by the Company's activity during 2010 as well as to the Company's policy to increase the average term of time deposits to 6.5 months (4 months in 2009) in order to increase the return obtained thereof.

The heading "Loans, deposits and other receivables" mainly pertains to the pre-payments made to aircraft lessors as part of the scheduled maintenance programme for leased aircraft amounting to 6,599 thousand euros (2,866 thousand euros at 31 December 2009), which are expected to be recovered within a period under 12 months given that the maintenance has already been performed. The increase in this heading is due to a larger number of aircraft operated on average during 2010 compared with 2009 and the required maintenance associated with the fleet.

### **9.3. Cash and cash equivalents**

The heading "Cash and cash equivalents" records all the cash deposited in sight current accounts together with the sight bank deposits which are convertible into cash, have no restrictions and which have a maturity of less than three months when acquired for a total amount of 35,972 thousand euros at 31 December 2010 (121,282 thousand euros at 31 December 2009).

At 31 December 2010, there are no pledged amounts included under the heading "Cash and Banks". For its part, at 31 December 2009, a total of 7,564 thousand euros were pledged in guarantee of the lease and maintenance of the aircraft to ground handling companies, airports and to cover fuel purchases.

### **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 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.

#### Liquidity risk

The Company carries out prudent management of liquidity risk based on holding enough cash 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 uses commodity derivative instruments for the main fuel components in order to hedge against the risk of fluctuations in future prices. 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.

The Company is exposed to interest rate risk mainly arising from two aircraft operating lease contracts entered into in 2010 for aircraft to be added to the fleet after 31 December 2010, and whose lease payment shall be established in accordance with the interest rate in effect at the time that said aircraft become operative (estimated period of 6 months). In order to mitigate this risk, the Company has entered into interest rate swaps.

The Company holds assets with short-term returns invested in repos 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.

On the other hand, due to the low level of indebtedness of the Company, the risk of its exposure to the fluctuation of the interest rate to which the debt is associated (all of the debt is linked to variable interest rates) is not deemed to be significant.

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

## 10. **Inventories**

These mainly cover spare parts and other materials for aircraft maintenance. Below are the breakdowns both at 31 December 2010 and 2009.

	Thousands of Euros
Inventories	2,170
Impairment	(2,000)
Total	170

The movement in the value adjustments made due to impairment under the heading "Inventories" in the attached balance sheet was as follows:

2010

	Thousands of Euros		
	01/01/2010	Additions	31/12/2010
Inventory impairment	(2,000)	-	(2,000)

2009

	Thousands of Euros		
	01/01/2009	Additions	31/12/2009

Inventory impairment	-	(2,000)	(2,000)
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The value adjustment recorded for inventories corresponds to the Company's estimate of their non-recoverable value resulting from having outsourced the service (see Note 14).

## 11. Net Equity

### 11.1. *Subscribed capital*

On 5 May 2009, the Company's General Meeting of Shareholders approved increasing the share capital by €14,952,259, plus a share premium (see Note 3 and 11.4), by issuing 14,952,259 new shares with a par value of 1 euro each, of the same class and series as those that were in circulation. Subscription was reserved to CLICKAIR shareholders, without the existence of pre-emption rights, in accordance with the provisions of Section 159.4 of the Spanish Public Limited Companies Act.

As at 31 December 2010 and 2009, the Company's share capital stood at €29,904,518, 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 2010 and 2009, the shareholders who have a stake greater than 10% of the share capital are as follows.

Shareholder	Shareholding percentage	
	31/12/2010	31/12/2009
IBERIA, Líneas Aéreas de España, S.A.	45.85	45.85

On 21 January 2011, the merger of the main Shareholder of the Company with another company in the industry took place (See Note 24).

### 11.2. *Legal Reserve*

In compliance with the Consolidated Text of the Public Limited Companies Act, 10% of the profit for the year 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.

### 11.3. *Goodwill Reserve*

In accordance with the Capital Companies Act, the allocation of the result of each year must include unavailable reserves equal to the amount of goodwill appearing in the assets on the balance sheet, allocating thereto a proportion of the profit representing at least five per cent of the aforementioned Goodwill. In the event of no profit, or of insufficient profit, available reserves shall be used for this purpose.

#### 11.4. Issue premium and restrictions on dividend distribution

As a result of the merger with Clickair, S.A. (see Note 3), together with the capital increase mentioned in the Note 11.1 above, the share premium was increased by 65,640 thousand euros. As at 31 December 2010, this reserve is freely available, except for 43,965 thousand euros (82,127 thousand euros as at 31 December 2009), broken down as follows:

	Thousands of Euros
	31/12/2010
Other reserves and treasury shares	6,227
Results from previous years	76,596
Result of this year	(45,995)
Unavailable amount associated with legal reserve	5,981
Unavailable amount associated with goodwill reserve	1,156
<b>Total unavailable</b>	<b>43,965</b>

#### 11.5. Treasury shares

In 2010, the Company has not acquired or transferred treasury shares.

As at 31 December 2010 and 2009, the Company has treasury shares as shown in the following table:

	No. of Shares	Percentage of total	Euros		Thousands of Euros
			Par Value	Average acquisition price	Total acquisition price
Treasury shares	216,083	0.72%	1	3.3	713

At the date of preparation of these financial statements the Company's Board of Directors has not taken a decision about the final use planned for the aforementioned treasury shares.

At the close of the years 2010 and 2009, the Company held own shares with a face value of 1 euro and a purchase cost of 713 thousand euros

#### 11.6 Subsidies

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

2010

		Thousands of Euros

Company	Type	01/01/2010	Disposals	31/12/2010
Airbus (Note 5.14)	Private	914	(505)	409

2009

Company	Type	Thousands of Euros		
		01/01/2009	Disposals	31/12/2009
Airbus	Private	2,394	(1,480)	914

As at 31 December 2010 and 2009, 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 2010 and 2009, as well as the main movements recorded during the year, are as follows:

2010

Long-Term Provisions	Thousands of Euros				
	01/01/2010	Allocations	Applications	Short-term reclassifications	31/12/2010
Provisions for scheduled maintenance	109,419	50,165	(15,110)	(15,843)	128,636
Other provisions	2,406	-	(1,194)	-	1,212
<b>Total long-term provisions</b>	<b>111,825</b>	<b>50,165</b>	<b>16,304</b>	<b>15,843</b>	<b>129,848</b>

2009

Long-Term Provisions	Thousands of Euros					
	01/01/2009	Additions from merger (Note 3)	Other additions (Note 9.1)	Allocations	Applications	31/12/2009
Provisions for scheduled maintenance	19,680	36,178	24,366	41,394	(12,199)	109,419
Other provisions	1,321	-	-	1,085	-	2,406
<b>Total long-term provisions</b>	<b>21,001</b>	<b>36,178</b>	<b>24,366</b>	<b>42,479</b>	<b>(12,199)</b>	<b>111,825</b>

*Provisions for scheduled 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).

In the calculation of this provision, the Company distinguishes between the maintenance checks to be carried out throughout the life of the aircraft lease, and those maintenance checks that must be carried out subsequent to maturity of said lease. The Company makes provisions on the basis of the prices established in the maintenance contract (entered into with IBERIA, Líneas Aéreas de España, S.A. (see Note 14) in the first instance, and on the basis of the prices established in the aircraft lease agreements in the second instance, taking into account in both cases the hours/cycles and operating months of each aircraft.

The provisions for the year have been recognised under the heading "Other operating expenses – aircraft maintenance" in the Income Statement (see Note 17.6) and pertain to the hours/cycles and operating months of the Aircraft on the basis of the contract price applicable in each case.

The provisions in 2009 relating to "Provisions for scheduled maintenance" amounted to 41,394 thousand euros, whereas in 2010 these totalled 50,165 thousand euros. In light of this, it is worth considering the following factors:

- As of 1 July 2009, the Company began to operate an additional fleet of 20 aircraft, so that the maintenance costs of 37 operating aircraft only began to be recognised as of the second half of 2009.
- During 2009, additional restructuring costs of 12,860 thousand euros, in part pertaining to 2009 itself, were recognised under the heading "Other operating expenses – aircraft maintenance expenses".
- Aircraft maintenance costs are, due to the effect of inflation, higher in 2010 than in 2009, by approximately 1.5% - 2%.
- The contracts entered into with aircraft lessors and maintenance contracts establish payment in dollars for most of the provision, so that the value in euros of the provision in 2010 compared with 2009 reflects a depreciation of approximately 7.2% of the euro against the dollar.

The applications for the year correspond to the cost of the checks performed in 2009, as well as the amount attributable to the aircraft returned during the year.

The reclassifications made during the year mainly pertain to outstanding payments for aircraft maintenance checks which have been reclassified under the account payable to the supplier - IBERIA, Líneas Aéreas de España, S.A. - in the short term (See Note 14).

#### Other provisions

This heading includes the amounts which are estimated must be paid as a consequence of the resolution of certain disputes pending a firm legal ruling, as well as other lesser provisions.

The Company's Directors estimate that the results of the aforementioned disputes will not lead to additional liabilities for the Company other than those for which a provision has been allocated in the accompanying balance sheet.

## **12.2. Contingencies**

The Company's most significant contingencies as at 31 December 2010 are as follows:

On 10 November 2006, the company Aeroporti di Roma Handling SpA ("ADRH") brought an action against Aviapartner Handling SpA and Vueling Airlines, S.A. before the *Tribunal Civile di Roma* [Civil Court of Rome] for damages suffered as a consequence of the alleged early termination of the agreement between ADRH and Aviapartner for the provision of ramp services in Rome airport. The joint and several claim against



Aviapartner and the Company is for 2,237 thousand euros. Aviapartner has signed a letter in favour of the Company undertaking to hold the latter harmless against any possible ruling. Consequently, the company has not allocated any provision for this item.

Similarly, the Company has made the best possible estimate in order to quantify the potential impact of the consumer affairs proceedings before the 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. "Short-term liabilities" and "Long-term liabilities"

#### 13.1. Financial liabilities

The balances of the headings "Short-term liabilities" and "Long-term liabilities" at the 2010 and 2009 balance sheet dates are as follows:

Classes    Categories	Thousands of Euros									
	Short-Term Financial Instruments						Long-Term Financial Instruments			
	Debts with Credit Institutions		Derivatives and Other Items		Total		Derivatives and Other Items		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Payables	23,926	12,966	-	-	23,926	12,966	-	-	-	-
Derivatives (Note 15)	-	-	1,212	1,952	1,212	1,952	-	2,570	-	2,570
<b>Total</b>	<b>23,926</b>	<b>12,966</b>	<b>1,212</b>	<b>1,952</b>	<b>25,138</b>	<b>14,918</b>	-	<b>2,570</b>	-	<b>2,570</b>

The Company has granted credit policies, referenced to market interest rates, with the following limits:

	Thousands of Euros			
	31/12/2010		31/12/2009	
	Limit	Amount Drawn down	Limit	Amount Drawn down
Credit policies	37,000	23,926	15,000	12,966
<b>Total</b>	<b>37,000</b>	<b>23,926</b>	<b>15,000</b>	<b>12,966</b>

#### 13.2. Information on supplier payment deferrals

With regard to the information required by the Third Additional Provision of Law 15/2010, of 5 July, applicable to these first financial statements following the entry into force of the Law, at 31 December of 2010, the amount of 458 thousand euros of the outstanding balance with suppliers accumulated a deferral that exceeded the legal term of payment, accounting for 0.5% of the total accounts payable of the Company.

This balance pertains to suppliers who, given their nature, are trade creditors for debts relating to goods and services, so that it includes data pertaining to “Debt with related companies”, “suppliers” and “miscellaneous creditors” in the current liabilities on the balance sheet.

The maximum legal term for payment applicable to the Company according to Law 3/2004, of 29 December, establishing measures to prevent default in trade operations, is of 85 days.

#### 14. Related party transactions and balances

The breakdown of related party transactions in 2010 and 2009 is as follows:

2010

Group Company	Thousands of Euros	
	Services provided	Services provided
IBERIA, Líneas Aéreas de España, S.A.	111,681	92,091
<b>Total</b>	<b>111,681</b>	<b>92,091</b>

2009

Group Company	Thousands of Euros	
	Services provided	Services provided
IBERIA, Líneas Aéreas de España, S.A.	57,878	38,080
<b>Total</b>	<b>57,878</b>	<b>38,080</b>

The services provided to related companies mainly cover sales performed through IBERIA's distribution channel, while the services received mainly cover maintenance tasks for the aircraft fleet and ground handling services received through formalised agreements, for the amounts of 47,717 and 42,261 thousand euros, respectively (16,233 and 21,085 thousand euros, respectively, in 2009). Said amounts do not include the provision made for aircraft maintenance.

The main variation between 2010 and 2009 stems from the fact that the services provided and received in 2009 only began to be provided and received as of the date of the merger with Clickair, S.A. as of 1 July 2009.

During 2010, Iberia has leased an aircraft to the Company for a period of 6 months for the amount of 1,103 thousand euros.

The related party balances in 2010 and 2009 are as follows:

2010

Related company	Thousands of Euros	
	Debit balances	Credit balances
IBERIA, Líneas Aéreas de España, S.A.	6,239	21,435

<b>Total</b>	<b>6,239</b>	<b>21,435</b>
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2009

Related company	Thousands of Euros	
	Debit balances	Credit balances
IBERIA, Líneas Aéreas de España, S.A.	1,716	10,641
<b>Total</b>	<b>1,716</b>	<b>10,641</b>

The Corporate Governance Report includes data on the commercial, contractual and/or corporate relationships existing between Iberia and the Company, which pertain to the codeshare agreement, the Iberia Plus customer loyalty scheme, the aircraft maintenance service contract and the ground handling contract.

The Company carries out all its related party transactions at market prices. The Company Directors consider that there are no considerable risks in this regard that might generate significant future liabilities.

#### 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 an 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 an adverse turn in the price of fuel. Additionally, during 2010, interest rate derivatives have been contracted in order to hedge against fluctuations in the lease payments of two aircraft, whose lease payments are referenced to variable interest rate

Similarly, in order to reduce the potential negative impact on the Company's profit of fluctuations in Jet Fuel prices, in 2010 and 2009 the Company used fixed-price swaps, referenced to the price of mT of Jet Fuel Cif NWE and to the price of a barrel of Brent oil during the first quarter of 2009.

The Company is exposed to interest rate risk arising mainly from two operating lease agreements entered into in 2010 for aircraft to be added to the fleet after 31 December 2010, with lease payments in accordance with the interest rate in effect at the time such aircraft become operative (estimated period of 6 months). In order to mitigate this risk, the Company has taken out interest rate swaps on the USD 5-year swap rate and the "5-year treasury note" rate, which shall be settled when said aircraft actually become part of the fleet of the Company.

The Company has entered into a contract with a company of good standing to provide valuation services and perform efficacy tests on the hedges.

Given that the efficacy of all the hedges has been proven, both at the start and throughout the life of the hedge, no amount has been recognised in 2010 (or in 2009) pertaining to hedge inefficiency.

In the valuation of the efficacy of the hedges, the Company decides on groups of items as specific items depending on the hedge. Distinctions are thus made between fuel hedges, hedges against aircraft leases and interest rate hedges.

Fuel: the Company groups together items on the basis of the total monthly fuel requirements for its activity. This procedure is used both in foreign exchange and in fuel hedges.

Aircraft leases: the Company arranges both these specific items, identifying the aircraft lease payments and hedging exchange risk accordingly, or else groups together items on the basis of total monthly requirements.

Both in terms of fuel purchases and aircraft leases, the Company does not cover the full amount of said monthly requirements; a percentage hedge is decided by the Board of Directors that will always be under the amount thereof.

Interest rate hedges: the Company only decides on specific items, identifying the interest rate fluctuation that affects the lease payments to be made for future aircraft.

In hedges related to aircraft lease payments, there are no significant differences (many are specific with the same maturity) between the maturity of the item hedged and the maturity of the foreign exchange hedging instruments.

With regard to fuel price hedges, the differences are also insignificant; in the event of dates not coinciding, the difference between the maturity of the hedged item and the maturity of the foreign exchange and fuel hedging instruments is of just a few days.

2009

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

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

Currency	Nominal	Fair Value	
	31/12/2010	Assets: Short-term financial investments	Liabilities: Long- and short-term liabilities
	(Thousands of dollars)	(Thousands of Euros)	(Thousands of Euros)
Forwards USD 1st Half-year 2011	113,371	1,586	981
Forwards USD 2nd Half-year 2011	34,688	804	22
Forwards USD 2012 and subsequent years	61,595	2,265	-
<b>Total</b>	<b>209,653</b>	<b>4,655</b>	<b>1,003</b>

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

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

As at 31 December 2010, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General 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 relationship of the designated cash flow hedges

with the forward exchange contracts is considered highly effective. Therefore, the Company has recorded their fair value in the Net Equity.

The effectiveness of all the hedging instruments for accounting purposes has been verified. Therefore, no amount has been recorded in the 2010 income statement (or in the 2009 income statement) for any inefficiency. See criteria applied and methodology used in Note 5.4.4.

**b) Fuel derivatives**

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

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

	mT  31/12/2010	Fair Value	
		Assets: Short-term financial investments	Liabilities: Short-term liabilities
		(Thousands of Euros)	(Thousands of Euros)
Swaps 1st Half-year 2011	86,000	4,042	116
Swaps 2nd Half-year 2011	13,000	118	93
<b>Total</b>	<b>99,000</b>	<b>4,160</b>	<b>209</b>

The net fair value as at 31 December 2010 of the mT Jet Fuel Cif NWE swaps is a positive amount of 3,952 thousand euros, which is recorded in Net Equity, net of the tax effect.

Consequently, the Company pays a fixed rate of between 677.50 and 476.04 USD/mT for the swaps relating to Jet Fuel Cif NWE.

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

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2010 income statement (or in the 2009 income statement) for ageing inefficiency. See criteria applied and methodology used in Note 5.4.4.

**c) Interest rate derivatives**

In order to determine the fair value of the interest rate swaps, the company uses hedges based on the "5-year swap" and the "5-year treasury note".

During 2010, the Company has hedged the interest rate risk of two aircraft lease agreements entered into in 2010 for additions to the fleet in 2011.

The derivatives outstanding at 31 December 2010 and their fair values at that date are as follows:

Interest rates	Thousands of dollars	Thousands of Euros
	Face value	Fair value

	31/12/2010	Asset: Short-term financial investments	Liabilities: Short- term debt
IRS 1 <sup>st</sup> half 2011	70,500	671	-
Total	70,500	671	-

The net fair value at 31 December 2010 of the interest rate swaps is positive by 671 thousand euros which have been recognised in Net Equity, net of taxes.

The interest rate swaps entered into during the year range for the USD "5-year swap" at 2.23% and for the "5-year treasury note" at 1.92%.

At 31 December 2010, the Company has designated all accounting hedging instruments as cash flow hedges, as allowed by the New Chart of Accounts.

Efficacy has been verified for all accounting hedges, so no hedging inefficiencies have been recognised in the results for 2010 (or in 2009). See criteria and methodology applied in Note 5.4.4.

**d) Impact of derivatives on net equity**

The impact of the aforementioned derivatives on net equity as at 31 December 2010 was as follows (in thousands of euros):

Net of tax effect	Exchange- rate derivatives	Fuel derivatives	Interest rate derivatives	Change in value of derivatives following merger	Total
Balance at 01/01/10	(1,667)	381	-	1,464	178
All income and expenses directly allocated to net equity	11,390	2,557	470	(165)	14,251
Total transfers to income statement	(7,167)	(172)	-	(386)	(7,724)
<b>Balance at 31/12/09</b>	<b>2,556</b>	<b>2,766</b>	<b>470</b>	<b>913</b>	<b>6,705</b>

During 2010 11,390 thousand euros have been allocated to Net Equity arising from exchange rate derivatives, as the effective part of the hedge relationships over the year, and the amount of 7,167 thousand euros, net of tax effect, has been transferred from Net Equity to the income statement based on the nature thereof and reducing the cost of purchases and services received.

In 2009, a positive amount of 2,557 thousand euros for fuel derivatives was allocated to net equity, as the effective part of the hedge relationships over the year. A positive amount of 172 thousand euros was "recycled" from Net Equity, reducing the cost of fuel purchases, all net of the pertaining tax effect.

During 2010, 470 thousand euros from interest rate derivatives have been allocated to Net Equity, as the effective part of the hedge relationships over the year, all net of the pertaining 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 reserves. Consequently, a positive amount of 913 thousand euros corresponding to the negative fair value of these derivative financial instruments as at 1 July 2009 was recorded under the heading "Adjustments for changes in value". These instruments had not been liquidated as at 31 December 2010. Accordingly, the heading "Adjustment for changes in value" includes the change in value of these derivatives from 1 July 2009 up to the 2010 balance sheet date.

**e) Analysis of exchange-rate sensitivity**

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

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

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

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

**f) Analysis of Brent oil price sensitivity**

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

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

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

The sensitivity analysis shows that fuel derivatives 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. As the Jet Fuel Cif NWE Falls, the negative value increases.

**g) Interest rate sensitivity analysis**

The variations in fair value of the fuel derivatives purchased by the Company mainly depend on the variation of the 5-year dollar swap rate and the 5-year treasury note at maturity of the derivative. The fair value of such derivatives at 31 December 2010 is positive in the amount of 671 thousand euros. Below is the breakdown of the sensitivity analysis (variations on fair value at 31 December 2010) of fuel derivatives recorded in Net Equity as hedging instruments:

	Thousands of euros
Sensitivity in Net Equity	31/12/201

+10% bp	249
-10% bp	(249)

Sensitivity analysis shows that fuel derivatives will perform positively in scenarios of rising prices of Jet Fuel CIF NWE, so the Company has fixed a purchase price and is thus hedged against price increases of Jet Fuel CIF NWE. In the event of a reduction in the price of Fuel CIF NWE, the negative value would increase.

2009

#### ***h) 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 2009, the Company hedged against the exchange rate risk of part of its transactions denominated in US dollars.

The derivatives in effect as at 31 December 2009 and their fair values on said date are as follows:

Currency	Nominal 31/12/09 (Thousands of Dollars)	Fair Value	
		Assets (Thousands of Euros)	Liabilities (Thousands of Euros)
Forwards USD 1Q 2010	139,444	1,944	1,030
Forwards USD 2Q 2010	28,378	-	777
Forwards USD 2011 and subsequent years	116,322	-	2,570
<b>Total</b>	<b>284,144</b>	<b>1,994</b>	<b>4,377</b>

The net fair value at 31 December 2009 of exchange rate derivatives (forwards) was negative by 2,383 thousand euros that were recorded in Net Equity, net of any tax effect.

The USD forwards ensured the purchase of USD at prices ranging between 1.3696 and 1.5108 USD/EUR.

As at 31 December 2009, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Accounting Plan, all the forward exchange contracts for US dollars in effect at that date, as cash flow hedges for payment of fuel purchases, payments of aircraft leases, maintenance services 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.

Commodities derivatives in effect at 31 December 2009 and fair values thereof at said date were as follows:

	Tm 31/12/2009	Thousands of euros Fair value	
		Assets: Short-term financial investments	Liabilities: Short- term debt
Swaps 1 <sup>st</sup> half 2010	68,044	691	145



Total	68,044	691	145
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The net fair value at 31 December 2009 of Jet Fuel Cif NWE (swaps) derivatives was positive by 546 thousand euros which were recorded in Net Equity, net of any tax effect.

Hence, for swaps on Jet Fuel Cif NWE a fixed rate ranging between 654 and 726 USD/Tm was paid.

At 31 December 2009, the Company had designated, as allowed by the New General Chart of Accounts, all swaps on Jet Fuel Cif NWE as cash flow hedges in USD, arising from the purchase of fuel linked to Jet Fuel prices.

***i) Impact of derivatives on net equity***

The impact of the abovementioned derivatives on the net equity at 31 December 2009 were as follows (in thousands of euros and net of any tax effect):

Net of tax effect	Thousands of euros			
	Exchange rate derivatives	Fuel derivatives	Change in value of derivatives arising from merger	Total
Initial balance at 01/01/09	7,499	(1,637)	-	5,862
Total income and expenses directly allocated to net equity	(15,094)	732	1,464	(12,898)
Total transfers to profit and loss account	5,928	1,286	-	7,214
<b>Final balance at 31/12/09</b>	<b>(1,667)</b>	<b>381</b>	<b>1,464</b>	<b>178</b>

During 2009, a negative total of 15,094 thousand euros from exchange rate derivatives was allocated to Net Equity, as an effective part of the hedge relationships over the year, and a positive total of 5,928 thousand euros was transferred from Net Equity to the Profit and Loss Account, increasing the cost of purchases and services received.

During 2009, a positive total of 732 thousand euros was allocated to net equity from fuel derivatives, as an effective part of the hedge relationships over the year, and a positive total of 1,286 thousand euros was "recycled" from Net Equity to the Profit and Loss Account, increasing the cost of fuel purchases.

As a result of the merger with Clickair, S.A., the fair value of the derivative instruments that Clickair, S.A. held at the date of the merger were added to the net equity of the Company. Therefore, a positive amount of 1,464 thousand euros was recorded in the heading "Value change adjustments" pertaining to the variation in the negative fair value of such financial instruments at 1 July 2009 and which has not been settled by 31 December 2009. As such, the change in value of such derivatives as of 1 July 2009 to the close of the year 2009 was recorded in the heading "Value change adjustments".

***i) 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 2009, the fair value of these derivatives is negative for 2,383 thousand euros. The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31

December 2010) of the fair values of the exchange-rate derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity (Thousands of Euros)	31/12/2009
+10% (appreciation of Euro)	(17,739)
-10% (depreciation of Euro)	26,683

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.

**j) 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 barrel of Brent, and the time to maturity. As at 31 December 2009, the fair value of these derivatives is positive for an amount of 546 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2009) of the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity (Thousands of Euros)	31/12/2009
+30% (rise in the price of Brent)	10,039
-30% (fall in the price of Brent)	(10,038)

The sensitivity analysis shows that fuel derivatives will perform positively if the price of Brent rises. The Company has therefore set a purchase price and is thus covered against rises in Brent. As the price of Brent falls, the negative value increases.

**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 2010 2009 is as follows:

	Thousands of Euros	
	31/12/2010	31/12/2009
Debit balances		
Tax Agency, withholdings and interim payments	722	499
<b>Total</b>	<b>722</b>	<b>499</b>

Credit balances	Thousands of Euros	
	31/12/2010	31/12/2009
Credit balances with the Social Security	925	4,562
Credit balance with Tax Agency for personal income tax	1,240	933
Credit balance with Tax Agency for VAT	1,238	699
<b>Total</b>	<b>3,403</b>	<b>6,194</b>

### 16.2. Reconciliation of accounting profit and taxable base

The reconciliation between the accounting profit and the tax base for Corporation Tax for 2010 and 2009 is as follows:

2010

	Thousands of Euros		
	Increases	Decreases	Total
Accounting profit after tax			45,995
Permanent differences:			
Corporation Tax	19,712	-	19,712
Temporary differences:			
From the year (provisions)	4,801	(12,374)	(7,573)
Previous tax base	24,513	(12,374)	58,134
Offsetting tax-loss carryforwards	-	-	(58,134)
<b>Tax base</b>	-	-	-

2009

	Thousands of Euros		
	Increases	Decreases	Total
Accounting profit after tax			27,777
Permanent differences:			
Corporation Tax	12,376	-	12,376
Other permanent differences	1,100	-	1,100
Temporary differences:			
From the year	8,347	-	8,347
Previous tax base	21,823	-	49,600
Offsetting tax-loss carryforwards			(49,600)
Tax base	-	-	-

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

The reconciliation between the accounting profit and the Corporation Tax expense for 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Accounting profit before Corporation Tax	65,707	40,153
Tax payable at 30% of the tax base	(17,440)	(14,880)
Impact of temporary differences	(2,272)	2,504
Total (expense) or income for tax recognised in the income statement	(19,712)	(12,376)
<b>Accounting profit after Corporation Tax</b>	<b>45,995</b>	<b>27,777</b>

#### 16.4. Tax recognised in Net Equity

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

2010

	Thousands of Euros		
	Increases	(Decreases)	Total
For current tax:			
Cash flow hedges (net of currency , jet fuel and interest rate)	-	(3,021)	(3,021)
Subsidies	216	-	216
<b>Total tax recognised directly in Equity (current tax)</b>	<b>216</b>	<b>(3,021)</b>	<b>(2,805)</b>

2009

	Thousands of Euros		
	Increases	(Decreases)	Total
For current tax:			
Cash flow hedges (net of currency and Brent)	549	-	549
Subsidies	-	(509)	(509)
<b>Total tax recognised directly in Equity (current tax)</b>	<b>549</b>	<b>(509)</b>	<b>40</b>

#### 16.5. Deferred tax assets

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

	Thousand of Euros					
	31/12/2009	Company tax for FY 2010	Due to variations in derivative instruments	Due to goodwill adjustments (Note 6)	Reclassifications	31/12/2010
Tax credits due to losses to be offset	73,490	(17,440)	-	290	(370)	55,970
Total temporary differences:	5,800	(2,272)	(993)	-	370	2,905
For temporary differences in CT	4,443	(2,272)	-	-	370	2,541
For temporary differences of derivatives (Note 15)	1,357	-	(993)	-	-	364
<b>Total deferred tax assets</b>	<b>79,290</b>	<b>(19,712)</b>	<b>(993)</b>	<b>290</b>	<b>-</b>	<b>58,875</b>

The breakdown of the tax-loss carryforwards whose tax effect is recorded in the attached financial statements is as follows:

	Thousands of Euros	
	31/12/2010	31/12/2009
Negative tax bases:		
FY 2007	79,636	138,036
FY 2008	90,748	90,748
FY 2009 (from Clickair, S.A.)	16,181	16,181
Total	186,565	244,965

The tax bases offset during 2010 amounted to 58,400 thousand euros pertaining to 58,134 thousand euros in positive tax bases in 2010, 968 thousand euros in a tax-loss carryforward as a result of the goodwill adjustments (Note 6) and a reclassification of the positive tax bases to temporary differences for the amount of 1,233 thousand euros (Note 16.5).

There are no tax-loss carryforwards which have not been recorded.

The Company has 15 tax years from the first year with positive tax bases to offset the aforementioned tax-loss carryforwards. However, consultation 10 of BOICAC 80 has been taken into account in the accounting recognition of the tax credits. In this regard, at 31 December 2010 such tax credits are active given that the Directors of the Company consider it likely that future earnings will be obtained to enable such tax-loss carryforwards to be offset.

The factors which were taken into consideration for activating these tax-loss carryforwards were as follows:

- In the year ending 31 December 2010 and 2009, the Company achieved a profit before tax of 65,708 and 40,153 thousand euros, respectively which allowed it to offset the tax-loss carryforwards from prior years for an amount of 58,400 and 49,600 thousand euros, respectively.
- The Company's Business Plan approved by the Board of Directors forecasts profits for 2011 and subsequent years to offset the tax-loss carryforwards in the next 4 years.
- There is a mandate from the Company's Management Council 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 financial statements.

#### **16.6. Deferred tax liabilities**

The breakdown of the balance of this account at the balance sheet dates for 2010 and 2009 is as follows:

	Thousands of Euros	
	31/12/2010	31/12/2009
Temporary differences	14,041	12,219
<b>Total deferred tax liabilities</b>	<b>14,041</b>	<b>12,219</b>

The temporary differences as at 31 December 2010 recorded a total of 11,020 thousand euros associated with the temporary difference of the initial goodwill resulting from the merger with Clickair, S.A. (see Notes 3 and 6), a total of 2,846 thousand euros for temporary differences of the derivative financial instruments with a favourable measurement and a total of 235 thousand euros for temporary differences in the subsidiaries recorded under Net Equity.

The temporary differences as at 31 December 2009 recorded a total of 11,020 thousand euros associated with the temporary difference of the initial goodwill resulting from the merger with Clickair, S.A. (see Notes 3 and 6), a total of 807 thousand euros for temporary differences of the derivative financial instruments with a favourable measurement and a total of 392 thousand euros for temporary differences in the subsidiaries 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. At 31 December 2010, the Company is undergoing an inspection for financial year 2006 and following years with regard to Corporation Tax and financial year 2005 and following years with regard to all 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 financial statements.

## 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 2010 and 2009 is as follows:

Geographical Market	Thousands of Euros	
	2010	2009
Spain	363,869	263,792
Other European Union countries	425,754	334,170
<b>Total</b>		<b>597,962</b>

### 17.2. Procurement

The breakdown of the "Procurement" heading for 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Fuel consumption	183,624	102,443
Other consumables	-	1,420
Impairment of goods and raw materials (Note 10)	-	2,000
<b>Total</b>	<b>183,624</b>	<b>105,863</b>

### 17.3. Breakdown of purchases by origin

The breakdown of the purchases made by the Company in 2010 and 2009 according to their origin is as follows

2010

	Thousands of Euros		
	National	Intra-community	Extra-community



Purchases	141,605	37,912	4,107
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2009

	Thousands of Euros		
	National	Intra-community	Extra-community
Purchases	79,391	24,969	1,503

#### 17.4. Other operating revenue

The breakdown of the "Other operating revenue" heading in the income statement for 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Payments received for aircraft subleases	-	2,689
Other revenue	6,304	2,353
<b>Total net revenue</b>	<b>6,304</b>	<b>5,042</b>

In 2010, most of the amount recorded in "Other operating income" pertains to revenue from advertising, whereas in 2009 they were divided between advertising (2,173 thousand euros) and aircraft sublease payments (2,689 thousand euros).

#### 17.5. Personnel

The breakdown of the "Personnel Expenses" heading in the income statement for 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Salaries, wages and similar items	63,702	49,877
Severance pay	1,315	7,718
Social contributions	9,863	9,204
Defined contributions to pension schemes (Note 4.13)	-	68
Other personnel expenses	156	227
<b>Total</b>	<b>75,036</b>	<b>67,094</b>

The average number of employees in 2010 and 2009, broken down by category and gender, is as follows:

2010

Category	2010		
	Men	Women	Total
Senior Management	5	1	6
Pilots	343	9	352
Flight attendants	101	569	670

Operational support personnel	81	32	113
Administrative support personnel	80	75	155
Sales personnel	9	13	22
<b>Total</b>	<b>619</b>	<b>699</b>	<b>1,318</b>

2009

Category	2009		
	Men	Women	Total
Senior Management	5	1	6
Pilots	262	6	268
Flight attendants	135	361	496
Airport personnel	77	-	77
Maintenance personnel	41	4	45
Operational support personnel	45	51	96
Administrative support personnel	72	74	146
Sales personnel	7	9	16
<b>Total</b>	<b>644</b>	<b>506</b>	<b>1,150</b>

As at 31 December 2010, the number of employees in the Company, broken down by category and gender, is as follows:

2010

Category	2010		
	Men	Women	Total
Senior Management	5	1	6
Pilots	337	9	346
Flight attendants	111	515	626
Operational support personnel	58	53	111
Administrative support personnel	75	79	154
Sales personnel	9	14	23
<b>Total</b>	<b>595</b>	<b>671</b>	<b>1,266</b>

2009

Category	2010		
	Men	Women	Total
Senior Management	4	1	5
Pilots	244	6	250
Flight attendants	221	395	616
Operational support personnel	28	127	155
Administrative support personnel	85	73	158
Sales personnel	4	7	11
<b>Total</b>	<b>586</b>	<b>609</b>	<b>1,195</b>

As at 31 December 2010, the Company's Board of Directors consisted of eleven men and one woman (twelve men as at 31 December 2009).

As at 31 December 2010 and 2009, the senior management consisted of five men and one woman.

#### 17.6. Other operating expenses

The breakdown of the "Other operating Expenses" heading in the income statement for 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
External services:		
Ground handling service	106,667	69,396
Aircraft and other leases	96,574	76,880
Aircraft and other maintenance	77,492	66,026
Air Traffic Control	62,528	45,436
Airport fees	61,335	50,941
Supplies and other expenses	26,192	29,285
Independent professional services	17,696	21,828
Advertising	17,215	10,737
Insurance, banking services and other items	9,365	9,935
Taxes	212	221
Losses, impairment and change in provisions for commercial operations	(3,498)	457
<b>Total other operating expenses</b>	<b>471,778</b>	<b>381,142</b>

Most of these expenses have increased due to the fact that the business combination in financial year 2009 took place on 1 July 2009 (only includes half a year).

#### 17.7. Provision for bad debts

Movements under provision for bad debts over 2010 and 2009, in thousands of euros, is as follows:

2010

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

2009

	Thousands of Euros			
	01/01/2009	Allocations	Applications	31/12/2009
Impairment of loans for commercial operations	3,621	469	(12)	4,090

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## 18. Foreign Currency

The breakdown of the most significant balances and transactions in foreign currencies for 2010 and 2009, measured at the balance sheet date exchange rate and average exchange rate respectively is as follows:

	(Thousands of Euros)	
	2010	2009
<b>Balances:</b>		
Long- and short-term deposits	106,112	87,029
Receivables and other assets	6,072	10,427
Long-term provisions	119,063	86,653
Payables and other liabilities	7,020	15,913
<b>Transactions:</b>		
Other revenue	20	2,751
Purchases	186,642	107,365
Services received	145,716	107,826

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 2010 and 2009, in thousands of euros, as broken down in the following table:

	Thousands of Euros	
	2010	2009
Exchange differences (loss)	3,876	(1,489)

The exchange rate differences pertaining to the financial year ending 31 December 2010 comprise the unrealised and realised exchange rate differences for 3,446 and 430 thousand euros respectively, (at 31 December 2009, a total of (1,529) and 40 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 as at 31 December 2010 is 1,299,533 shares, representing 4.346% of total shares (1,251,288 shares at 31 December 2009).

The remuneration received in 2010 and 2009 by the Company's Directors and Senior Management, classified by item, is as follows:

2010

	Thousands of Euros
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	Remuneration	Other items	Payments based on equity instruments	Total
Board of Directors	962	-	-	962
CEO	495	-	-	495
Senior Management	1,228	-	-	1,228

2009

	Thousands of Euros			
	Remuneration	Other items	Payments based on equity instruments	Total
Board of Directors	774	-	-	774
CEO	439	1,464	-	1,903
Senior Management	1,343	410	-	1,753

Said received remuneration coincides with those accrued in such financial years.

Remuneration received in 2010 and 2009 only pertains to salaries and wages, with no per diems or any other remuneration.

At 31 December 2010 and 2009, there are no obligations agreed with the aforementioned members relating to pensions or any outstanding balances with the Company. The Company has only undertaken the obligation to pay life assurance premiums to some Directors.

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

The Company's Directors 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	Position held or performed in the aforementioned company	% shareholding in the company
Mr. José María Fariza Batanero	Employee	IBERIA, Líneas Aéreas de España, S.A.	Passenger air transport	Purchases and Services Director	0.002
Mr. Manuel López Colmenarejo	Employee	IBERIA, Líneas Aéreas de España, S.A.	Passenger air transport	Deputy Commercial and Customer Director	0.003
Mr. Jorge Pont Sanchez	Commercial	IBERIA, Líneas Aéreas de España,	Passenger air transport	Member of the Board of Directors	0.00005

		S.A.			
NEFINSA	Commercial Relationship	Air Nostrem Líneas Aéreas del Mediterráneo, S.A	Passenger air transport	Shareholder and Director	75.21

No situations of conflict of interest, either directly or indirectly, have been reported by the Directors 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 expenses or receive any subsidies relating to these risks in 2010 or 2009.

## 21. Guarantees extended to third parties

In addition to the deposits (see Note 9.2), 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 2010, the guarantees extended by the Company to aircraft lessors stood at 61,909 thousand euros at the exchange rate at the balance sheet date (47,452 thousand euros as at 31 December 2009), and the guarantees extended to ground handling companies, airports and for fuel purchases stood at 48,382 thousand euros (44,115 thousand euros as at 31 December 2009).

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

## 22. Auditors' Fees

In 2010 and 2009, 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	Thousands of Euros	
	2010	2009
Audit services	110	110
Other verification services	30	56
Total auditing and related services	140	166
Tax advice services	-	-
Other services	15	126
Total Professional Services	155	292

### **23. Comparative impact with IFRS**

Article 525 of the Capital Companies Act establishes that companies which have issued securities admitted to trading on a regulated market in any Member State of the European Union, and which, in accordance with current legislation, only publish individual financial statements, 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 2010 or in its income statement for the year ending on that date between the General Accounting Plan and the IFRS-EU.

### **24. Subsequent events**

On 21 January 2011, IBERIA, Líneas Aéreas de España, S.A. reported a significant event to the CNMV, informing that as of said date the Mercantile Register of Madrid has entered the deed of merger by takeover of IBERIA Líneas Aéreas de España, S.A and BA HOLDCO, S.A. on behalf of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. As a result thereof, as of said date, the 45.85% shareholding in the share capital of the Company held hitherto by IBERIA, Líneas Aéreas de España, S.A., is now owned by IBERIA, Líneas Aéreas de España, S.A. Operadora Sociedad Unipersonal.

The Board of Directors of the Company, following a favourable report from the Related Party Transactions Committee, approved an agreement with Iberia Líneas Aéreas de España, S.A. on 28 January 2011 whereby the Company shall increase the number of routes between Madrid and various Spanish cities and the rest of Europe, offering point-to-point services and connection services with Iberia. This increase in production shall temporarily increase the fleet based in Madrid by three aircraft. The sales of these flights shall be made via codesharing, sold both by the Company and by Iberia, as has been done hitherto for the rest of the Company network. The term of the agreement is for eight months, as of the start of operations, which may be extended and five A320 aircraft will be operated that will be leased by the Company for the same term as that of the agreement with Iberia. The operation is estimated to begin at the start of the second quarter of 2011.

On 16 February 2011, we received a request for information from the General Directorate of Labour and Social Security Inspections pertaining to the financial years 2007, 2008, 2009 and 2010.

## **Vueling Airlines, S.A.**

Management Report for the year ending  
31 December 2010

### **Business Performance and Company Position**

The Company Vueling Airlines S.A. was incorporated in Spain in accordance with the Capital Companies Act. The corporate purpose of the company is the operation and management of the business of regular air passenger transport, under the commercial name of Vueling.

Vueling was incorporated with the aim of becoming the first new generation European airline to combine two apparently contradictory ideas: the benefits of a low cost model and the highest standards of customer service.

The company has operated a large network of flights in 2010, which mostly connect its bases – located in Barcelona, Madrid, Seville, Malaga, Valencia and Bilbao – with domestic and international destinations all over Spain, Europe, North Africa and the Near East.

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

During 2010, the company has managed to consolidate the process of steady and profitable growth that had begun with the merger with Clickair in July 2009.

#### ***Activity and traffic***

Vueling carried 11,036,183 passengers in 2010. This represents an increase of 35% over the same period the year before. The company has operated 84,435 flights (35% more than 2009) with a load factor of 73%.

These traffic figures have enabled it to consolidate its leadership at El Prat airport in Barcelona with a 26% share. Moreover, Vueling continues to be the leading company at its bases in Bilbao, Seville and Ibiza.

#### ***Results***

Vueling has generated a net profit of 45.99 million euros in financial year 2010. This means a 66% increase over the year before (27.78 million €). The net margin was 5.7%, 1.1 points over that for 2009 (4.6%).

The net cash position of Vueling is of 207 million euros, with a debt of 23.9 million euros and total cash of 231 million euros at 31 December 2010.



## ***Income***

Vueling has achieved total revenue of 796.5 million euros in 2010. This amount represents an increase of 32% on the previous year. Revenue per fare accounts for 88% of the total whereas that weighting of ancillary costs is 12%. It is important to point out that revenue per fare has increased by 33% and that ancillary revenues have increased by 26%.

As a result of the increase in the amount of available flights (+35%) the number of passengers carried has increased by 35%. The revenue per available seat kilometre (RASK) stands at 5.87 eurocents.

## ***Expenses***

The increase in the price of fuel has been significant during 2010. The average price of fuel in 2010 was 724\$/Tm, whereas it was 567\$/Tm in 2009. This increase has had an important effect on the cost base of Vueling. As such, despite the fact that the hedging policy carried out by the company has helped to soften the impact of this price rise, the Costs per Available Seat Kilometre (CASK) have increased by 32% on the year before.

As for the remaining costs, the company has successfully implemented a cost reduction programme containing 92 cost optimisation initiatives. This efficient cost management has enabled the unit cost, excluding fuel, to stand at 4.07c€, equal to a 3% drop compared with the year before.

## ***Outlook***

Vueling plans to continue growing in the short term. In order to do so, it will add 6 new aircraft to its fleet in 2010 to meet the demands of the new bases in Amsterdam and Toulouse and the increase in routes and frequencies in current markets. Additionally, it will take over the connection operation for Iberia in Madrid with 5 aircraft during the period March-October, proving its connection capacity for traditional airlines. Overall, the company is expected to increase its number of flights and passengers by approximately 15%.

Furthermore, due to the tension currently experienced in North Africa, the price of fuel is expected to rise throughout 2011. The company will partially offset this price rise with its ongoing cost containment policy. However, it does not rule out a fare increase in order to transfer some of this cost to the passenger and thus maintain in 2011 a CASK at the same level as that for 2010.

A tougher competitive environment is expected in 2011 in the markets in which the company is active, especially in some of its main bases such as that of Barcelona El Prat. In order to counteract this effect, the company will continue to improve its business model, clearly different from that of its competitors, mainly through the ongoing improvement of the product and availability, in order to continue to be a benchmark in the Spanish and European markets, both for business and leisure passengers.

## ***Research and Development***

The Company has not performed any significant research and development in 2010.

## ***Risk and Uncertainty Policy and Management***

The management of the Company's financial risk is entrusted to the Financial Department and the Board of Directors who

have the required mechanisms in place to control the exposure to fluctuations in interest rates, exchange rates and fuel prices, as well as credit and liquidity risks. These are the main financial risks to which the Company is exposed:

***Credit risk***

With the exception of the transactions carried out to hedge against exchange risk and accounts receivable from aircraft suppliers, the Company has no significant concentrations of credit risk. Operations with currency derivatives are only carried out with financial institutions with high credit ratings. Sales to retail customers are made in cash or by credit card. Sales to travel agents are also made in cash or by credit card.

***Liquidity risk***

The Company applies a prudent management approach to liquidity risk mainly based on the maintenance of sufficient cash, temporary financial investments and negotiable securities, the availability of credit commitment financing and sufficient capacity to settle positions in the market.

Market risk includes price, interest rate and exchange risk.

The Company is exposed to the risk of aviation fuel prices. The Company has purchased financial 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 the aircraft (Note 5).

The Company is exposed to currency exchange risk, especially US dollars. The currency exchange risk arises from future commercial transactions, such as the purchase of fuel or the cost of aircraft operating leases. In order to control the exchange risk, the Company uses forward exchange contracts. The Financial Department of the Company is responsible for managing the net dollar position using derivative financial instruments.

The Company's risk management policy is based on hedging a given percentage of the currency requirements. As part of the management of the Budget, the Company is able to determine to a high degree of accuracy in the dates of the future payments in dollars. Therefore, almost all payments planned in dollars appear as firm commitments or highly probable transactions in terms of hedging instruments.

The Company is exposed to interest rate risk arising from the fleet operating lease agreements entered into in 2010 for aircraft to be added to the fleet after 31 December 2010, the lease payment of which shall be established at the interest rate in effect at the time that said aircraft are added to the fleet (estimated to be 6 months). In order to mitigate this risk, the Company has purchased interest rate swaps.

The Company keeps short-term interest paying assets by way of deposits at market rates. The income and cash flow from ordinary business activities of the Company are mostly immune to the variations in market interest rates.

Furthermore, given the low level of indebtedness of the Company, the risk associated with fluctuations in the interest rate to which such a debt is associated is not considered significant (all of the debt is linked to variable interest rates).

### **Treasury shares**

This heading, which reduces Equity as at 31 December 2010, in accordance with the presentation requirements established in the General Accounting Plan, 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 2010 accounts for 0.72% of the total issued capital at that date, compared with 0.72% as at 31 December 2009.

As at 31 December 2010, the Company had share commitments as detailed in Note 5.13 of the annual report, although these are not material. The Company's Board of Directors has not taken a decision about the final use planned for the treasury shares mentioned above.

### **Significant Events after the Balance Sheet Date**

On 21 January 2011, IBERIA, Líneas Aéreas de España, S.A. reported a significant event to the CNMV, informing that as of said date the Mercantile Register of Madrid has entered the deed of merger by takeover of IBERIA Líneas Aéreas de España, S.A and BA HOLDCO, S.A. on behalf of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. As a result thereof, as of said date, the 45.85% shareholding in the share capital of the Company held hitherto by IBERIA, Líneas Aéreas de España, S.A., is now owned by IBERIA, Líneas Aéreas de España, S.A. Operadora Sociedad Unipersonal.

The Board of Directors of the Company, following a favourable report from the Related Party Transactions Committee, approved an agreement with Iberia Líneas Aéreas de España, S.A. on 28 January 2011 through which the Company will increase the number of routes between Madrid and various Spanish cities and the rest of Europe, offering point-to-point services and connection services with Iberia. This increase in production will temporarily increase the fleet based in Madrid by three aircraft. Sales of these flights will be made via codesharing, sold both by the Company and by Iberia, as has been done hitherto in the rest of the Company network. The term of the agreement is for eight months, as of the start of operations, which may be extended and which uses five A320 aircraft that will be leased by the Company for the same term as that of the agreement with Iberia. The operation is estimated to begin at the start of the second quarter of 2011.

On 16 February 2011, we received a request for information from the General Directorate of Labour and Social Security Inspections pertaining to the financial years 2007, 2008, 2009 and 2010.

#### **Additional information in compliance with the provisions of Section 116 bis of the Securities Market Act**

Information relating to the Company's capital structure, restrictions on the transfer of shares, significant shareholdings, voting right restrictions, shareholder agreements, rules and powers applicable to the members of the management body and amendments to the Company's Articles of Association, and agreement between the Company and its directors, managers and employees is explained below:

##### a) Capital structure

The Company's share capital of €29,904,518 is fully subscribed and paid-up. It is made up of 29,904,518 shares, each with a par value of 1 euro. All of the shares are from the same class, with equal rights and obligations, and are admitted for trading on the Stock Markets of Barcelona, Madrid and Bilbao.

##### b) Restrictions on the transferability of shares

There are no statutory restrictions on the purchase or transfer of shares in the capital, and shares are thus freely transferable, notwithstanding compliance with government regulations (Air Navigation Act) and Community regulations (EEC 1008/2008) which establish that the ownership of an operating licence must be principally of a Community nature, and that the company shall therefore take the appropriate measures to ensure said compliance.

##### c) Significant shareholdings

The owners of significant direct and indirect shareholdings as at the Balance Sheet date are: Iberia Líneas Aéreas de España, S.A, which has a direct holding of 45.85%; Nefinsa, S.A., which has a direct holding of 4.15%.

##### d) Voting right restrictions

There are no legal restrictions to voting rights, although there are restrictions in the Articles of Association. No requirement or condition is necessary in order to attend the General Meeting and to exercise voting rights other than that the shareholder, individually or as a group with others, holds a minimum of 150 shares, which are recorded in the corresponding book entry five days prior to the Meeting.

##### e) Shareholder agreements

There are permanence agreements between two of the significant shareholders: Iberia Líneas Aéreas de España, S.A y Nefinsa, S.A.

f) Rules applicable to the appointment and substitution of Board members and amendments to the Articles of Association

The power to appoint and remove directors lies with the General Meeting of Shareholders, except in the case of vacancies covered by the co-optation system, which corresponds to the Board of Directors.

Proposals for appointments of Directors which the Board of Directors submits to the General Meeting of Shareholders and the appointment resolutions which said body adopts, by virtue of the powers of co-optation legally attributed to it, must respect the provisions of the Rules of the Board and follow from the corresponding report from the Appointments and Remuneration Committee.

External directors must be persons of recognised professional repute, competence, solvency and experience, who are willing to dedicate sufficient time and capacity to the Company. Especially strict criteria should be applied to those persons called to cover the positions of independent directors.

In particular, independent directors may not be persons who:

1. have been employees or executive directors of group companies, except following 3 or 5 years, respectively since leaving that position.
2. receive from the Company, or from its group, any amount or benefit for any item other than their remuneration as director, unless this is not material. For the purposes of the provisions of this section, the following shall not be taken into account: dividends or pension supplements which directors receive based on their previous professional or work relationship, providing these supplements are unconditional and, therefore, the company which pays them may not, at its discretion, suspend, modify or revoke their payment without breaching its obligations.
3. are, or have been during the last 3 years, a partner of the external auditor or responsible for the auditors' report, whether of the audit of the listed Company during that period or of any other group company.
4. are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director. Maintain, or have maintained over the last year, a significant business relationship with the Company or any group company, whether on their own behalf or as a significant shareholder, director or senior manager of a company which maintains or which has maintained that relationship.

Business relationships are those of suppliers of goods and services, including financial services, advisory services or consultants.

5. are significant shareholders, executive directors or senior managers of a company which receives, or has received over the last 3 years, significant donations from the Company or its group. Simple patrons of a Foundation which receives donations shall not be included in this category.
6. are spouses, persons linked by any similar affective relationship, or up to second level relatives of an executive director or senior manager in the Company.
7. have not been proposed, whether for appointment or re-election, by the Appointments and Remuneration Committee.
8. are in any of the cases indicated in letters a), b), d), e) or f) above with regard to any significant shareholder or one represented on the Board. In the case of a relative indicated in letter f), the limitations are not only to be applied with regard to the shareholder, but also with regard to the directors representing major shareholders in the subsidiary.

Proposals for re-electing directors which the Board of Directors decides to submit to the General Meeting must be subject to a formal preparation process, which must include a report issued by the Appointments and Remuneration Committee which assesses the quality of the director's work and the dedication to the position during their term.

Independent Directors may not remain in their position for a continuous period greater than twelve (12) years. The same rule shall be applied in cases of discontinuous tenure, if the discontinuity is less than two (2) consecutive years.

In accordance with the provisions of Article 11 of the Rules of the Board of Directors, Directors will finish their term when the period for which they were appointed ends, or when so decided by the General Meeting.

Their term shall also end when there is a commitment from the Director to make his/her Position available to the Board, and when the Director resigns in the cases in which Directors are obliged to resign in accordance with Section B.1.20 of the Corporate Governance Report.

The cases in which Directors are obliged to resign before the end of the corresponding period shall be reported in the Annual Corporate Governance Report, without prejudice to the dismissal or removal being reported to be Spanish Securities Market Commission.

Under no circumstances shall the Board of Directors propose the removal of any Independent Director before the end of the period established in the Articles of Association for which the Director has been appointed, except when there is just cause. Just cause shall be understood as any of the cases which require the Director to resign as assessed by the Board of Directors following a report from the Appointments and Remuneration Committee. This is without prejudice to the proposals for removal of directors in the event of tender offers, mergers or other similar company transactions which involve a change in the company's capital structure.

All the provisions of this article shall be applicable in the cases of representatives of legal entity Directors. Similarly, a Director who is appointed as representative of a legal entity shall be removed from the position when their relationship with the legal entity terminates for any reason.

The rules applicable for amendments to the Articles of Association are included in Sections 285 to 294 of the Public Limited Companies Act, and in Article 14 of the Articles of Association, which simply establish the required quorum of the General Meeting of Shareholders in the terms established in the legislation.

g) Powers of the members of the Board of Directors and particularly those relating to the possibility to issue or repurchase shares

The General Meeting of Shareholders held on 28 May 2010 resolved to substitute, and leave without effect, for the unused amount, the authorisation granted to the Board for the share buyback approved in the General Meeting of Shareholders held on 5 May 2009

Based on the share price and the time which has passed, on 28 May 2010, the General Meeting of Shareholders approved a new authorisation for the Board for the processes in which it is necessary to use treasury shares, basically to meet specific commitments for giving shares to directors and employees as part of their general remuneration plans and in accordance with Section 146 of the Capital Companies Act.

Hence, the Board of Directors is authorised to buy back shares in the following terms:

- 1) The purchase may be carried out by any legally admitted means, in one or several transactions, provided the face value of the purchased shares, directly or indirectly, added to those already held by the purchasing entity and its subsidiaries and, if applicable, the controlling company and its subsidiaries, does not exceed 20 per cent.
- 2) The purchase, including shares that the Company or person acting in his own name but on behalf thereof, should have previously purchased and held in the portfolio, may be carried out provided it does not lead to the net equity falling below to the amount of the share capital plus the legally or statutory unavailable reserves. To this end, net equity shall be understood as the amount considered as such in the financial statements, reduced by the amount of the profit directly allocated thereto and increased by the amount of uncalled subscribed share capital, as well as the amount of face value and issue premiums of the subscribed share capital that is recorded as liabilities in the accounts
- 3) the shares have been fully paid up.
- 4) the authorisation shall be in effect for 5 years from the day following the resolution.
- 5) the minimum acquisition price shall be 1 euro per share, and the maximum price shall be 105% of the closing share price in the continuous market on the day in which the transaction is performed, with the acquisition transactions meeting the rules and uses of the stock markets.

It is expressly stated that the shares which are acquired as a consequence of this authorisation may:

- be disposed of or redeemed, or used as part of the remuneration systems referred to in Sub-Section 1 of Section 146 of the Capital Companies Act.
- be given to the beneficiaries of the Remuneration Plan or Plans for the Company's managers and employees

The Board is authorised to exercise these powers and may delegate them to the Delegated Executive Committee, the Chairman, the Chief Executive Officer, the Secretary, the Vice-Secretary or any other person which the Board considers appropriate

h) The Company's significant resolutions which enter into effect, are modified or terminate in the event of a change of control in the Company resulting from a takeover bid and its consequences, except when disclosure would seriously damage the Company

The Company has not adopted any agreement which enters into effect, is modified or terminates in the event of a change in control resulting from a takeover bid.

i) Agreements between the Company and its directors, executives or employees that provide for severance pay upon their resignation or unfair dismissal or in the event that the employment relationship terminates on the grounds of a takeover bid.

The Company has agreements with its CEO and three senior executives which establish severance pay upon termination of their various offices

During financial year, 2010 no termination of an employment relationship with any senior executive has been agreed.

### Annual Corporate Governance Report

See attached documentation.

Barcelona, 25 March 2011

 Mr. Josep Piqué Camps Chairman	 Mr. Álex Cruz de Llano Managing Director
Mr. Daniel Villalba Vila Director	 Mr. Enrique Donaire Rodríguez Director
 Ms. Isabel Marín Laplana Director	 Mr. Jaime Manuel de Castro Fernández Director
 Mr Jorge Pont Sánchez Director	 Mr. Jose Maria Fariza Batanero Director
 Mr Manuel López Colmenarejo Director	 Mr Miguel Angel Fernández Villamandos Director
 Mr. Carlos Bertomeu Martínez Representing NEFISA, S.A. Director	 Mr Pedro Jesús Gómez Director

# **ANNUAL REPORT ON CORPORATE GOVERNANCE**

## **LISTED PUBLIC LIMITED COMPANIES**

### **COMPANY PROFILE**

FINANCIAL YEAR-END DATE: 31/12/2010

VAT NUMBER: A-63422141

Corporate name: VUELING AIRLINES, S.A.



## MODEL OF ANNUAL REPORT ON CORPORATE GOVERNANCE OF LISTED PUBLIC LIMITED COMPANIES

For a better understanding of the model and subsequent preparation thereof, it is important to read the instructions on filling out the form which appear at the end of this report.

### A- STRUCTURE OF OWNERSHIP

A.1. Complete the following table on the share capital of the company:

Date of last modification	Share capital (euros)	Number of shares	Number of votes
15/05/2009	29,904,518.00	29,904,518	29,504,518

Indicate whether there are different types of shares with different kinds of rights attached thereto:

NO

A.2 Provide details on the direct and indirect holders of significant shareholdings, of your company at closing date, excluding directors:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights	% on total voting rights
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	13,711,221	0	45.850

Indicate most significant movements in the shareholding structure during the financial year:

Name or company name of shareholder	Date of operation	Description of operation
JP MORGAN ASSET MANAGEMENT HOLDING INC	09/02/2010	Reduction from the 3% share capital
FIDELITY FUNDS SICAV (1990 45 00693)	08/02/2010	Exceeded 3% of share capital
FIDELITY FUNDS SICAV (1990 45 00693)	06/05/2010	Reduction from 3% share capital
FIDELITY INTERNATIONAL LIMITED	06/05/2010	Reduction from 3% share capital

A.3. Complete the following tables on the members of the Board of Directors of the Company who own shares with voting rights in the company:

Name or company name of director	N° of direct voting rights	N° of indirect voting rights	% on total voting rights
MR JOSEP PIQUÉ CAMPS	15,050	24,950	0.134
MR ALEX CRUZ DE LLANO	5,000	0	0.017
MR DANIEL VILLALBA VILA	0	0	0.00
MR ENRIQUE DONAIRE RODRIGUEZ	0	13,483	0.045
MS ISABEL MARÍN LAPLANA	10	0	0.000
MR JAIME MANUEL DE CASTRO FERNÁNDEZ	2	0	0.000
MR JORGE PONT SANCHEZ	0	0	0.000
MR JOSE MARIA FARIZA BATANERO	0	0	0.000
MR MANUEL LOPEZ COLMENAREJO	0	0	0.000
MR MIGUEL ANGEL FERNANDEZ VILLAMANDOS	0	0	0.000
NEFINSA, S.A.	1,241,038	0	4.150
MR PEDRO JESUS MEJIA GOMEZ	0	0	0.000

<b>% of total voting shares held by the Board of Directors</b>	<b>4.346</b>
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Fill out the following tables on the members of the Board of Directors of the company that hold voting shares in the company:

A.4. Indicate, if any, relationships of a family, commercial, contractual or corporate nature existing among the holders of significant shareholdings, insofar as these are known by the company, unless they are of little relevance or arise from the ordinary traffic or course of business:

A.5. Indicate, if any, relationships of a family, commercial, contractual or corporate nature existing among the holders of significant shareholdings, and the company and/or its group, unless they are of little relevance or arise from the ordinary traffic or course of business:

**Type of relationship:**

Commercial

**Brief description:**

Code share agreement

<b>Related name or company name</b>
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.

**Type of relationship:**

Commercial

**Brief description:**

Iberia Plus Customer Loyalty Programme

<b>Related name or company name</b>
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.

**Type of relationship:**

Contractual

**Brief description:**

Maintenance contract

<b>Related name or company name</b>
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.

**Type of relationship:**

Contractual

**Brief description:**

Ground handling

Related name or company name
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.

A.6. Indicate whether the company has been informed of any shareholder agreements that might affect what is established in article 112 of the Securities Market Law. If any, provide brief description and list shareholders affected by the agreement:

YES

**% share capital affected:**

50

**Brief description of agreement:**

Permanence agreement with NEFINSA, S.A.

Parties involved in the shareholder agreement
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.
NEFINSA, S.A.

Indicate whether the company is aware of the existence of subsidised activities among its shareholders. Describe briefly if any.

NO

In the event that a modification or termination of any such agreements or subsidised activities should have taken place during the year, please expressly indicate:

A.7. Indicate whether there is an individual or corporate entity that exercises or might exercise control over the company in accordance with article 4 of the Securities Market Law. If any, please indicate:

NO

A.8. Complete the following tables on the company's portfolio:

At closing date of financial year:

<b>Number of direct shares</b>	<b>Number of indirect shares (*)</b>	<b>%total of share capital</b>
216,083	0	0.722

(\*): via:

<b>Total</b>		0
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Breakdown of significant variations, in accordance with what is provided for in Royal Decree 1362/2007 carried out during the financial year:

<b>Capital gains (losses) of own shares sold during the period (thousands of euros)</b>	0
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A.9. Breakdown of the conditions and term of current mandate of the Board of Directors Meeting to carry out purchases or sales of own shares.

In the General Meeting of Shareholders held on 28 May 2010 it was agreed to render the authorisation of the Board of Directors to acquire own shares agreed by the General Meeting of Shareholders on 5 May 2009, ineffective with regard to the part not used.

On the basis of shares traded and the time lapsed, the General Meeting of Shareholders agreed on 28 May 2010 a new authorisation for the Board to carry out whatever actions were necessary to sell own shares; this was basically to enable fulfilment of the specific obligations that may be undertaken with regard to the delivery of shares to directors and employees, as part of the general remuneration plan thereof and in accordance with article 75 of the Consolidated Text of the Law on Public limited Companies.

The Board of Directors is therefore authorised to purchase own shares according to the following conditions:

- a) the acquisition may be made by any legal method, via one or several transactions, so long as the shares purchased, added to those already owned by the Company, do not exceed 10 per cent of the share capital of the company, in conjunction, as the case may be, with those of other shares within the same group.
- b) the acquisition, including the shares that the company, or person acting on his own behalf but in the name of the company, should have acquired previously and now own, may be carried out provided the effect thereof does not cause the value of the net equity to fall below that of the share capital plus the legal or statutory restricted reserves. For the purposes herein, net equity is understood to be the amount established as such in accordance with the criteria used to prepare the annual accounts, reduced by the amount of profit allocated directly thereto, and increased by the amount of uncalled subscribed share capital, as well as by the face value and the value of the issue premiums of subscribed share capital that has been recognised as a liability.

- c) the shares are fully paid up.
- d) the effective term of the authorisation shall be of 5 years as of the date following the agreement.
- e) The minimum purchase price shall be of 1 euro per share, and the maximum price shall be 105% of the closing price for the share as traded on the electronic market on the day of the transaction, such purchase transactions being adjusted to the rules and regulations of the securities markets.

It is hereby expressly stated that shares purchased as a result of this authorisation may:

- be used for sale or amortisation, as well as for the application of the remunerative systems considered in the third paragraph of section 1 of Article 75 of the Law on Public Limited Companies.
- be expressly used in full or in part to be given to the beneficiaries of the Remuneration Plan or Plans for Company executives and employees.

The Board is hereby empowered for the exercise of the above, with the ability to delegate such powers to the Chairman, the Managing Director, the Secretary, the Deputy Secretary or any other person with the scope deemed appropriate by the Board of Directors.

A-10. Indicate, as the case may be, the legal and statutory restrictions on the exercise of the voting rights, as well as legal restrictions on the purchase or transfer of stakes in the share capital. Indicate whether legal restrictions exist on the exercise of voting rights:

NO

<b>Maximum percentage of voting rights that a shareholder may exercise by legal restriction</b>	<b>0</b>
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Indicate whether there are statutory restrictions to the exercise of voting rights:

YES

<b>Maximum percentage of voting rights that a shareholder may exercise by statutory restriction</b>	<b>0.000</b>
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<b>Description of the legal and statutory restrictions on the exercise of voting rights</b>
In accordance with what is contained in the Articles of Association, the only requirements or condition to admit attendance to the General Meeting of Shareholders is that, either individually or jointly with others, the holder should own 150 shares and that said ownership is recorded in the pertaining book entry system five days in advance of the date of the General Meeting.

Indicate whether there are legal restrictions on the purchase or transfer of company shares:

YES

<b>Description of the legal restrictions on the purchase or transfer of company shares</b>
<p>There are no statutory restrictions to the purchase or transfer of company shares, thus rendering the shares freely transferable, notwithstanding compliance with Government (Air Navigation Act) and EU Regulation (EEC 2407/1992) which establish that the ownership of an operating licence must be majority owned by an EC Member State; the company must thus take the appropriate measures to ensure compliance therewith.</p> <p>With regard to airlines owning operating licences, Article 86 of Law 14/2000 of 29 of December on Fiscal, Administrative and Social Measures, provides that:</p> <p>“When incorporated as a corporation, the share capital of Spanish airlines owning an operating licence granted in accordance with Regulation EEC 2407/92 of the Council on the 23 July, shall be represented by nominative shares or stocks expressly stating the nationality of the shareholder.</p> <p>When an airline of the type mentioned above becomes aware, through the records of shareholders to which it has access, that by reason of the percentage of shares directly or indirectly owned by foreign individuals or corporations, there exists a risk to the holding of the operating licence or to the exercise of the rights of air traffic arising from bilateral air agreements entered into by Spain, it must report this fact to the governing boards of the Stock Exchanges and the National Securities Market Commission [Spanish acronym: CNMV], for the purposes of due publication thereof and that said institutions should inform the investment services companies and credit institutions providing investment services of this fact. Likewise, this fact shall also be reported to the Ministry of Public Works via the General Directorate of Civil Aviation. Once this fact has been appropriately reported, no purchase or transfer of shares may take place by foreign individuals or corporations, if this is not accompanied by a certificate issued by the board of directors of the airline certifying that said purchase or transfer does not exceed the limits established by Community regulations or bilateral air agreements entered into by Spain in matters of air traffic, for the purposes of proving its status as a Spanish airline.</p> <p>In the event that the airline becomes aware of a purchase or transfer which, in direct breach of what is provided for in the foregoing paragraph, effectively endangers the requirements provided for in the abovementioned legislation and agreements, the board of directors of the company may proceed with the purchase of the shares in question for the eventual amortisation thereof which shall be performed at the market price on the date of the inappropriate purchase of the shares or the theoretical book value of such shares according to the last audited and published balance sheet of the company in accordance with its status as a listed company, whichever is the lowest. In the latter case, and until the transfer to the company is materially carried out, the Board of Directors may decide to suspend the voting rights inherent to such shares.</p>

A.11 Indicate whether the General Meeting has agreed to take steps of neutralisation in the face of a takeover bid in accordance with what is provided for in Law 6/2007.

NO

If any, explain the steps approved and the terms under which the restrictions will be rendered ineffective:

## **B – ADMINISTRATIVE STRUCTURE OF THE COMPANY**

B.1. Board of Directors.

B.1.1. Provide details on the maximum and minimum number of directors provided for in the Articles of Association:

<b>Maximum number of directors</b>	<b>15</b>
<b>Minimum number of directors</b>	<b>7</b>

B. 1.2. Fill out the table below with the members of the Board:

<b>Name or company name of director</b>	<b>Representative</b>	<b>Position on the Board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
JOSEP PIQUÉ CAMPS	-	CHAIRMAN	12/11/2007	15/07/2009	VOTING IN SHAREHOLDERS MEETING
ALEX CRUZ DE LLANO	-	MANAGING DIRECTOR	26/03/2010	26/03/2010	COOPTION
DANIEL VILLALBA VILA	-	DIRECTOR	15/07/2009	15/07/2009	VOTING IN SHAREHOLDERS MEETING
ENRIQUE DONAIRE RODRIGUEZ	-	DIRECTOR	15/07/2009	15/07/2009	VOTING IN SHAREHOLDERS MEETING
ISABEL MARÍN LAPLANA	-	DIRECTOR	26/03/2010	26/03/2010	COOPTION
JAIME MANUEL DE CASTRO FERNÁNDEZ	-	DIRECTOR	26/03/2010	26/03/2010	COOPTION
JORGE PONT SÁNCHEZ	-	DIRECTOR	15/07/2009	15/07/2009	VOTING IN SHAREHOLDERS MEETING
JOSE MARIA FARIZA BATANERO	-	DIRECTOR	15/07/2009	15/07/2009	VOTING IN SHAREHOLDERS MEETING
MANUEL LOPEZ COLMENAREJO	-	DIRECTOR	15/07/2009	15/07/2009	VOTING IN SHAREHOLDERS MEETING
MIGUEL ANGEL FERNANDEZ	-	DIRECTOR	15/07/2009	15/07/2009	VOTING IN SHAREHOLDERS MEETING



Name or company name of director	Representative	Position On the Board	Date of first appointment	Date of last appointment	Election procedure
VILLAMANDOS					SHAREHOLDERS
NEFINSA, S,A,	CARLOS BERTOMEU MARTINEZ	DIRECTOR	15/07/2009	15/07/20090	VOTING IN SHAREHOLDERS MEETING
PEDRO JESUS MEJIA GOMEZ	-	DIRECTOR	15/07/2009	15/07/2009	VOTING IN SHAREHOLDERS MEETING

<b>Total number of directors</b>	<b>12</b>
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Indicate dismissals/resignations that have taken place during the period in the Board of Directors:

Name or company name of director	Status of director at time of dismissal/resignation	Date of dismissal/resignation
JORDI FAINÉ GARRIGA	Director representing significant shareholders	19/02/2010
FERRÁN CONTI PENINA	Another external director	19/02/2010
JOSÉ CREUHERAS MAGENAT	Director representing significant shareholders	19/02/2010

B.1.3. Fill out the following tables on the directors and their positions:

#### EXECUTIVE DIRECTORS

Name or company name of director	Committee proposing appointment	Position in organisation chart of the company
ALEX CRUZ DE LLANO	APPOINTMENTS AND REMUNERATION COMMITTEE	CEO

<b>Total number of executive directors</b>	<b>1</b>
<b>% of board</b>	<b>8,333</b>

Name or company name of director	Committee proposing appointment	Position in organisation chart of the company
ENRIQUE DONAIRE RODRIGUEZ	APPOINTMENTS AND REMUNERATION COMMITTEE	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.
JORGE PONT SANCHEZ	APPOINTMENTS AND REMUNERATION COMMITTEE	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.
JOSE MARIA FARIZA BATANERO	APPOINTMENTS AND REMUNERATION COMMITTEE	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.
MANUEL LOPEZ COLMENAREJO	APPOINTMENTS AND REMUNERATION COMMITTEE	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.
NEFINSA, S.A.	APPOINTMENTS AND REMUNERATION COMMITTEE	NEFINSA, S.A.

<b>Total number of directors representing significant shareholders</b>	<b>5</b>
<b>% of board</b>	<b>41,667</b>

#### INDEPENDENT EXTERNAL SHAREHOLDERS

##### Name or company name of director

JOSEP PIQUÉ CAMPS

##### Profile

Josep Piqué I Camps is a Graduate and a Doctor in Economic and Business Science and Graduate in Law from the University of Barcelona. He was the Director General of Industry between 1986 and 1988. In 1988, he left the Administration to join ERCROS where he eventually became CEO and Chairman. In 1992 he was appointed as Vice-Chairman of the Circle of Economics of Barcelona, and in 1995 he became its Chairman. In May 1986 he was appointed Minister for Industry and Energy. At the end of 1988 he combined his functions as State Secretary for Industry with that of Government Spokesperson and was Minister of Foreign Affairs from 2000 to 2002 and Minister of Science and Technology from 2002 to 2003. He was also president of the Popular Party of Catalonia, a Member of Parliament and Senator, positions which he left to devote his attention full-time to the business world.

##### Name or company name of director

DANIEL VILLALBA VILA

##### Profile

Daniel Villalba Vila is a Graduate in Economic Science from the Faculty of Economic Science of the Central University of Barcelona and a Doctor in Economic Science from the Faculty of Economic Science of the Autonomous University of Madrid. A Master of Science in Operations Research, from the University of Stanford (California, USA), a Master of Science in Business Administration from the University of Massachusetts (Massachusetts, USA) and Professor of Business Economics at the Autonomous University of Madrid. He has been the chairman of various companies: Inverban SVB, S.A. (1989-1992), Chairman of Transoleo, S.A. (1992-2000) and of Regasificación y Equipos, S.A. (REGASA) (1994-2005). He has been director of Inverban SVB, S.A. since 1990, as well as of the securities company of La Caixa (50%) and Caja Madrid (50%). Currently Caja Madrid Bolsa, Board

of the Stock Exchanges of Madrid and Barcelona. He is also currently the Chairman and CEO of GESIF, S.A. and independent director of the board of ABENGOA, S.A.

**Name or company name of director**

ISABEL MARÍN LAPLANA

**Profile**

A businesswoman, always linked with the area of public opinion formation (Head of PR and Protocol for Motor Ibérica, S.A. (currently Nissan) from 1971 to 1979. Director of Communication for HUSA from 1979 to 1981 and Director of Institutional Communication for Feria de Barcelona from 1981 to 1985 etc. She is currently the Managing Director of Atkinson y Asociados and CEO of Atkinson, Bermúdez y Asociados. She is Patron for the Fundación Conocimiento y Desarrollo (CYD) and of the Foundation “Catalunya Europa”, co-author of various works on communication and several papers, such as “Businesses and the media: a happy relationship”. “Communication and Profitability”, “Company Credibility in the Post Enron era” and “The Value of Communication in projects of Corporate Reputation”.

**Name or company name of director**

JAIME MANUEL DE CASTRO FERNÁNDEZ

**Profile**

A Graduate of Law from the Faculty of Law of Santiago de Compostela in 1965, a Doctor in Law from the Central University of Barcelona. Court Secretary in Tuy from 1970 to 1971. A court of first instance judge in Los Llanos de Ariadne (Tenerife) in 1971 and in Vic from 1972 to 1978. An Associate Professor of the Procedural Law chair Duran i Bas, in the Central University of Barcelona (1980). A Member of the Legal Advisory Committee in the Regional Government of Catalonia from 1983 to 2006. A Notary of the Illustrious College of Notaries of Catalonia since 1978, a Permanent Académician of the Royal Academy of Doctor in, 1997. Holder of the Cross of Honour of the Order of San Raimundo de Peñadort, 2001.

**Name or company name of director**

MIGUEL ANGEL FERNANDEZ VILLAMANDOS

**Profile**

A Graduate in Economic Science from the University of Bilbao and the University of Valladolid and Labour Relations specialist from the University of Oviedo. He has occupied top management positions in various companies of the General Electric Asea-Brown Boveri Group, S.A. (1992-1998), Compañía Transmediterránea. S.A. (1998-2004), Acciona S.A. (2004-2006) and Eis – Marítimo, SA. He has been director of several companies of the General Electric Asea-Brown Boveri Group, S.A and Compañía Transmediterránea S.A. He is currently the Chairman of the company Explotaciones y Desarrollos de México, S.L.

**Name or company name of director**

PEDRO JESUS MEJIA GOMEZ

**Profile**

A Graduate in Economic Science and Business Administration from the Complutense University of Madrid (1976). Trade specialist and Government economist (1979). Over 30 years experience working in international environments in economics, international finance, energy, trade and tourism, in positions of responsibility both in the public and private sectors. Until April 2008, Secretary of State for Trade and Tourism, Chairman of the Board of Directors of the Spanish Institute of Foreign Trade (ICEX), of the Institute of Tourism of Spain (TURESPAÑA) and of INTERES, a Spanish agency attracting investment. He has given courses at the University Carlos III (Madrid) and lectures in Georgetown University, American University and MIT (USA).

<b>Total number of independent directors</b>	<b>6</b>
<b>% of board</b>	<b>50,000</b>

## OTHER EXTERNAL DIRECTORS

Provide details about the reasons why they may not be considered representatives of significant shareholders or independent, and their relationships with the company and its management or with its shareholders.

Indicate variations which, if any, have taken place during the period in the typology of each director:

B.1.4. Explain, if any, the reasons whereby directors representing significant shareholders have been appointed at the request of shareholders with less than 5% of the capital.

Indicate instances of refusals of formal requests of attendance at the Board from shareholders with a holding that is equal or larger than that of others whose holdings would have merited the appointment of a representative on the board. If any, explain the reasons why such requests have been refused.

NO

B.1.5. Indicate whether any director has resigned from his post before the end of his mandate, whether said director has provided the reasons and through which channel to the Board and, in the event of having done so in writing to the whole Board, please explain at least the reasons given.

YES

Name of director  
MR FERRÁN CONTI PENINA  
Reason for termination  
Resignation

Name of director  
MR JORDI FAINÉ GARRIGA  
Reason for termination  
Resignation

Name of director  
MR JOSÉ CREUHERAS MAGENAT  
Reason for termination  
Resignation

B.1.6. Indicate, if any, the powers granted to the CEO/s:

**Name or company name of CEO**

ALEX CRUZ DE LLANO

**Brief description**

The CEO can exercise all the powers that legally and statutorily pertain to the Board of Directors, except for those which cannot be delegated.

B.1.7. Identify, if any, the members of the board who have positions as directors or executives in other companies forming part of the group of the listed company:

B.1.8. Provide details, if any, of the directors of your company who are members of the Board of Directors of other companies listed on official securities markets in Spain other than your group, that have been reported to the company:

Name or company name of the director	Company name of listed company	Position
MR JOSEP PIQUÉ CAMPS	BOADCLICK, S.A.	DIRECTOR
MR DANIEL VILLALBA VILA	ABENGOA, S.A.	DIRECTOR
MR JORGE PONT SÁNCHEZ	IBERIA LINEAS AEREAS DE ESPAÑA S.A.	DIRECTOR
MR JOSE MARIA FARIZA BATANERO	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	DIRECTOR
NEFINSA, S.A.	URALITA, S.A.	DIRECTOR

B.1.9. Indicate and, as the case may be, explain whether the company has established rules on the number of boards its directors can be members of:

YES

Explanation of rules
Directors may not be members or belong to more than five (5) boards of directors, either individually or collectively, of businesses listed on Stock Exchanges.

B.1.10 With regard to recommendation number 8 of the Unified Code, indicate the general policies and strategies of the company that the Board in full has agreed to approve:

Investments and financing policy	YES
Definition of the structure of the group of companies	YES
Corporate governance policy	YES

Social corporate responsibility policy	YES
Strategic business plan, as well as management targets and annual budgets	YES
Policy of remuneration and performance assessment of senior managers	YES
Policy of risk management and control, as well as regular monitoring of internal information and control systems	YES
Dividends policy, as well as own portfolio and, specifically, the limits thereon	YES

B.1.11 Fill in the following tables with regard to the aggregate remuneration of the directors accrued during the financial year:

a) In the company subject to this report:

<b>Remuneration</b>	<b>Figures in thousands of euros</b>
Fixed remuneration	1,457
Variable remuneration	0
Per diems	0
Statutory benefits	0
Share options and/or other financial instruments	0
Other	0
<b>Total</b>	<b>1,457</b>

<b>Other benefits</b>	<b>Figures in thousands of euros</b>
Advances	0
Loans granted	0
Pension funds and plans: contributions	0
Pension funds and plans: obligations undertaken	0
Life insurance premiums	0
Guarantees from the company in favour of directors	0

- b) Regarding i company directors belonging to other boards of directors and/or top management of group companies:

<b>Remuneration</b>	<b>Figures in thousands of euros</b>
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Statutory benefits	0
Share options and/or other financial instruments	0
Other	0
<b>Total</b>	<b>0</b>

<b>Other benefits</b>	<b>Figures in thousands of euros</b>
Advances	0
Loans granted	0
Pension funds and plans: contributions	0
Pension funds and plans: obligations undertaken	0
Life insurance premiums	0
Guarantees from the company in favour of directors	0

- c) Total remuneration per category of director:

<b>Category of director</b>	<b>By company</b>	<b>By group</b>
Executives	495	0
External representatives of shareholders	297	0
External independent	665	0
Other external directors	0	0

Total	1,457	0
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d) With regard to the profit attributed to the controlling company

<b>Total remuneration of directors (in thousands of euros)</b>	1,457
<b>Total remuneration of directors/profit attributed to the controlling company (expressed as a %)</b>	0.0

B.1.12 Identify the senior managers that are not executive directors, and indicate total remuneration accrued by them during the year:

<b>Name or company name</b>	<b>Position</b>
LUIS GALLEGO MARTÍN	DIRECTOR OF PRODUCTION
SILVIA MOSQUERA GONZÁLEZ	DIRECTOR OF ROUTES, INCOMING FLIGHTS AND STRATEGIES
ANTONIO GRAU FOLGERA	CORPORATE DIRECTOR
LLUIS PONS ARGIMON	MARKETING DIRECTOR
JUAN CARLOS IGLESIAS GARCÍA	SALES DIRECTOR
<b>Remuneration of senior management (in thousands of euros)</b>	<b>1,228</b>

B.1.13 Identify in aggregate form whether there are guarantee or protection clauses for situations of dismissal or changes in control in favour of senior managers, including CEOs, of the company or the group. Indicate whether these contracts must be reported and/or approved by the company or group governance bodies:

<b>Number of beneficiaries</b>	<b>5</b>
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	<b>Board of directors</b>	<b>General meeting</b>
Body authorising clauses	YES	NO

<b>Is the general meeting informed of clauses?</b>	<b>NO</b>
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B.1.14 Indicate the process for establishing the remuneration of the members of the Board of Directors and the relevant statutory clauses thereof.

<b>Process for establishing the remuneration of members of the Board of Directors and statutory clauses</b>
<p>Article 24.2 of the Articles of Association establishes that the fixed remuneration of directors will be approved for each financial year by the General Meeting of Shareholders. The Directors may be paid by means of payments linked to shares, by share options, shares or company debentures. This remuneration system will require the agreement of the General Meeting, in accordance with article 130.2 of the Consolidated Text of the Law on Public limited Companies and the regulations that are applicable from time to time.</p> <p>The Regulations of the Board of Directors establish in this regard in article 25 that:</p> <ul style="list-style-type: none"> <li>i) Directors shall have the right to receive remuneration established by the General Meeting of Shareholders and by the Board in accordance with statutory provisions. The Board shall approve, on an annual basis for presentation to the General Meeting, a remuneration policy for the Directors. Likewise, the Board shall submit to the General Meeting, on a consultation basis and as a separate item on the agenda, a report on the remuneration policy of Directors, which shall be made available to shareholders in the manner that the Company deems appropriate,</li> <li>ii) The Board shall endeavour to ensure that the remuneration of Directors is in accordance with criteria of moderation and in line with the results and forecasts of the Company.</li> <li>iii) The right to remuneration by the Directors discussed herein shall be independent from the right of remuneration of Directors who provide professional services to the Company or the companies in the Group.</li> <li>iv) The remuneration of Directors shall be fully transparent. The amount of the remuneration received shall be contained in the Annual Report, including the delivery or allocation of shares, share options or systems linked to share value.</li> <li>v) The approval of guarantee or protection clauses in the cases of dismissal or changes of control, in favour of Company directors, shall be subjected to the approval of the Board.</li> <li>vi) The Board shall take whatever measures are available to ensure that the remuneration of Independent Directors offers incentives for their dedication, without compromising their independence.</li> </ul>

Indicate whether the Board in full has reserved approval on the following decisions.

<b>At the request of the chief executive of the Company, the appointment and eventual dismissal of senior management, as well as severance clauses</b>	YES
<b>The remuneration of directors, as well as, in the case of executives, the additional remuneration for executive duties and other conditions that must be respected in their contracts.</b>	YES

B.1.15. Indicate whether the Board of Directors approves a detailed remuneration policy and specify the issues on which it expresses an opinion:

YES

<b>Amount of fixed components, with breakdown, if any, of the per diems for participation in the Board Meeting and Committees and estimate of the resulting annual fixed remuneration</b>	YES
<b>Remuneration items of a variable nature</b>	NO

<b>Main characteristics of pension systems, with an estimate of the amount or equivalent cost per year</b>	NO
<b>Conditions that must be respected by the contracts of whoever performs senior management duties such as executive directors</b>	NO

B.1.16 Indicate whether the Board submits to voting by the General Meeting, as a separate point on the agenda, and on a consultation basis, a report on the remuneration policy of the directors. As the case may be, explain the aspects of the report regarding the remuneration policy approved by the Board for future years, the most significant changes made to such policies during the year and an overall summary of how said remuneration policy has been applied throughout the financial year. Provide details on the role played by the Remuneration Committee and if external advice has been used, the identity of such external advisers:

YES

<b>Issues discussed in the remuneration policy</b>
<p>The General Meeting of Shareholders held on 28 May 2010, in accordance with what is provided for in the aforementioned article 24.2 of the Articles of Association, agreed the fixed remuneration of the members of the Board of Directors during the financial year. Likewise, and pursuant to article 25 (right to remuneration) of the Regulations of the Board of Directors, the latter approves the Director remuneration policy every year, and attaches it to the report which is subjected – on a consultation basis – and made available to the General Meeting. Said report contains the proposed remuneration for Directors in the year 2010.</p> <p>The General Meeting of Shareholders of 28 May 2010 agreed to modify the remuneration system and establish for 2010 a total remuneration for the Board of Directors of a maximum of 1,000,000 euros. This amount does not include fixed or variable remuneration received by the CEO of the Company for his role played therein.</p>

<b>Role played by the Remuneration Committee</b>
See point B.2.3.i)

<b>Have external advisory services been used?</b>

<b>Identity of the external advisers</b>

B.1.17. Indicate, as the case may be, the identity of the Directors who are, simultaneously, Directors, executives or employees of companies holding significant stakes in the listed company and/or its group companies:

<b>Name or company name of Director</b>	<b>Company name of significant shareholder</b>	<b>Position</b>
JORGE PONT SANCHEZ	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	Director

<b>Name or company name of Director</b>	<b>Company name of significant shareholder</b>	<b>Position</b>
JOSE MARIA FARIZA BATANERO	IBERIA LINES AEREAS DE ESPAÑA, S.A.	Financial and Control Director
MANUEL LOPEZ COLMENAREJO	IBERIA LINES AEREAS DE ESPAÑA, S.A.	Director of Corporate Affairs

Provide details, as the case may be, of the relevant relationships other than those listed above of members of the Board of Directors that link them to significant shareholders and/or in group companies:

B.1.18 Indicate whether any modification in the board regulations has been made in the year:

YES

<b>Description of modifications</b>
Creation of the Safety Committee and approval of Regulations thereof.

B.1.19 Indicate procedures for appointment, re-election, assessment and removal of directors. Provide details on competent bodies, procedures to be followed and criteria applicable to each of the procedures.

The appointment and removal of directors falls within the competence of the General Meeting of Shareholders, except in the event of vacancies covered by co-option, which pertains to the Board of Directors.

The proposal for appointment of directors presented by the Board of Directors to the General Meeting and the agreements of appointment reached by said body pursuant to the powers of co-option that the Board legally holds, must abide by what is provided for in the Regulations of the Board and follow on from a report from the Appointments and Remuneration Committee.

In the case of independent directors, the election must be made of persons of recognised professional standing, competence, solvency and experience, who are willing to devote a sufficient portion of their time and capacity to the COMPANY, with utmost rigour applied when electing those who must be appointed as independent directors.

Specifically the following cannot be proposed or appointed as independent directors:

- a. People who have been employed or have been executive directors of group companies, unless 3 or 5 years have lapsed, respectively since they left those posts.
- b. People who have received from the company or from its group any amount of benefit for some item other than remuneration as a Director, unless this is not significant. For the purposes herein, dividends and pension contributions received by Directors as part of their former professional relationship shall not be taken into account, provided such benefits are unconditional and, therefore, the company that pays them cannot in a discretionary way, with no previous breach of obligation, suspend, modify or revoke the accrual thereof.
- c. People who are, or have been in the last 3 years, partners in the external auditing firm or authors of the audit report, be it an audit during that period performed on the listed company or on any other group company.
- d. People who are executive directors or senior managers of another company in which some executive director or senior manager of the company is an external director; and maintain, or have maintained in the past year, an important business relationship with the company or any company of a group, either in their own name or as a significant shareholder, director or senior managers of a company that maintains or has maintained such a relationship.

Business relations are understood to be those of suppliers of goods or services, including

those of a financial, advisory or consultancy nature.

- e. People who are significant shareholders, executive directors or senior managers of a company that receives, or has received in the last 3 years, significant donations from the company or its group. Those who are patrons of a Foundation receiving donations shall not be included in this paragraph.
- f. People who are spouses, family members or up to second degree relatives of an executive director or senior manager of the company.
- g. People who have not been proposed, either for appointment or renewal, by the Appointments and Remuneration Committee.
- h. People who fulfil, with regard to any significant shareholder or shareholder represented on the BOARD, any of the criteria expressed in points a), b), d), e) or f) above. In the event of the family relationship stated under letter f), the restriction shall not only apply to the shareholder, but also to all the shareholding representatives in the company.

The proposals for re-election of Directors that the Board should decide to submit for approval by the General Meeting must follow a formal procedure of preparation, which shall obligatorily include a report issued by the Appointments and Remuneration Committee, evaluating the quality of the work and dedication to the post of the proposed members during their mandate.

With regard to the re-election of independent directors, these cannot remain in their posts for a continuous period over twelve (12) years. The same rule will be applied to discontinued permanence, if said discontinuity were less than two (2) consecutive years.

In accordance with what is provided for in article 11 of the Regulations of the Board of Directors, Directors shall leave their posts when the period of appointment has lapsed, or if this should be decided by the General Meeting.

Directors shall also leave their posts when the director is committed to leaving such post or when he should resign in the circumstances under which Directors are obliged to resign, as mentioned in paragraph B.1.20.

When Directors resign before the agreed termination date of appointment, in the circumstances under which they are obliged to do so, notwithstanding that said resignation or termination is reported as a significant event to the National Securities Market Commission, it shall be reported in the Annual Report on Corporate Governance.

The Board of Directors shall not propose the dismissal of any Independent Director before the fulfilment of the statutory period for which he has been appointed, unless there is just cause to do so. Just cause shall be understood as meeting any of the cases referred to with regard to the obligation to resign, in the opinion of the Board of Directors, following a report from the Appointments and Remuneration Committee, without prejudice to the proposals for dismissal of directors in the cases of takeover bids, mergers or other similar corporate operations that would lead to a change in the capital structure of the company.

All that is contained herein shall be applicable to cases of representatives of legal person Directors. Furthermore, a specific cause for dismissal of the representative shall be that this person should terminate, for whatever reason, his relationship with the legal person being represented and which gave rise to his appointment as representative.

B.1.20. Indicate the cases under which Directors are obliged to resign.

A Director shall leave his position on the Board of Directors and formalise his resignation in the following cases:

- 1.- When he leaves the executive post associated to his appointment as Director, unless in the case that even if he should leave this top management position or terminate his employment with the Company, he could continue to act as a Member of the Board due to being, either directly or indirectly, via the company or companies through which he owns his shareholding at any time, a founder shareholder of the Company, whereby such Executive Directors must jointly hold at least three (3) per cent of the share capital or, in the absence thereof, provided the Board should deem his continuance as a Director as necessary or appropriate to the interests of the Company. In order to prove fulfilment of the requirement of joint ownership of three per cent, no formal grouping or syndication of shares of the founder shareholders shall be required.
2. – When the reasons for which he was appointed no longer apply.
3. – When his inclusion in the Board would severely harm the interests of the Company
4. – When one of the cases of legal incompatibility or prohibition applies.
5. – If convicted, by a binding criminal or administrative ruling.

6. A director representing a significant shareholder, when the shareholder represented should transfer his shareholding in full or when said shareholder should reduce his shareholding to a level that requires the reduction in the number of directors representing significant shareholders. If, for any reason, the directors excepted in the first paragraph should be considered to be directors representing significant shareholders, what is contained herein shall not be of application, and the requirements for permanence shall be established by what is provided for in that paragraph.

7. Likewise, a director shall report and, as the case may be, resign, when his permanence may harm the credibility and reputation of the COMPANY.

All the above shall be of application in cases of representatives of legal person Directors. Furthermore, a specific cause for dismissal of the representative shall be that this person should terminate, for whatever reason, his relationship with the legal person being represented and which gave rise to his appointment as a representative.

Other than the cases provided for herein, the Board of Directors may not propose the dismissal of representative and independent external directors before the end of the term for which they were appointed, unless there exist justifiable and exceptional reasons which must be approved by the Board, following a non-binding report presented by the Appointments and Remuneration Committee.

B.1.21 Explain whether the rule of the chief executive of the company falls on the chairman of the Board. As the case may be, indicate the measures taken to limit the risk of accumulation of power in one single person:

NO

Indicate and, as the case may be, explain, if rules have been established to empower one of the independent directors to request a call for a Board Meeting or the inclusion of new issues on the agenda, to coordinate and reflect the concerns of the external directors and to direct the assessment by the Board of Directors.

YES

<b>Explanation of the rules</b>
Article 18 of the Regulations of the Board of Directors provides that any member, if required, shall endeavour, with at least twenty-four (24) hours notice of the date said meeting is to be held, to propose other items for discussion on the agenda by informing the Secretary thereof. Likewise the Board, irrespective of whether it is contained or not on the agenda of the day, may decide and deliberate on all matters it should deem appropriate and are requested by at least a simple majority of the attending directors.

B.1.22 Are qualified majorities required, other than the legal majority, for any kind of decision?

NO

Indicate how the agreements of the Board of Directors are reached, stating at least the minimum quorum of attendance and the type of majorities required to reach such agreements:

B.1.23 Explain whether specific requirements exist other than those relative to the directors, in order to be appointed as chairman.

NO

B.1.24 Indicate whether the chairman has a casting vote:

NO

B.1.25 Indicate whether the Articles of Association or the Board regulations establish an age limit for Directors:

NO

<b>Age limit – Chairman</b>	<b>Age limit – CEO</b>	<b>Age limit – Director</b>
0	0	0

B.1.26 Indicate whether the Articles of Association or the Board regulations establish a minimum mandate for independent directors:

YES

<b>Maximum number of years of mandate</b>	12
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B.1.27. In the event that the number of female directors is low or nil, explain reasons and initiatives taken to correct this situation

<b>Explanation of the reasons and initiatives</b>
The Company carries out its selection processes for new members of the Board of Directors based on the personal merit of the potential candidates, which are objectively analysed, without favouring or harming any of the potential contenders by reason of gender.

In particular, indicate whether the Appointments and Remuneration Committee has established procedures whereby the selection processes do not exhibit implicit biases that impair the selection of female directors, and deliberately select female candidates matching the required profile:

NO

<b>Indicate main procedures</b>
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B.1.28 Indicate whether there are formal processes for the delegation of votes on the Board of Directors. If any, please provide details.

In accordance with what is provided for in article 19 of the Regulations of the Board of Directors, Directors are obliged to personally attend the meetings of the Board. When they are unable to attend, they shall endeavour to ensure that the representation granted to another Director shall include, as far as possible, the appropriate instructions.

Furthermore, no Director may hold more than three (3) representations. Representations may be granted by any postal, manual or electronic means so long as it provides assurance, in the opinion of the Chairman or of the Secretary, of the truthfulness and validity of the representation.

B.1.29 Indicate the number of meetings that the Board of Directors has held in this financial year. Likewise, indicate, as the case may be, the times the Board has met in the absence of its Chairman:

<b>Number of Board meetings</b>	11
<b>Number of meetings without the attendance of the Chairman</b>	0

Indicate the number of meetings held during the year of the various committees of the Board:

<b>Number of meetings held of the Executive or Delegate Committee</b>	0
<b>Number of meetings of the Audit Committee</b>	8
<b>Number of meetings of the Appointments and Remuneration Committee</b>	6
<b>Number of meetings of the Appointment Committee</b>	0
<b>Number of meetings of the Remuneration Committee</b>	0

B.1.30 Indicate the number of meetings held by the Board of Directors during the year without the attendance of all of its members. For the purposes of the calculation, non-attendances shall be deemed to be representations carried out without due instructions:

<b>Number of non-attendances of Directors during the year</b>	7
<b>% of non-attendances over total votes during the year</b>	6,818

B.1.31 Indicate whether the individual and consolidated annual accounts presented for approval of the Board have been previously certified:

NO

Identify, as the case may be, the person or persons who has/have certified the individual and consolidated annual accounts of the company, for presentation to the Board:

B.1.32 Explain, if any, the mechanisms established by the Board of Directors to prevent that the individual and consolidated annual accounts prepared by the Board are presented to the General Meeting with conditions and qualifications in the audit report.

The auditor of the Company previously presents, prior to presentation of the accounts, a report expressing the opinion of the audit that will be issued on said accounts (clearance). In the event of any qualification, the Board of Directors may act to provide all the information required to modify the accounts, should this be necessary.

The Financial Statements, breakdowns and additional information included in the Annual Accounts are prepared by the Financial Management of the Company, that submit them to review by the Accounts Auditors in accordance with a work schedule that includes collaboration from the Internal Audit Management of the Company. This is then reported to the Audit and Compliance Committee, which supervises and coordinates all the process of preparation of the financial information and controls thereon.

In order to carry out his work, the External Auditor is assisted by the General Management of Corporate Finance and the Internal Audit Office, performing revisions at different stages of the year in advance of the information requirements and carrying out, in accordance with the abovementioned schedule, within the set schedules for the close of year and preparation of the accounts, the various tests carried out by the auditors.

The Internal Audit Office informs the Audit and Compliance Committee of the development and progress of its planning, as well as of the various conclusions arrived at by the External Auditor throughout the year. This helps to anticipate the resolution of any potential aspects that might impact the auditors' report and thus avoid qualifications, assuming that the aforementioned clearance has been obtained.

The Annual Accounts are submitted, before final preparation, to review by the Audit and Compliance Committee, which in turn proposes the final content thereof to the Board of Directors for preparation.

B.1.33 Is the secretary of the Board a director?

NO

B.1.34 Explain procedures for the appointment and dismissal of the Secretary of the Board, indicating whether his appointment or dismissal have been reported by the Appointments and Remuneration Committee and approved by the Board in full.

<b>Procedure of appointment and dismissal</b>
As is established in the Regulations of the Board of Directors of the Company, the procedure is as follows:  i) The Secretary of the BOARD, which in any event must be a practising lawyer, shall be appointed by the Board, with no need for him to be a director. The BOARD shall also appoint, if appropriate,



a Deputy Secretary, at the proposal or not of the Secretary, who shall take over the duties of the Secretary in the absence thereof.

ii) The Appointments and Remuneration Committee shall inform on the appointment and dismissal of the Secretary, which must meet with the approval of the BOARD,

iii) When the posts of Secretary and Legal Adviser should fall upon one same person, this must be a legal professional of renowned standing and experience.

iv) The Secretary must assist the Chairman, provide advice and information to the members of the BOARD, safeguard the Minutes Book and the ancillary books, if any, which must duly contain the proceedings of the meetings and attest to the agreements reached by the governing body. He shall also undertake to ensure the formal and material legality of all actions of the BOARD and guarantee that its governance procedures and rules are observed and regularly reviewed; all in accordance with the Articles of Association of the company, its Regulations and rules of good governance thereof.

v) In the absence of the legal Adviser, the Secretary shall act both as the Legal Adviser of the BOARD and of the Committees.

vi) In the absence of the Secretary, his duties will be carried out by whoever assumes the role of Deputy Secretary, as the case may be, who shall in any event be a practising lawyer.

<b>Does the Appointment Committee inform of the appointment?</b>	YES
<b>Does the Appointment Committee inform of the dismissal?</b>	YES
<b>Does the Board in full approve the appointment?</b>	YES
<b>Does the Board in full approve the dismissal?</b>	YES

Does the Secretary of the Board have a duty to ensure, in a special way, that the rules of good governance are observed?

YES

B.1.35 Indicate, if any, the mechanisms established by the company to preserve the independence of the auditor, the financial analysts, the investment banks and the rating agencies.

The Audit and Compliance Committee is responsible for the evaluation of the audit services and is responsible, in accordance with what is provided for in the Articles of Association, for acting as the means of communication between the Board of Directors and the Internal Audit Office of the Company, defining, controlling and supervising their work, as well as the response of the management team to their suggestions, making proposals to the Board regarding selection, appointment, re-election and replacement of the person responsible for the Internal Audit and mediate in the event of discrepancies arising between them with regard to the application of the Internal Audit Plan and the instructions given to it from time to time.

On the other hand, the Internal Regulations on Conduct in matters regarding the Securities Markets and compliance with legislation, describe, among other issues, the actions to be carried out in each case to protect the independence of the investment banks and financial analysts as well as the internal personnel affected by said regulations in respect of personal or confidential operations which may affect the value of the Company in the Securities Markets. Likewise, the following additional mechanisms have been established in order to guarantee efficiency and transparency when dealing with market agents:

- All the information deemed relevant is communicated simultaneously to the market through the publication of the pertaining Significant Event. From the date on which the shares are first listed on the Securities Market, 1 December 2006, 194 Significant Events have been published and registered, although prior to the market launch of the shares only 1 Significant Event was reported.
- Suitable level of review and internal quality control of the information provided to the markets.

- The information provided in the meetings with analysts and investors includes the clauses required to protect the relevant information and position of the Company with regard to decisions to be taken by the market agents on the basis of this information.

B.1.36 Indicate whether the Company has changed external auditors during the course of the financial year. If this is the case, identify incoming and outgoing auditors.

NO

<b>Outgoing auditor</b>	<b>Incoming auditor</b>

B.1.37 Indicate whether the audit firm carries out any other work for the company and/or its group other than auditing and, if this is the case, state the amount of fees received for such work and the percentage this represents of the total amount billed to the company and/or the group:

	<b>Company</b>	<b>Group</b>	<b>Total</b>
<b>Fees for work other than auditing (thousands of euros)</b>	15	0	15
<b>Fees for work other than auditing/total amount billed by auditing company (as a %)</b>	9.680	0.000	9.680

B.1.38 Indicate whether the audit report of the annual accounts of the previous year includes conditions or qualifications. If any, indicate the reasons provided by the Chairman of the Audit Committee to explain the content and scope of such conditions or qualifications.

NO

B.1.39 Indicate the number of years that the current audit firm has continuously performed the audit of the annual accounts of the company and/or the group. Likewise, indicate the percentage represented by the number of years audited by the current firm over the total number of years for which the annual accounts have been audited:

	<b>Company</b>	<b>Group</b>
<b>Number of continuous years</b>	3	0
<b>Number of years audited by current firm/number of years that the company has been audited (%)</b>	42.9	0.0

B.1.40 Indicate the stakes held by the members of the Board of Directors of the company in the capital of entities with the same, similar or complementary type of activity to that of the corporate purpose, both of the company and the group, and which have been reported to the Company. Likewise, indicate the positions or duties performed in such companies:

<b>Name or company name of director</b>	<b>Name of other company</b>	<b>% stake</b>	<b>Position or duties</b>
JORGE PONT SANCHEZ	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	0.00	DIRECTOR
JOSE MARIA FARIZA BATANERO	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	0.002	FINANCIAL AND CONTROL DIRECTOR
MANUEL LOPEZ COLMENAREJO	IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	0.003	DIRECTOR OF CORPORATE AFFAIRS
NEFINSA, S.A.	AIR NOSTRUM LINEAS AEREAS DEL MEDITERRANEO, S.A.	72.210	DIRECTOR

B.1.41 Indicate and, as the case may be, provide details, whether there is a procedure whereby DIRECTORS can count on external advice:

YES

<b>Details of procedure</b>
<p>In accordance with what is provided for in paragraphs iii) and iv) of article 24 of the Regulations of the Board of Directors, Directors may request the contracting, charged to the Company, of legal, accounting, financial or other experts to advise them in the performance of their duties, provided the request for advice concerns specific problems of a certain magnitude and complexity.</p> <p>i) The Director shall inform the Chairman of the intention to contract the services of a specialist, and the Board may veto said action in the event of the following:</p> <ul style="list-style-type: none"> <li>- that the assistance requested can be adequately provided by the Company staff</li> <li>- that it is not required for the proper performance of the duties entrusted to the Directors</li> <li>- that the cost thereof is not reasonable in relation to the importance of the matter in question.</li> </ul> <p>In any event, the performance of this right shall require the agreement of one third of the Directors;</p>

<b>Details of procedure</b>
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A one-third majority of Directors; applying, as the case may be, the voting rules contained in article 20 of said Regulations.
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B.1.42 Indicate and, as the case may be, provide details on whether there is a procedure whereby Directors can be provided with the information required to prepare the meetings of the governing bodies with sufficient time:

YES

<b>Details of procedure</b>
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In accordance with the provisions of article 18 of the Regulations of the Board of Directors, a system has been established to enable Directors to receive all the information regarding the issues contained on the agenda of each meeting with sufficient time.
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The call shall include the date, time and place that the meeting is to be held, information on the expected agenda and, as the case may be, any information that is pertinent and available. In the cases in which, in the opinion of the Chairman, the transmission of information is not advisable, the Directors shall be informed that the information shall be available for examination at the head office, or else the necessary mechanisms will be put in place in order to send this documentation in the safest possible way if the Director should inform the Chairman of the impossibility of travelling to the head office. The Directors, as the case may be, shall endeavour to propose, with a minimum advance notice of twenty-four (24) hours, any other points on the agenda that were not originally included.
--

B.1.43 Indicate and, as the case may be, provide details, of whether the company has established rules that oblige Directors to inform and, as the case may be, to resign in the event of situations that can damage the standing and reputation of the company:

YES

<b>Explain the rules</b>
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See point B.1.20
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B.1.44 Indicate whether any member of the Board of Directors has informed the company that he has been tried in Court or has been summoned to a hearing, for any of the offences mentioned in article 124 of the Law on Public limited Companies:

NO

Indicate whether the Board of Directors has analysed the case. If this is the case, explain the decision made on whether the member should or should not remain in his post.

NO

Decision made	Explanation

B.2. Committees of the Board of Directors

B.2.1. Provide details of all the committees of the Board of Directors and members thereof:

**APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Type</b>
JOSEP PIQUÉ CAMPS	CHAIRMAN	INDEPENDENT
ENRIQUE DONAIRE RODRIGUEZ	MEMBER	REPRESENTATIVE
JORGE PONT SANCHEZ	MEMBER	REPRESENTATIVE
PEDRO JESUS MEJIA GOMEZ	MEMBER	INDEPENDENT

**RELATED-PARTY TRANSACTIONS COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Type</b>
JOSEP PIQUÉ CAMPS	CHAIRMAN	INDEPENDENT
DANIEL VILLALBA VILA	MEMBER	INDEPENDENT
JAIME MANUEL DE CASTRO FERNÁNDEZ	MEMBER	INDEPENDENT
MIGUEL ANGEL FERNANDEZ VILLAMANDOS	MEMBER	INDEPENDENT
PEDRO JESUS MEJIA GOMEZ	MEMBER	INDEPENDENT

**AUDIT AND COMPLIANCE COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Type</b>
JOSEP PIQUÉ CAMPS	CHAIRMAN	INDEPENDENT
DANIEL VILLALBA VILA	MEMBER	INDEPENDENT
ISABEL MARÍN LAPLANA	MEMBER	INDEPENDENT
JOSE MARIA FARIZA BATANERO	MEMBER	REPRESENTATIVE
MIGUEL ANGEL FERNANDEZ VILLAMANDOS	MEMBER	INDEPENDENT

## SAFETY COMMITTEE

Name	Position	Type
ENRIQUE DONAIRE RODRIGUEZ	CHAIRMAN	REPRESENTATIVE
ISABEL MARÍN LAPLANA	MEMBER	INDEPENDENT
JAIME MANUEL DE CASTRO FERNÁNDEZ	MEMBER	INDEPENDENT
JORGE PONT SANCHEZ	MEMBER	REPRESENTATIVE
NEFINSA, S.A.	MEMBER	REPRESENTATIVE

B.2.2. Indicate whether the following duties pertain to the Audit Committee:

<b>Supervise the process of preparation and integrity of the financial information of the company and, as the case may be, of the group, ensuring compliance with regulatory requirements, the proper delimitation of the consolidation scope and the proper application of accounting criteria</b>	YES
<b>Regular review of the internal control and risk management systems, identifying, managing and adequately informing of the main risks</b>	YES
<b>Ensure the independence and efficacy of the internal audit function; propose the selection, appointment, re-election and dismissal of the head of the internal audit service; propose the budget for this service; receive regular information on its activities; and verify that top management has taken into account the conclusions and recommendations of their reports</b>	YES
<b>Establish and supervise a mechanism that enables the employees to inform, in a confidential manner and, if necessary, anonymously, of any irregularities of potential importance, particularly those of a financial and accounting nature, that they might have observed within the company</b>	YES
<b>Present to the Board the proposals for the selection, appointment, re-election and replacement of the external auditor, as well as terms of employment thereof</b>	YES
<b>Regularly receive from the external auditor information on the auditing plan and the results of its execution, and verify that top management takes into account its recommendations</b>	YES
<b>Ensure the independence of the external auditor</b>	YES
<b>In the case of groups, assist the group auditor in assuming responsibility for the audits of the companies within the group</b>	YES

B.2.3. Describe the rules of organisation and performance of duties, as well as the responsibilities undertaken by each of the Committees of the Board.

**Name of Committee**

## APPOINTMENTS AND REMUNERATION COMMITTEE

**Brief description**

The Committee is formed by a minimum of three (3) and a maximum of five (5) Directors appointed by the Board of Directors of the Company.

Directors who are Executive Directors may not be members of the Committee, and the Committee shall include at least one member who is an Independent Director.

The Chairman shall be elected from among its members, and the term shall be of five (5) years.

The Secretary who, in any event shall be the person performing these duties on the Board of Directors, shall form part of the Committee but without voting rights.

In any event, it shall meet at least once a quarter and agreements are reached by a majority of members present or represented, In the case of a tie, the issue shall be presented to the meeting of the Board of Directors.

Its specific duties are the following:

- i) To prepare and review the criteria that must be followed in the formation of the Board of Directors and, as the case may be, of the Committees within it.
- ii) To present to the Board of Directors the proposals for appointment or re-election of Members, either through the direct co-option system or by referring the decision to the General Meeting of Shareholders.
- iii) To inform and propose the appointment, re-election or dismissal of the members of the Board of Directors that must form part of each of the Committees.
- iv) To inform on the appointment of the internal positions of Chairman and, if any, Deputy Chairman and Secretary of the Board and, as the case may be, Deputy Secretary of the Board. It shall also inform, previously or subsequently, on the appointment and dismissal of top managers of the Company.
- v) To propose a remuneration policy consisting of the payment in shares, rights thereon or similar, for top managers and Executive Directors; and likewise, on the conditions of the labour and/or contractual relationships thereof.
- vi) To inform on, and propose the system and amount of annual remuneration of the Board of Directors and the Committees.
- vii) To annually inform on the performance of the duties of top management in the company and their remuneration.
- viii) To inform on the transactions that imply or might imply conflicts of interest, transactions with related parties or that may involve the use or disposal of significant company assets.
- ix) To examine compliance with the Internal Conduct Regulations of the Securities Markets, the Regulations of the Board of Directors and, in general, the rules of governance of the Company in the scope of its competence and to make proposals for the improvement thereof.
- x) To propose to the Board of Directors, if deemed appropriate, an Annual Action Plan for the Committee.
- xi) To validate, if any, the proposals made by the Audit and Compliance Committee to the Board of Directors on the appointments and dismissals of Company representatives.

**Name of Committee**

## AUDIT AND COMPLIANCE COMMITTEE

**Brief description**

The Committee shall be formed by a minimum of three (3) and a maximum of five (5) Directors, who shall be appointed, at the proposal of the Appointments and Remuneration Committee, by the Board of Directors of the Company,

Members who are Executive Directors may not be members of the Committee, and the Board of Directors, in the appointment of the members of the Committee, shall endeavour to maintain a reasonable balance between Independent Directors and Directors representing significant shareholders (Institutional).

The Chairman shall be the Chairman of the Board of Directors or, as the case may be, any other member thereof appointed by the Board of Directors on the basis of a report from the Appointments and Remuneration Committee, although this cannot under any circumstance be an Executive Director. The Chairman shall be replaced every four (4) years, and may be re-elected after one (1) year has lapsed since his termination.

The Secretary and Internal Auditor of the COMPANY shall form part of the Committee as members, with no voting rights in either case.

The Committee shall meet at least once a quarter and the agreements shall be reached by a majority of the members present or represented. In the event of a tie, the issue shall be presented to the Board of Directors.

Its duties are as follows:

To be aware of and regularly review the financial information and internal control systems, review the Annual Accounts and Statements of the Company, ensure compliance with the legal requirements in the matter, the correct application of generally accepted accounting principles and risk management; as well as to inform on the proposals for modification of the accounting principles and criteria suggested by management control or internal or external auditors.

- i) To act as the means of communication between the Board of Directors and External Auditors, to evaluate results and responses from the management team to their recommendations, to present to the Board the proposals for the selection, appointment, re-election and replacement of the External Auditors and mediate, in the event of discrepancy, between the auditors and the Board with regard to the applicable principles and criteria used in the preparation of the financial statements, the technical auditing rules and the application and, as the case may be, the performance of the observations and conclusions expressed by said External Auditors.
- ii) To supervise compliance with the external audit contract, ensuring that the opinion on the Annual Accounts and the main content of the audit report are drafted in a clear and accurate manner.
- iii) To propose the Internal Audit Plan to the Board of Directors.
- iv) To act as the means of communication between the Board of Directors and the Internal Audit Office of the Company, defining, controlling and supervising its work; as well as the response of the management team to their recommendations; to present to the Board the proposals for the selection, appointment, re-election and replacement of the head of Internal Audit and mediate, in the event of discrepancy, between the Internal Audit Office and the Board with regard to the application of the Internal Audit Plan and with the instructions given from time to time.  
The head of Internal Audit of the COMPANY shall present an Annual Work Plan and an Activity Report at the end of each financial year to the Committee.
- v) To consider the suggestions made by the members of the Board of Directors, the Management of the Company or the Shareholders in matters within its scope of action and regarding those issues which, by legal or regulatory prescription, must be implemented. In any event, the Committee shall keep the Board of Directors informed of the matters discussed and decisions reached, sending in these cases the minutes issued in this regard.
- vi) To examine the requests for regular or occasional information made and ensure that it is provided by, or to, the supervising and/or regulatory authorities of the sector of activities of the Company, and especially the National Securities Market Committee and governing bodies of the national or international stock exchanges on which the company is listed; it shall also supervise compliance in time and form of instructions and/or recommendations from such bodies which are implemented by the Company to correct any irregularities or defects that might have been detected.
- vii) To inform the General Meeting of Shareholders on the issues proposed therein by the shareholders in matters within the scope of action of the Committee.
- viii) To ensure that the Company, its Directors, Executives and other personnel comply with the Ethical and Conduct Codes that the Company has established and/or must be complied with according to the Securities Market regulations applicable from time to time...

#### **Name of committee**

RELATED PARTY TRANSACTIONS COMMITTEE

#### **Brief description**

The COMMITTEE will be formed by a minimum of three (3) and a maximum of five (5) Directors, who shall be appointed by the Board of Directors of the COMPANY, and who shall terminate their positions: (i) By a decision of the Board of Directors; (ii) In any event, after five (5) years since their appointment, unless they are re-elected as members of the COMMITTEE; (iii) In any event, when they cease to be members of the Board of Directors of the Company; (iv) Of their own free will.

The COMMITTEE will be made up of a majority of Independent Directors and Directors Representing Significant Shareholdings in Iberia may not be members of the Committee. The COMMITTEE shall have the following specific duties: a) to provide prior information with regard to essential conditions (price, term and object) of any related operations between Vueling and its majority shareholders or companies in its Group, whose approval must be given by the Board of Directors in accordance with what is provided for in the Protocol of Related Party Transactions and Conflicts of Interest. In the event of transactions falling within the ordinary course of company business which are of a habitual or recurring nature, the report need only refer to the generic authorisation of the Board of Directors of the line of transactions and terms of execution. b) To provide quarterly information and that included in the annual report of corporate governance of Vueling with regard to the Protocol and related party transactions.



c) The general review of the regulation established in the Protocol. d) The issue, on an annual basis and for presentation to the Board of Directors of Vueling and to the company shareholders, of a report detailing the degree of compliance with the content of the Protocol. e) To provide information on any modification proposal of the Protocol, as well as any transaction proposals aimed at putting an end to any discrepancies that might arise between the Parties with regard to the Protocol. f) To make recommendations and present proposals for improvement within its scope of action.

**Name of Committee**

SAFETY COMMITTEE

**Brief Description**

The COMMITTEE will be formed by a minimum of three (3) and a maximum of five (5) Directors, who shall be appointed by the Board of Directors of the COMPANY, and who shall terminate their positions: (i) By a decision of the Board of Directors; (ii) In any event, after five (5) years since their appointment, unless they are re-elected as members of the COMMITTEE; (iii) In any event, when they cease to be members of the Board of Directors of the Company; (iv) Of their own free will. When appointing the members of the COMMITTEE, there should be a fair balance between the number of Independent Directors and Directors Representing Significant Shareholders (Institutional). In any event, the Chairman of the Board of Directors of the COMPANY may attend the meetings of the COMMITTEE. The Chairman of the COMMITTEE shall be any member thereof who is appointed by the Board of Directors in full, following a report from the APPOINTMENTS AND REMUNERATION COMMITTEE. The term of the position shall be of five (5) years. The COMMITTEE shall meet regularly depending on requirements and for the fulfilment of the duties and responsibilities entrusted thereto. In any event, it shall meet at least once a quarter. The COMMITTEE shall be validly created when over half of the members, either present or represented, attend the meeting. The COMMITTEE shall reach the agreements deemed appropriate by a majority of the attendees, present or represented. In the event of a tie, the matter shall be referred to the Board of Directors. The COMMITTEE shall have the following specific duties: a) To examine the general policy of the COMPANY with regard to safety systems, flight safety and ground handling safety. B) To refer to the Board of Directors of the COMPANY any proposal to improve the COMPANY systems in this area, as well as follow-up measures agreed by the Board of Directors of the COMPANY with regard to safety; c) In general, to compile, study and publish data on safety, as well as studies in this matter deemed appropriate. d) To review the degree of compliance by the COMPANY of legislation on health and safety; e) Any others entrusted to it by the Board of Directors of the COMPANY.

B.2.4. Indicate the advisory and consultancy powers and, as the case may be, the delegation held by each committee:

**Name of committee**

AUDIT AND COMPLIANCE COMMITTEE

**Brief description**

See B.2.3.II)

**Name of committee**

APPOINTMENTS AND REMUNERATION COMMITTEE

**Brief description**

See B.2.3.I)

**Name of committee**

RELATED PARTY TRANSACTIONS COMMITTEE

**Brief description**

See B.2.3.III)

**Name of committee**

SAFETY COMMITTEE

**Brief description**

See B.2.3.IV)

B.2.5. Indicate, if any, the existence of the regulation of the Board Committees, where these are available for consultation and the modifications made thereto during the financial year. Likewise, indicate whether any annual reports, prepared on a voluntary basis, have been made on the activities of each committee.

**Name of committee**

APPOINTMENTS AND REMUNERATION COMMITTEE

**Brief description**

Since the flotation of the shares of the Company on the Stock Exchanges (1 December 2006), the Company has a set of Regulations of the Appointments and Remuneration Committee which is available to the shareholders via the corporate web page, not having made any modifications thereto.

**Name of committee**

AUDIT AND COMPLIANCE COMMITTEE

**Brief description**

Since the flotation of the shares of the Company on the Stock Exchanges (1 December 2006), the Company has a set of Regulations of the Audit and Compliance Committee which is available to the shareholders via the corporate web page, not having made any modifications thereto.

**Name of committee**

RELATED PARTY TRANSACTIONS COMMITTEE

**Brief description**

Since 21 September 2009, the Company has a set of Regulations of the Related Party Transactions Committee which is available to the shareholders via the corporate web page, not having made any modifications thereto.

**Name of committee**

SAFETY COMMITTEE

**Brief description**

Since 26 November 2010, the Company has a set of Regulations of the Safety Committee which is available to the shareholders via the corporate web page, not having made any modifications thereto.

B.2.6. Indicate whether the composition of the Executive Committee reflects the participation on the Board of the various directors on the basis of their condition:

NO

<b>If the answer is negative, explain composition of Executive Committee</b>
Not applicable

## C- RELATED PARTY TRANSACTIONS

C.1. Indicate whether the Board in full has reserved the right to approve, on the basis of a favourable report from the Audit Committee or any other to whom this duty were entrusted, the transactions that the company carries out with directors, significant shareholders or shareholders represented on the Board, or with parties related thereto:

YES

C.2. Provide details of the relevant transactions that have meant a transfer of resources or obligations between the company or entities in its group, and significant shareholders of the company:

<b>Name or company name of the significant shareholder</b>	<b>Name or company name of the company or entity of its group</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	VUELING AIRLINES, S.A.	Commercial	Provision of services	111,681
IBERIA LINEAS AEREAS DE ESPAÑA, S.A.	VUELING AIRLINES, S.A.	Commercial	Receipt of services	92,091

C.3. Provide details of relevant transactions that have meant a transfer of resources or obligations between the company or entities in its group and directors or executives of the company:

C.4. Provide details of relevant transactions carried out by the company with other companies belonging to the same group, provided these are not eliminated in the process of the preparation of consolidated financial statements and do not form part of the normal business transactions of the company in terms of its corporate purpose and conditions:

C.5. Indicate whether the members of the Board of Directors have detected any conflicts of interest during the year, pursuant to the provisions of article 127 3<sup>rd</sup> of the Law on Public limited Companies.

NO

C.6. Provide details on the mechanisms in place to detect, determine and resolve any potential conflicts of interest between the company and/or its group, and its directors, executives or significant shareholders.

Pursuant to the provisions of article 23.ii) of the Regulations of the Board of Directors (Obligation of non competition) Directors may not carry out activities which, directly or indirectly, result in the provision of services of any nature to persons or entities that, with regard to the Company or any of the companies within the group: i) are competitors, either directly or indirectly; or ii) should have direct or indirect interests which are contrary to those of the company; or iii) have a similar corporate purpose and/or activities in full or in part.

Prior to providing any service or accepting any management position in another company

which could be included among the instances mentioned above, or which in any way could be understood as having a conflict of interest or affect his dedication, the Director must inform of the situation and request authorisation from the Board.

In this case, the Board may authorise the Director, provide it decides that this is not prejudicial to the company interests, on the basis of a report prepared by the Audit and Compliance Committee.

Independent Directors, as defined in this regulation, upon termination of this position or in the event that for any reason he should abandon his position, for the period of one (1) year of said termination, may not provide services or be appointed as a director, executive or similar in any other entity which is deemed to be a competitor or has a similar corporate purpose to the Company.

To this end, a competitor shall be understood to be any airline that maintains or has the intention of opening or implementing an operating base in Spain or Portugal, within the year following the termination for any reason.

In any event that the Company, via a specific agreement in this regard from the Board of Directors, may dispense with this prohibition, either before or after the office has been taken up by the Director. This prohibition is established without prejudice to any obligation of non-competition that may arise for another reason and that might affect an Executive Director.

The Board may, provided that it believes that no harm is done to the interest of the company and on the basis of a report prepared by the Audit and Compliance Committee, authorise the outgoing Director to exercise any of the offices or posts considered in this paragraph. Likewise, in accordance with what is provided for in article 9.ii) of the Regulations on the Board of Directors, the Board shall avoid, when proposing or electing Independent Directors, any possible conflict of interest of said members with the Company, the rest of the Directors or executives, which could compromise the independence of the Independent Directors.

Directors Representing Substantial Shareholdings who directly represent shareholders of the Company are excluded from the above prohibition notwithstanding the duty, as the case may be, to abstain in the event of a conflict of interest.

C.7. Is more than one company listed in Spain?

NO

Identify subsidiary companies listed:

## **D- RISK CONTROL SYSTEMS**

D.1. General description of the risk policy of the company and/or group, providing details and assessing the risks covered by the system, together with the justification of the adaptation of such systems to each risk profile.

Vueling Airlines has identified the main risks that may affect its current and future actions, implementing systems to enable it to identify, assess and manage such risks so that the impact on the company is cancelled or reduced.

With regard to managing risks, those risks that have a relevance or impact on the company results, the financial solvency of the company and the strategic achievement of the goals set in the medium and long term are especially important.

The identification and assessment of such risks is performed with the regularity required for the proper monitoring thereof

and, as the case may be, the implementation of the required action plan. In this regard, there is a daily control of market risks, a weekly control of the main indicators of commercial management and transactions and a monthly control of management and budgets. Additionally, special attention is paid to the management of risk associated with specific projects, investments or leases of aircraft and similar.

Vueling Airlines has an Emergency Response Plan in place which establishes protocols and action plans required to give a timely response to emergency situations of aeronautical accidents or incidents as well as those affecting our operations, facilities or our crew and passengers.

The Company has a Risk Map for the correct identification and control of risks, used to guide the actions and priorities of the Annual Internal Audit Plan.

#### Risks covered by the System

The Risk Map assesses key controls that enable the management of the risks identified in each area, as well as the action plans to be implemented in order to mitigate said risks.

#### Risk assessment

Risks are assessed from a dual perspective:

a) Relevance: this variable establishes the potential impact that said risk might have on the company with special emphasis on the results of the company, its financial stability or its strategic plan, together with the probability that said risk might actually materialise.

b) Level of control: this variable measures the control capacity and mitigation that the company has over a given risk.

The measurements established for the two variables are as follows:

Relevance:                    1 – would indicate maximum relevance or impact  
                                     2 – would indicate medium relevance  
                                     3 – would indicate low relevance

Level of control            1 – maximum  
                                     2 – medium  
                                     3 – low

#### Classification of risks:

The risks have been grouped into the following categories, explained in point D.2. below:

- Context Risks: risks associated with market performance (economic context, competition); risks associated with compliance of general regulations and those inherent to the industry) and the availability of flight slots.
- Operational Risks: Risks associated with safety, corporate image, efficacy in the development of the operation, management of capacity and know-how
- Delegation risks: associated with organisational issues (leadership, in-house communication...)
- Financial risks: risks associated with cash and debt management, management of interest rate derivatives, exchange risk and purchase of fuel and fraud management
- IT Risks: risks associated with the access and availability of information, IT infrastructures.
- Integrity Risks: management of internal and external fraud, reputation, unlawful acts.
- Risks of information and correct accounting, analysis of the context and business model, planning...

D.2. Indicate whether any of the various types of risk (operational, technological, financial, legal, reputational, fiscal...) that affect the company and/or the group have actually materialised during the financial year.

YES

If the answer is positive, indicate the circumstances which have given rise to such risks and whether the systems in place have worked.

**Risk that has materialised during the year**

Sharp increase during the last quarter in the price of jet fuel

**Circumstances that gave rise to this situation**

Volatility in the price of Brent in the market

**Performance of control systems**

A hedging policy for jet fuel has been put in place by using derivative financial instruments according to the guidelines approved by the Board of Directors. Constant review of the margins per route seeking to adjust capacity to profitable routes.

**Risk that has materialised during the year**

Impact of ticket prices due to certain actions from competitors

**Circumstances that gave rise to this situation**

Arrival of new competitors at main bases

**Performance of control systems**

Review of margins per route seeking to adjust capacity on the most profitable routes, capacity adjustments (tactical cancellations) to improve earnings per flight

D.3..Indicate whether there is a committee or another body in charge of establishing and supervising these control devices.

YES

In the event of a positive answer, provide details on its duties.

**Name of the committee or body**

AUDIT AND COMPLIANCE COMMITTEE

**Description of duties**

The Audit and Compliance Committee, dependent on the Board of Directors to which it reports, is the main body ensuring the establishment of controls seeking to mitigate risks by carrying out regular monitoring of the development of the Annual Internal Audit Plan. It is also interested in specific aspects whose relevance may affect the Company. The Directors of the different functional areas are the main persons responsible for managing the risks in their areas of competence, identifying such risks and proposing actions plans to mitigate them, prevent them or eliminate them. The Commercial and Operational Committees, headed by the Managing Director of the Company, would be the first body where decisions would be made or risks analysed. The Management Committee, moreover, would tackle the risk management whose relevance requires the joint approach of various areas of the Company. The Internal Audit Manager focuses his main responsibility on the establishment and assessment of the Risk Map of the company and the supervision of the Controls that have been established. The relevance of the risk and its levels of control influence the Annual Internal Audit Plan.

D.4. Identification and description of the compliance processes with the various regulations affecting the company and/or the group.

Each Director of the company is responsible for compliance with the regulations applicable to his area of activity and responsibility.

The supervision of compliance with such rules and recommendations of good governance is the responsibility of the Committee of Regulatory Compliance as is provided for in the Internal Conduct Regulations in matters relating to the securities market and regulatory compliance.

#### **E – GENERAL MEETING**

E.1. Indicate and provide details of whether there are differences with the minimums system provided for in the Law on Public limited Companies with regard to the quorum of the General Meeting.

NO

	<b>% quorum other than that established in art. 102 of the LJSC for general situations</b>	<b>% quorum other than that established in art. 103 of the LJSC for special situations</b>
Quorum required at first call	0	0
Quorum required at second call	0	0

E.2. Indicate and, as the case may be, provide details of whether there are differences with the minimums system provided for in the Law on Public limited Companies with regard to the reaching of resolutions.

NO

Describe how it differs from that established in the LJSC.

E.3. Provide a list of the rights of shareholders regarding the general meetings, other than those established in the LJSC.

The shareholders have the same rights as those recognised for them in the Consolidated Text of the Law on Public limited Companies.

E.4. Indicate, if any, the measures taken to encourage the participation of shareholders in the general meetings.

All shareholders with a right to attend are sent a Card of Attendance, Delegation and Vote. The shareholders can provide questions, opinions and suggestions addressed to the Office of the Shareholder by postal mail at the company offices or by electronic mail to: [investors@vueling.com](mailto:investors@vueling.com)

E.5. Indicate whether the office of Chairman of the General Meeting coincides with the office of Chairman of the Board of Directors. Explain, as the case may be, any measures taken to guarantee the independence and good working order of the General Meeting:

YES

<b>Details of measures</b>
The application of what is provided for in the regulations of the General Meeting guarantees the independence and good working order of the Meeting. Additionally the web page of the company acts as an information channel for shareholders.

E.6. Indicate, if any, the modifications introduced in the regulations of the General Meeting during the year.

The Regulations of the General Meeting of Shareholders of VUELING were drawn up in financial year 2006, and approved by the Extraordinary General Meeting of Shareholders held on 25 October 2006, having undergone no modifications.

E.7. Provide details of attendance of the general meetings held in the year to which this report pertains:

<b>Data on attendance</b>					
<b>Date of General Meeting</b>	<b>% of physical presence</b>	<b>% representation</b>	<b>% remote voting</b>		<b>Total</b>
			<b>Electronic vote</b>	<b>Other</b>	
28/05/2010	51.658	9.316	0.000	1.610	62.584

E.8. Briefly indicate resolutions adopted by the general meetings held in the financial year to which this report pertains and the percentage of votes with which each resolution has been reached.

Resolutions agreed at the Extraordinary and Universal General Meeting of Shareholders held on 28 May 2010:



First. Examination and approval, as the case may be, of the Annual Accounts (Report, Balance Sheet, Income Statement, Statement of Changes in Net Equity and Cash Flow Statement), of the Audit Report and the Management Report of the Company, as well as the proposal of allocation of results, all referring to financial year 2009. (votes in favour: 99.978%).

Second – Examination and approval, as the case may be, of the management of the Board of Directors (99.978%).

Third – Ratification of the appointment of the Directors that was performed by the Board in its meeting on 26 March 2010 by co-option system (99.900%).

Fourth – Awareness of the Annual Report on Corporate Governance.

Fifth – Awareness of the explanatory Report on the items of the Management Report contained in article 116-bis of the Securities Market Act.

Sixth – Information on the modifications made to the Regulations of the Board of Directors of the company and approval of Regulations for the Related Party Transactions Committee, as well as the creation of a Related Party Transactions Committee.

Seventh – Awareness of the Report on the degree of compliance of the Protocol of Related Party Transactions and Conflicts of Interest.

Eighth – Authorisation granted to the Board of Directors to purchase own shares, rendering ineffective the unused authorisation agreed in the General Meeting of Shareholders of 5 May 2009 (99.993%).

Ninth – Remuneration policy of the Board of Directors (99.962%)

Tenth . Delegation to the Board of Directors, with powers of replacement, of the powers required to execute and enter the registrations of the resolutions agreed, as well as for the rectification, clarification and interpretation of the resolutions agreed on the basis of their effectiveness and the verbal or written qualification thereof at the Mercantile Register and other competent bodies. (99.984%).

All resolutions were approved with the sufficient majority required by the legislation in force.

E.9 Indicate whether there is any statutory restriction which establishes a minimum number of shares required to attend the General Meeting.

YES

<b>Number of shares required to attend the General Meeting</b>	150
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E.10 Indicate and justify the policies applied by the company in respect of the delegations of votes in the General Meeting.

The shareholders that have a right to attend the General Meeting receive a card for attendance and delegation of vote in the General Meeting. The announcement of the call contains the instructions for shareholders to delegate their votes, cast it by post or group their shares together.

Vote splitting is accepted so that the financial brokers who appear as shareholders, but are acting on behalf of different clients, are able to cast their votes in accordance with instructions received.

E.11 Indicate whether the company is aware of the policy of institutional investors to take part or not in the company decisions:

NO

E.12. Indicate the address and method of access to the content of corporate governance on the web page.

We access via the web page [www.vueling.com](http://www.vueling.com), select the link "Shareholders and Investors". Once selected, we access the link "CORPORATE GOVERNANCE", we access the files referring to the General Meeting, the composition of the Board of Directors, its committees and the Regulations (of the General Meeting, of the Board of Directors, of the Related Party Transactions Committee, of the Audit and Compliance Committee, of the Appointments and Remuneration Committee, of the Safety Committee and the Internal Conduct Regulations in matters concerning the Securities Markets and Regulatory Compliance).

## **F- EXTENT OF COMPLIANCE WITH THE RECOMMENDATIONS OF CORPORATE GOVERNANCE**

Indicate the extent of compliance by the company with the recommendations of the Unified Code of Good Governance. In the event of failing to comply with any recommendation, explain the recommendations, rules, practices or criteria that the company applies.

1. That the Articles of Association of the listed companies do not limit the maximum number of votes cast by one same shareholders, nor contain any other restrictions that impair the control of the company by means of the purchase of its shares in the market.

See headings A.9, B.1.22, B.1.23 and E.1, E.2

It complies

2. That when both the parent company and the dependent company are listed, both must clearly define:

- a) Their respective areas of activity and business relationship between them, as well as those of the dependent listed company with the other group companies;
- b) The mechanisms in place to resolve potential conflicts of interest that might arise.

See headings C.4 and C.7

Not applicable

3. That, although not expressly required by mercantile law, operations involving a structural modification of the company and, in particular, those listed below, are submitted for approval by the General Meeting of Shareholders:

- a) The transformation of listed companies into holding companies, by means of "subsidiarisation" or the incorporation of dependent entities of essential activities carried out hitherto by the company itself, even if this should retain full control thereof;

b) the purchase or sale of essential operative assets, when it involves an effective modification of the corporate purpose;

c) The operations whose effect is equivalent to that of winding up the company.

It complies

4. That the proposals of resolutions to be agreed by the General Meeting, including the information referred to in recommendation 28, is made public when the call to the General Meeting is published.

It complies

5. That in the General Meeting voting is held separately for those issues which are substantially independent, so that shareholders are able to exercise pre-emptive rights separately. And that said rule is applied, in particular, to:

a) the appointment or ratification of Directors which must be voted on individually;

b) in the case of modification of Articles of Association, each article or group of articles that are substantially independent.

See heading E.8

It complies

6. That the companies allow vote splitting so that brokers acting as shareholders, but acting in the name of different clients, can cast their votes in accordance with client instructions.

See heading E.4.

It complies

7. That the Board carries out its duties with a single purpose and independent criteria, treats shareholders equally and is guided by the interests of the Company, this being understood as maximising, on a sustainable basis, the economic value of the company.

And that it ensures that in its relationship with stakeholders, the company observes the law and regulations in force; that it fulfils its obligations and duties in good faith; that it observes the uses and good practice of the sectors and territories in which it carries on its activity; and that it observes all additional principles of social responsibility that it has voluntarily accepted.

It complies

8. That the Board undertakes, as the basis of its mission, to approve the strategy of the Company and the organisation required to implement it, as well as to supervise and ensure that the Management achieves the goals established and respects the corporate purpose and interests of the company. And that, to this end, the Board in full reserves the right to approve:

a) The general strategies and policies of the company, and specifically:

i) The strategic or business plan, as well as the annual management objectives and budget;

ii) The investment and financing policy;

iii) The definition of the structure of the group of companies;

iv) The corporate governance policy;

v) The social corporate responsibility;

vi) The remuneration policy and top management performance assessment

vii) The risk control and management policy, as well as the regular monitoring of internal information and control systems.

viii) The dividends policy, as well as that of own shares and, particularly, the limits thereon;  
See headings B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

i) At the request of the chief executive of the company, the appointment and dismissal of senior managers, as well as severance clauses.

See heading B.1.14

ii) The remuneration of directors as well as, in the case of executive directors, additional remuneration for their executive duties and other conditions to be observed in their contracts.

See heading B.1.14

iii) The financial information which, as a listed company, the company must regularly disclose.

iv) The investments and operations of any kind that, due to the significant value or special characteristics thereof, are of strategic value, unless approval thereof pertains to the Board of Directors;

v) The creation or purchase of shares in special purpose entities or based in countries or territories considered tax havens, as well as any other transactions or operations of a similar nature which, given their complexity, might impair the group's transparency.

c) The operations that the company carries out with directors, significant shareholders or shareholders represented on the Board, or parties related thereto ("related party transactions").

This authorisation from the Board shall not, however, be required for related party transactions which simultaneously meet the three following conditions:

1<sup>st</sup>. That they are performed pursuant to standardised contractual conditions that are applicable *en masse* to many clients;

2<sup>nd</sup>. That they are performed at prices or rates generally established for anyone acting as a supplier of the good or service in question;

3<sup>rd</sup>. That the amount thereof does not exceed 1% of the annual income of the company.

It is recommended that the Board approve related party transactions on the basis of a favourable report from the Audit Committee or, in the absence thereof, from any other to whom such a duty has been entrusted; and that the directors affected, in addition to not exercising or delegating their voting rights, should be absent from the meeting room during the deliberations and voting thereon by the Board.

It is recommended that the powers attributed herein to the Board are of a non-delegatory nature, with the exception of those mentioned in points b) and c), which may be assumed for reasons of urgency, by the Delegate Committee, subject to subsequent ratification by the Board in full.

See headings C.1 and C.6.

It complies.

9. That the Board is of a size that is sufficient to achieve effective and participative activity, which means that it should not have fewer than five nor more than fifteen members.

See heading B.1.1.

It complies.

10. That the external directors representing significant shareholders and independent directors should make up a significant majority of the Board, and that the number of executive directors is as small as possible, bearing in mind the complexity of the company group and the percentage shareholding of the executive directors in the company.

See headings A.2, A.3, B.1.3. and B.1.14

It complies.

11. That if an external director were unable to be represented or independent, the company shall explain this circumstance and its relations, either with the company and its executives or with the shareholders.

See heading B.1.3.

Not applicable

12. That among external directors, the ratio between the number of directors representing significant shareholders and that of independent directors should reflect the proportion existing between the share capital represented by the directors representing significant shareholders and the remaining capital. This criterion of strict proportionality may be minimised, so that the weight of directors representing significant shareholders is greater than that which would pertain to the total percentage of share capital that they represent:

1<sup>st</sup>. In highly capitalised companies where the shareholdings considered significant are few or non-existent but where there are shareholders with shareholdings of a high absolute value.

2<sup>nd</sup>. In the case of companies where there is a plurality of shareholders represented on the Board who are not related to one another.

See headings B.1.3, A.2. and A.3

It complies.

13. That the number of independent directors represents at least one third of the total number of directors.

See heading B.1.3

It complies.

14. That the nature of each director is explained by the Board to the General Meeting of Shareholders that must make or ratify the appointment thereof, and that this is confirmed or, if required, revised each year in the Annual Corporate Governance Report, following verification by the Appointments Committee. And that said Report should also include explanations on the reasons why directors representing significant shareholders with less than a 5% shareholding have been appointed at the request of shareholders; and that it includes the reasons why formal requests of presence on the Board from shareholders with a shareholding that is equal or larger than that justifying the appointment of directors representing significant shareholders have not been satisfied.

See headings B.1.3. and B.1.4

It complies.

15. That when the number of female directors is low or non-existent, the Board should explain the reasons and the initiatives taken to rectify this situation; and that, specifically, the Appointments Committee should ensure that, when filling vacancies on the Board:

- a) The selection procedures do not show implicit biases that prevent the selection of female members:
- b) The company should deliberately search, and include among potential contenders, women meeting the professional profile sought.

See headings B.1.2, B.1.27 and B.2.3.

It complies.

16. That the Chairman, as the person responsible for the smooth running of the Board, ensures that directors receive sufficient information in advance; encourages debate and active participation of directors during Board meetings, respecting their free decision-making capacity and expression of opinion; and organises and coordinates with the Chairmen of the respective relevant Committees the regular assessment of the Board as well as, as the case may be, that of the CEO or chief executive of the company.

See heading B.1.42

It complies.

17. That, when the Chairman of the Board is also the chief executive of the company, one of the independent directors is empowered to request the call of the Board meeting or the inclusion of new issues on the agenda; to coordinate and reflect the concerns of external directors; and to manage the assessment of the Chairman by the Board.

See heading B.1.21

Not applicable

18. That the Secretary of the Board takes special care to ensure that the actions of the Board:

- a) Are in line with the spirit and content of the Law and its regulations, included those approved by regulatory bodies;
- b) That they are in accordance with the Articles of Association of the company and the regulations of the General Meeting, the Board and other company bodies;
- c) That they are in line with the good governance recommendations included in the Unified Code accepted by the company.

And, in order to protect the independence, impartiality and professionalism of the Secretary, his appointment and dismissal are reported by the Appointments Committee and approved by the Board in full: and that said appointment and dismissal procedure is specified in the Regulations of the Board.

See heading B.1.34

It complies.

19. That the Board meets with the required regularity to perform its duties effectively, according to the schedule of dates and issues provided for at the start of the year, with each director having the power to propose issues on the agenda other than those originally established.

See heading B.1.29

It complies.

20. That the non-attendance of directors is only due to unavoidable circumstances and are quantified in the Annual Corporate Governance Report. And if representation were essential, that it is granted with instructions.

See headings B.1.28 and B.1.30

It complies.

21. That when the directors or the secretary should express their concern about a proposal or, in the case of directors, on the performance of the company, and such concerns should not be resolved by the Board, this is included in the minutes of the meetings at the request of whoever has raised such concerns.

It complies.

22. That the Board in full should assess once a year:

- a) The quality and efficiency of the performance of the Board;
- b) On the basis of the report provided by the Appointments Committee, the performance of the duties of the Chairman of the Board and the chief executive of the company;
- c) The performance of the committees, based on the reports issued by them.

See heading B.1.19

It complies

23. That all members can exercise the power to gather additional information that they deem necessary on issues to be decided on by the Board. And that, unless otherwise provided in the Articles of Association or the Regulations of the Board, that they address their request to the Chairman or Secretary of the Board.

See heading B.1.42

It complies.

24. That all directors have the right to obtain from the company the advice required to perform their duties. And that the company ensures the existence of the means to exercise this right which, under special circumstances, may include external advice on account of the company.

See heading B.1.41

It complies.

25- That the companies establish a guidance programme to provide new members with fast and sufficient knowledge of the company as well as of its corporate governance rules. And that directors are also offered knowledge update programmes when required.

It complies.

26. That the companies require that their directors devote the time and effort required to perform their duties effectively and, as such:

- a) That directors inform the Appointments Committee of their other professional obligations, in the event that these might interfere with the dedication required;
- b) That the companies establish rules on the number of boards on which directors can sit.

See headings B.1.8., B.1.9 and B.1.17.

It complies.

27. That the proposal of appointment or re-election of directors that are presented by the Board to the General Meeting of Shareholders, as well as provisional appointments through co-option, are approved by the Board:

- a) At the proposal of the Appointments Committee, in the case of independent directors.
- b) On the basis of a report from the Appointments Committee, in the case of other directors.

See heading B.1.2.

It complies.

28. That the companies disclose via their web page, kept up to date, the following information on their directors:

- a) Professional and biographical profile;
- b) Other Boards of Directors to which they belong, whether or not such companies are listed;
- c) Indication of the category of director and, in the case of directors representing significant shareholders, the shareholders they represent or with whom they are related;
- d) Date of their first appointment as director of the company, as well as any other subsequent appointments; and
- e) Company shares and options thereon held by the director.

Complies in part.

a) and b) not at 31.12.2010

29. That independent directors do not remain as such for a period exceeding 12 years.  
See heading B.1.2.

It complies.

30- That directors representing significant shareholders present their resignation when the shareholder whom they represent should sell his shareholding in full. And that they also do so, by the appropriate number, when said shareholder should reduce his shareholding to a level that requires the reduction in the number of directors representing significant shareholders on the Board.  
See headings A.2, A.3 and B.1.2

It complies.

31.- That the Board of Directors does not propose the dismissal of any independent director before compliance with the statutory period for which he has been appointed, unless there is just cause to do so in the opinion of the Board on the basis of a report from the Appointments Committee. Specifically, just cause will be deemed to exist when he should have failed to perform the duties inherent to his office or incurred in any of the circumstances described in heading 5 of section III of the definitions in this Code.

The dismissal of independent directors may also be proposed in the case of takeovers, mergers or other similar corporate operations that result in a change in the capital structure of the company when such changes in the structure of the Board are led by the criterion of proportionality mentioned in Recommendation 12.

See headings B.1.2, B.1.5 and B.1.26

It complies.

32. That the companies establish rules that oblige directors to inform and, as the case may be, to resign in cases that might harm the standing and reputation of the company and, specifically, obliges them to inform the Board of any criminal actions of which they are charged, as well as of the subsequent legal proceedings thereof.

If a director were tried or subject to a court hearing on account of any of the offences mentioned in article 124 of the Law on Public limited Companies, the Board should examine the case as soon as possible and, in light of the specific circumstances, decide whether or not the member should remain in office. And the Board shall provide reasoned information thereof in the Annual Corporate Governance Report.

See headings B.1.43 and B.1.44

It complies.

33. That all directors clearly express their objection when they consider that a proposal for decision submitted to the Board may be contrary to the company interests. And that the same should specifically be done by independent directors and other directors not affected by the potential conflict of interest, when it concerns decisions that might harm the shareholders who are not represented in the Board. And that when the Board should make significant or repeated decisions about which a director has expressed certain reservations, that said director should draw his own conclusions and, should he decide to resign, he should explain the reasons in the letter referred to in the following recommendation.



This Recommendation is also applicable to the Secretary of the Board, even if he does not have the status of director

It complies.

34. That, when due to resignation or any other reason, a director should terminate his office before the end of his mandate, that he explain the reasons in a letter to be sent to all members of the Board. And that, notwithstanding that said termination is communicated as a relevant fact, the reason for the termination is mentioned in the Annual Corporate Governance Report,  
See heading B.1.5

It complies.

35. That the remuneration policy approved by the Board should cover, at least, the following issues:

- a) Amount of fixed components, with the breakdown if any, of the per diems for participation in Board meetings and the Committees and an estimate of the annual fixed remuneration accrued as a result;
- b) Variable remuneration, specifically including:
  - i) Category of director to which this applies, as well as the relative importance of the variable remuneration compared with fixed remuneration.
  - ii) Evaluation criteria of results serving as a basis for a right to remuneration in shares, share options or any other variable component;
  - iii) Fundamental parameters and grounds of any bonus system or any other non-cash benefits; and
  - iv) An estimate of the total amount of variable remuneration to be paid according to the proposed remuneration plan, according to the degree of compliance with the hypotheses or objectives used as a reference.
- c) Main characteristics of supplementary benefits (for instance, complementary pensions, life insurance and other similar benefits), with an estimate of the amount thereof or annual equivalent cost.
- d) Conditions to be observed by the contracts of whoever carries out senior management duties as executive directors, including:
  - i) Term;
  - ii) Notice periods; and
  - iii) Any other clauses relative to signing bonuses, as well as severance pay or compensation to be paid for early termination of the contractual relationship between the company and the executive director.

See heading B.1.25

It complies

36. That the remuneration paid to executive directors consists of company shares or shares in group companies, share options or instruments based on the value of the share, variable remuneration based on the company's performance or supplementary benefits.

This recommendation shall not pertain to shares given when these are given on condition that the member owns such shares until his termination.

See headings A.3 and B.1.3

It complies.

37. That the remuneration of external directors is that required to pay for the dedication, qualification and responsibility demanded by the position; but not so high so as to compromise his independence.

It complies

38. That remuneration related to company results takes into account the potential qualifications contained in the external auditor's report and that reduce said results.

It complies.

39. That in the case of variable remuneration, the remuneration policy should contain the technical provisions required to ensure that said remuneration is in line with the professional performance of its beneficiaries and does not simply arise from the general performance of the markets or the activity sector of the company or other similar circumstances.

Not applicable.

40- That the Board submits to voting by the General Meeting of Shareholders, as a separate point on the agenda and on a consultation basis, a report on the remuneration policy of members. And that said report is made available to shareholders, either separately or in any other way deemed appropriate by the company.

This report shall primarily focus on the remuneration policy approved by the Board for the year in progress, as well as, if applicable, that established for future years. It shall address all issues referred to in Recommendation 35, except for those cases that might imply the disclosure of sensitive commercial information. It shall emphasise the more significant changes in such policies compared with that applied the previous year. It shall also include an overall summary about how the remuneration policy was applied the year before. The Board must also report on the role played by the Remuneration Committee in drawing up the remuneration policy and, if it has used external advice, the identity of the external consultants who have provided said advice.

See heading B.1.16

It complies.

41 – That the Report provides information on the individual remuneration of directors during the year including:

- a) The individualised breakdown of remuneration per director, including, if any:
  - i) Per diems for attendance and other fixed remuneration as a member;
  - ii) Additional remuneration as chairman or member of a Board committee;
  - iii) Remuneration by way of profit sharing or bonuses, and the reason why this has been granted;
  - iv) Contributions made for the director to fixed contribution pension plans; or the extension of consolidated rights of the member in the case of defined benefit plans;
  - v) Any indemnities agreed or paid in the event of termination of office;
  - vi) Remuneration received as director of other group companies;
  - vii) Remuneration for the performance of senior management duties of executive directors;
  - viii) Any other remuneration received other than the above, irrespective of the nature thereof or entity in the group paying such remuneration, especially when it is deemed to be a related party transaction or its omission would distort the fair image of total remuneration received by the director.
- b) The individualised breakdown of the possible delivery to members of shares, share options or any other instrument linked to the share value, with details on:

- i) Number of shares or options granted in the year, and conditions for the exercise thereof;
- ii) Number of options exercised during the year, indicating the number of shares attached and the exercise price;
- iii) Number of options yet to be exercised at year end, with indication of price, date and other requirements for their exercise;
- iv) Any modification that has taken place during the year of the conditions of exercise of options already granted.

c) Information on the relationship, in the previous year, between the remuneration received by executive directors and the results and other company performance indicators.

Partial compliance.

The Report includes the overall remuneration received by directors as a result of their performance as such.

42. That in the case of a Delegate or Executive Committee (hereinafter, “Delegate Committee”), that the participation structure of the various categories of director is similar to that of the Board itself and that the secretary of the Delegate Committee is the Secretary of the Board.

See headings B.2.1 and B.2.6

Not applicable

43. That the Board is always apprised of any issues discussed and decisions made by the Delegate Committee and that all members of the Board receive copies of the minutes of the meetings of the Delegate Committee.

Not applicable

44. That the Board of Directors establishes as part thereof, in addition to the Audit Committee required by the Securities Market Act, a Committee, or two separate Committees, for Appointments and Remuneration.

That the rules of composition and activity of the Audit Committee and the Appointments and Remuneration Committee or Committees are included in the Regulations of the Board and include the following:

- a) That the Board appoints the members of said Committees, taking into account the knowledge, skills and experience of the directors and the duties of each Committee: it deliberate on their proposals and reports: and that said Committees report to the Board, in the first meeting of the Board following their own meetings, on their activity and work carried out therein;
- b) That said Committees are exclusively composed of external directors, with a minimum of three. This is understood notwithstanding the attendance of executive directors or senior managers when expressly agreed by the members of the Committee;
- c) That their Chairmen are independent directors;
- d) That they may resort to external advice when deemed appropriate for the performance of their duties.
- e) That minutes are drawn up of their meetings, copies of which shall be sent to all members of the Board.

See headings B.2.1. and B.2.3.

It complies.

45. That the supervision of compliance with the internal codes of conduct and corporate governance rules is entrusted to the Audit Committee, the Appointments Committee or, if they should exist as separate bodies, to the Compliance or Corporate Governance committees.

It complies.

46. That the members of the Audit Committee, and especially its Chairman, are appointed bearing in mind their knowledge and experience in matters of accounting, auditing or risk management.

It complies.

47. That the listed companies have an internal auditing function which, under the supervision of the Audit Committee, ensures the smooth running of the information and internal control systems.

It complies.

48. That the head of internal audit presents to the Audit Committee his annual work plan; directly informs the Committee of any incidences taking place; and submits an activity report to the Audit Committee at the end of each financial year.

It complies.

49. That the risk management and control policy identifies at least the following:

- a) The various types of risk (operational, technological, financial, legal, reputational...) faced by the company, including among the financial or economic, contingent liabilities and other off balance sheet risk;
- b) The fixing of the risk level that the company deems acceptable;
- c) The steps in place to mitigate the impact of identified risks, in the event that these should materialise;
- d) The information and internal control systems to be used to control and manage said risks, including contingent liabilities and off balance sheet risk.

See headings: D

It complies.

50. That the Audit Committee is responsible for:

1- In relation to the information and internal control systems:

- a) Supervising the process of preparation and integrity of the financial information regarding the company and, as the case may be, the group, reviewing compliance with regulatory requirements, the proper delimitation of the consolidation scope and the proper application of accounting criteria.
- b) Regularly reviewing the internal control and risk management systems, in order to identify, manage and suitably inform of the main risks;
- c) Ensuring the independence and efficacy of the role of the internal audit; proposing the selection, appointment, re-election and dismissal of the head of internal audit; proposing the budget for this service; receiving regular information on its activities; and verifying that top management takes into account the conclusions and recommendations in their reports.
- d) Establishing and supervising a mechanism that allows employees to report, in a confidential manner and, if deemed appropriate, anonymously, any irregularities of special significance, especially of a financial or accounting nature, that they detect within the company.

2- In relation to the external auditor:

- a) Presenting to the Board the proposals of selection, appointment, re-election and replacement of the external auditor, as well as the conditions of their contract.

- b) Regularly receiving from the external auditor information on the audit plan and the results of its execution, and verifying that top management takes into account its recommendations;
- c) Ensuring the independence of the external auditor and, to this end:
  - i) That the company should report the change of auditor as a significant event to the National Securities Market Commission along with a statement on the existence of disagreements with the outgoing auditor and, if any, the content thereof.
  - ii) That it ensures that the company and the auditor observe the rules in effect on the supply of services other than those of auditing, the limits on the business concentration of the auditor and, in general, all other rules in place to ensure the independence of the auditors;
  - iii) That in the case of resignation of the external auditor, it examines the circumstances underlying said resignation.
- d) In the case of groups, assist the group auditor in taking over the auditing of the companies within the group.

See headings: B.1.35, B.2.2., B.2.3. and D.3.

It complies.

51. That the Audit Committee is able to summons any employee or executive of the company, and even request that they appear without the presence of any other executive.

It complies.

52. That the Audit Committee informs the Board, prior to the Board making its decision, on the following issues contained in Recommendation 8:

- a) The financial information which, as a listed company, the company must regularly disclose. The Committee must ensure that the interim accounts are prepared with the same accounting criteria as those applied to the annual accounts and, to this end, consider the appropriateness of a limited review of the external auditor.
- b) The creation or purchase of shares in special purpose entities or those based in countries or territories considered tax havens, as well as any other transactions or operations of a similar nature which, in light of their complexity, could reduce the transparency of the group.
- c) Related party transactions, unless this duty of prior reporting has been entrusted to another supervision and oversight committee.

See headings B.2.2. and B.2.3

It complies.

53. That the Board of Directors endeavours to present the accounts to the General Meeting with no qualifications or conditions in the audit report and that, in the event that such qualifications or conditions should exist, that both the Chairman of the Audit Committee and the auditors clearly explain to the shareholders the content and scope of such qualifications or conditions.

See heading B.1.38

It complies.

54. That the majority of the members of the Appointments Committee – or of the Appointments and Remuneration Committee, if they should form a single committee – are independent members.

See heading B.2.1.

#### Explain

The Regulations of the Appointments and Remuneration Committees establishes that Executive Directors cannot be members, and that the Committee must include at least one member who is an Independent Director, and insofar as this is possible and advisable, the Committee and, as the case may be, the Board of Directors, shall endeavour to increase the number of Independent Directors in accordance with Recommendation 54 of the Report of the Special Work Group on issues of Good Governance of listed companies.

55. That the Appointments Committee, in addition to the duties contained in the foregoing Recommendations, should be responsible for:

- a) Assessing competencies, knowledge and experience required on the Board and define, in summary, the duties and skills required of the contenders for each vacancy and evaluate the time and dedication needed to carry out the duty properly.
- b) Examining and organising, in the manner deemed appropriate, the succession of the Chairman and the CEO and, as the case may be, making proposals to the Board so that this succession is carried out in an orderly and well planned fashion.
- c) Informing of the appointments and dismissals of senior managers that the CEO proposes to the Board.
- d) Informing the Board on issues of gender diversity mentioned in Recommendation 14 of this Code. See heading B.2.3.

It complies.

56. That the Appointments Committee consults the Chairman and the CEO of the Company, especially in the case of issues regarding executive directors.

And that any director may request from the Appointments Committee that it consider, if deemed suitable, potential candidates to cover vacancies on the Board.

It complies.

57. That the duties of the Remuneration Committee, in addition to the duties indicated in the foregoing Recommendations, are the following:

- a) Propose to the Board of Directors:
  - i) The remuneration policy of the directors and senior managers;
  - ii) The individual remuneration of executive directors and other terms in their contracts;
  - iii) The basic conditions of senior management contracts.
- b) Ensure the observance of the remuneration policy established by the company.

See headings B.1.14 and B.2.3.

It complies.

58. That the Remuneration Committee consult the Chairman and the CEO of the company, particularly when in regard to matters concerning executive directors and senior managers.

It complies.

#### **G – OTHER INFORMATION OF INTEREST**

If you consider that there is a relevant principle or aspect regarding the practices of corporate governance applied by your company that has not been addressed by this report, please mention it and explain its content.

In regard to point A.3, it mentions that those Directors appointed by means of the co-option systems were ratified in the General Meeting held on 28 May 2010.

In regard to point B.1.29, it mentions that the Related Party Transactions Committee has held five (5) meetings in 2010.

In regard to point B.1.40, it mentions that the individual representing the Director NEFINSA, S.A. Mr Carlos Bertomeu Martinez holds 2.33% of the shares of the company AIR NOSTRUM, L.A.M., S.A. a company of which he is the CEO.

Any other information or clarification may be included in this section, related to previous sections in this report, insofar as they are relevant and not reiterative.

Specifically, indicate whether the company is subject to legislation other than Spanish legislation in matters of corporate governance and, as the case may be, include the information that it is obliged to provide and that is different to that required herein.

Binding definition of independent director:

Indicate whether any of the independent directors has or has had a relationship with the company, its significant shareholders or its executives which, if it had been sufficiently important or significant, it would have determined that the director could not be considered independent according to the definition contained in section 5 of the Unified Code of Good Governance:

NO

Date and signature:

This annual report on corporate governance has been approved by the Board of Directors of the company, in its meeting held on

25/03/2011

Indicate whether there have been Directors who have voted against or have abstained in regard to the approval of this report.

NO

## PREPARATION OF THE ANNUAL ACCOUNTS OF FINANCIAL YEAR 2010

For the purposes of the provisions contained in article 8.1b) of Royal Decree 1362/2007 of 19 October, the members of the Board of Directors of VUELING AIRLINES, S.A. hereby state that, to the best of their knowledge, the annual accounts of VUELING AIRLINES, S.A. at 31 December 2010 prepared in accordance with applicable accounting principles, provide a true and fair image of the equity, financial situation and results thereof, and the management report includes a fair analysis of the performance and business results and position of the company, along with the description of the main risks and uncertainties faced by the company.

*(signature illegible)*  
MR JOSEP PIQUÉ I CAMPS  
Chairman

*(signature illegible)*  
MR ALEJANDRO CRUZ DE LLANO  
Director

*(signature illegible)*  
MR JORGE PONT SANCHEZ  
Director

*(signature illegible)*  
MR JOSE M<sup>a</sup> FARIZA BATANERO  
Director

*(signature illegible)*  
MR ENRIQUE DONAIRE RODRIGUEZ  
COLMENAREJO  
Director

*(signature illegible)*  
MR MANUEL LOPEZ  
  
Director

(ABSENT DUE TO ILLNESS)  
MR DANIEL VILLALBA VILA  
Director

*(signature illegible)*  
MS ISABEL MARIN LAPLANA  
Director

*(signature illegible)*  
NEFINSA, S.A  
Represented by Carlos Bertomeu  
Martinez  
Director

*(signature illegible)*  
MR JAIME DE CASTRO FERNANDEZ  
Director

*(signature illegible)*  
MR PEDRO MEJIA GOMEZ VILLAMANDOS  
Director

*(signature illegible)*  
MR MIGUEL ANGEL FERNANDEZ  
Director

El Prat de Llobregat, 15 March 2011